2014

CINEPLEX
INC.

SECOND QUARTER 2014 REPORT

Dear fellow shareholders,

Total revenues of $323.5 million for the second quarter of 2014 increased 7.2%, or $21.9 million compared to the same period last year, due to the 2013 acquisitions of 24 Atlantic theatres and digital signage company Cineplex Digital Networks. Adjusted EBITDA increased 1.2% to $59.4 million.

Second quarter box office revenues of $181.4 million increased 4.0%, compared to the same period last year. However, the box office was impacted by the underperformance of a number of big summer titles which resulted in a same store decrease in box office revenues of 4.2%, compared to the prior year quarter. BPP was $9.40, a $0.04 increase from the prior year period.

While box office revenues fluctuate as a result of the product being released during each quarter, we continue to focus on diversification in related businesses including media, digital commerce, gaming, food service and alternative programming to offset the variability of our earnings.

Food service revenue increased 9.3% to $98.0 million, as a result of our net attendance increase and a 5.6% increase in concession revenue per patron ("CPP") which set an all-time quarterly record for Cineplex of $5.08. We added four Poptopia, three YoYo's and four XSCAPE Entertainment Centres during the quarter. As of June 30th, 2014 we own and operate 15 Poptopia, five YoYo's and 14 XSCAPE locations across Canada.

Media revenues increased 17.6%, or $4.6 million for the quarter, to $31.0 million, primarily as a result of the acquisition of Cineplex Digital Networks.

During the quarter we opened our latest VIP Cinema at our *Cineplex Cinemas Yonge-Dundas* location in Toronto. VIP Cinemas are a popular premium entertainment experience exclusively for adults. The strong performance we've seen at our VIP Cinemas around the country, strengthens our conviction that we've created an experience that is in very high demand among Canadian movie-goers. We also opened *Cineplex Cinemas Manning Town Centre*, a 10-screen theatre in Edmonton, AB.

During the balance of the year, we will open our VIP Cinemas at Toronto's *Shops at Don Mills*, followed by locations in Markham, Ontario and Saskatoon, Saskatchewan.

Our SCENE loyalty program continued its strong growth in the second quarter, adding 200,000 members and surpassing 5.8 million total members. We are also re-designed our digital commerce site, CineplexStore.com, which now provides a vastly streamlined and improved user experience – allowing customers to access more than 25,000 digital titles, DVDs and Blu-ray discs.

With our continued investment in our theatre properties and premium experiences, as well as investments in other core businesses, we believe Cineplex remains well positioned for continued growth.

On behalf of the board of directors and everyone at Cineplex, thank you for your continued support.

Sincerely,

Ellis Jacob,
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 5, 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 June 30, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS CONTENTS

Non-GAAP Measures

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

Forward-Looking Statements

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

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

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

Cineplex does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable Canadian securities law. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of Cineplex or the Partnership, their financial or operating results or their securities. All forward-looking statements in this MD&A are made as of the date hereof and are qualified by these cautionary statements. Additional information, including Cineplex's AIF, 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 June 30, 2014, Cineplex owned, leased or had a joint venture interest in 1,638 screens in 162 theatres.

Cineplex Locations and screens at June 30, 2014							
Province	**Locations**	**Screens**	**Digtal 3D Screens**	**UltraAVX**	**IMAX Screens**	**VIP Auditoriums**	**DBOX Locations**
Ontario	65	700	329	28	10	20	8
Quebec	22	260	100	9	2	4	6
British Columbia	23	215	107	12	3	8	3
Alberta	17	193	95	12	2	3	3
Nova Scotia	13	92	44	1	1	—	—
Saskatchewan	6	51	26	2	—	—	—
Manitoba	5	49	26	1	1	3	1
New Brunswick	6	45	22	1	—	—	—
Newfoundland & Labrador	3	20	9	—	1	—	—
Prince Edward Island	2	13	6	—	—	—	—
TOTALS	**162**	**1,638**	**764**	**66**	**20**	**38**	**21**
Percentage of screens			47%	4%	1%	2%	1%

Cineplex - Theatres, screens and premium offerings in the last eight quarters								
	2014		**2013**				**2012**	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Theatres	162	161	161	136	136	136	134	133
Screens	1,638	1,632	1,630	1,454	1,454	1,455	1,449	1,438
3D Screens	764	738	723	633	632	551	545	524
UltraAVX Screens	66	60	55	50	50	44	39	36
IMAX Screens	20	20	20	18	18	17	17	17
VIP Auditoriums	38	33	28	25	25	25	25	18
DBOX Locations	21	21	21	21	21	21	20	20

1.1 FINANCIAL HIGHLIGHTS

Financial highlights	**Second Quarter**			**Year to Date**		
(in thousands of Canadian dollars, except attendance in thousands of patrons and per Share and per patron amounts)	**2014**	**2013**	**Change (i)**	**2014**	**2013**	**Change (i)**
Total revenues	$ 323,496	$ 301,632	7.2%	$ 603,515	$ 549,702	9.8%
Attendance	19,301	18,629	3.6%	36,573	34,820	5.0%
Net income	$ 23,205	$ 28,543	-18.7%	28,276	37,359	-24.3%
Box office revenues per patron ("BPP") (ii)	$ 9.40	$ 9.36	0.4%	$ 9.23	$ 9.18	0.5%
Concession revenues per patron ("CPP") (ii)	$ 5.08	$ 4.81	5.6%	$ 5.06	$ 4.76	6.3%
Adjusted EBITDA (ii)	$ 59,430	$ 58,711	1.2%	$ 90,311	$ 90,401	-0.1%
Adjusted EBITDA margin (ii)	18.4%	19.5%	-1.1%	15.0%	16.4%	-1.4%
Adjusted free cash flow per common share of Cineplex ("Share") (ii)	$ 0.7734	$ 0.7347	5.3%	$ 1.0656	$ 1.1186	-4.7%
Earnings per Share ("EPS") - basic	$ 0.37	$ 0.45	-17.8%	$ 0.45	$ 0.60	-25.0%
EPS - diluted	$ 0.37	$ 0.45	-17.8%	$ 0.45	$ 0.59	-23.7%

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

Total revenues for the second quarter of 2014 increased 7.2%, or $21.9 million compared to the prior year period. This increase was due to the 24 theatres acquired from Empire Theatres Limited located in Atlantic Canada (the "Atlantic Theatres") acquired in the fourth quarter of 2013, which contributed $22.2 million to revenues during the period. An additional $7.0 million in revenue was provided by Cineplex Digital Networks ("CDN"), which

was acquired by Cineplex in the third quarter of 2013. Media revenues increased 17.6%, with the increase due to the contribution of CDN, partially offset by decreases in pre-show and showtime media revenues. Despite weaker film product resulting in a decline in same store attendance and higher professional fees relating to new business opportunities, the acquisitions of the Atlantic Theatres and CDN contributed to an increase in adjusted EBITDA of $0.7 million or 1.2% to $59.4 million for the second quarter of 2014. Adjusted free cash flow per Share was $0.7734, a $0.0387 increase from $0.7347 in the prior year period.

Total revenues for the six months ended June 30, 2014 increased 9.8%, or $53.8 million compared to the prior year period due to the acquisition of the Atlantic Theatres and CDN. Adjusted EBITDA decreased 0.1%, from $90.4 million to $90.3 million with the decrease due to higher costs related to ongoing and developing business initiatives in the current period compared to the prior year. Adjusted free cash flow per Share decreased 4.7%, from $1.1186 in the 2013 period to $1.0656 in the current period.

1.2 KEY DEVELOPMENTS IN THE SECOND QUARTER OF 2014

During the second quarter of 2014, the board of directors of Cineplex (the "Board") announced a monthly dividend increase of 4.2% to $0.1250 per Share ($1.50 on an annual basis) up from $0.1200 per Share ($1.44 on an annual basis) effective with the May 2014 dividend.

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

THEATRE EXHIBITION

- Reported second quarter box office revenues of $181.4 million, an increase of $7.0 million over the $174.4 million reported in the prior year period due to the inclusion of the Atlantic Theatres.
- BPP was $9.40 for the period, a $0.04 (0.4%) increase from the prior year period.
- Opened *Cineplex Cinemas Manning Town Centre* in Edmonton, Alberta featuring ten auditoriums including one UltraAVX auditorium during the period.
- Opened Cineplex's popular VIP Cinema concept at *Cineplex Cinemas Yonge Dundas and VIP*, which includes five VIP auditoriums and a licensed lounge.

MERCHANDISING

- Reported second quarter food service revenues of $98.0 million, an increase of $8.3 million over the $89.7 million reported in the prior year period due to the inclusion of the Atlantic Theatres.
- CPP was $5.08 for the period, an all-time quarterly record for Cineplex, and $0.27 (5.6%) higher than the $4.81 from the prior year period.
- Added four Poptopia and three YoYo's locations across the circuit during the second quarter of 2014. As at June 30, 2014, Cineplex owns and operates 15 Poptopia locations and five YoYo's locations.
- Opened four new XSCAPE entertainment centres in the second quarter of 2014, bringing the total number of XSCAPE locations at June 30, 2014 to 14.

MEDIA

- Reported second quarter Cineplex Media revenues of $21.2 million, a $2.5 million (10.5%) decrease against a strong comparator in the prior year period.
- Cineplex Digital Media revenues were $9.7 million, $7.1 million higher than the prior year period due to the acquisition of CDN in the third quarter of 2013, which contributed revenues of $7.0 million in the current period.
- Cineplex and Oxford Properties Group ("Oxford") announced plans to create North America's first place-based digital ecosystem to be added to 10 high-profile shopping centres across Canada, integrating architectural digital media, mobile technology, social media, experiential technologies, and digital media sales and analytics to inspire shoppers and influence purchase decisions.

ALTERNATIVE PROGRAMMING

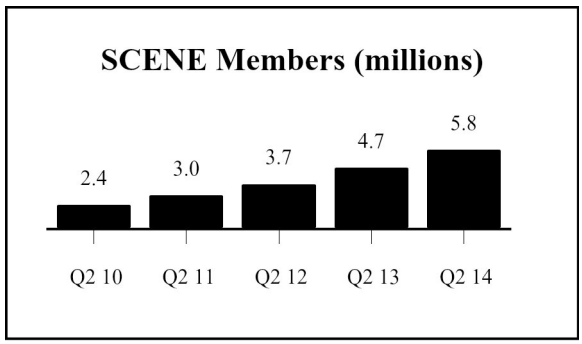
- Alternative programming in the second quarter of 2014 included performances from the Metropolitan Opera: Live in HD series, ethnic film programming, sports programming as well as national distribution of the film *Legends of Oz - Dorothy's Return* across the country. Also in the period, Cineplex partnered with HBO Canada to show the Season 4 finale of *Game of Thrones* live in participating theatres across Canada.

INTERACTIVE

- Launched a new digital commerce platform for the Cineplex Store, supporting over 7,500 movies that can be rented, purchased or viewed on an expanded range of devices as well as adding download capabilities.
- Entered into a new strategic partnership with Samsung, where the Cineplex Store supports the new "Tab S" Android tablet, delivering rental movies direct to Samsung customers who register their devices with the Cineplex Store.
- Cineplex.com registered a 7% increase in page views and a 2% increase in visits during the second quarter of 2014 compared to the prior year period.
- At June 30, 2014, the Cineplex App had been downloaded 9.6 million times and recorded over 350 million app sessions.

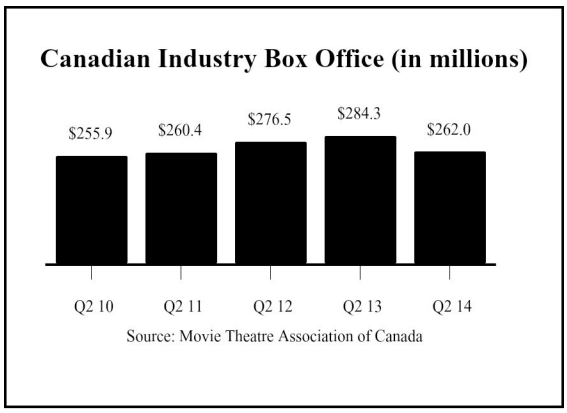
LOYALTY

- Membership in the SCENE loyalty program increased by 0.2 million members in the period, reaching a membership of 5.8 million at June 30, 2014.



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. A detailed discussion of the motion picture exhibition industry in Canada can be found in Cineplex's MD&A for the year ended December 31, 2013.



3. BUSINESS STRATEGY

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

- Continue to enhance and expand existing exhibition infrastructure and service offerings to attract new customers, increase the frequency of visits by existing customers and maximize revenue per patron;
- Capitalize on core media strengths to provide continued growth of Cineplex's media business, with its own assets and with external clients;
- Continue to expand Cineplex's brand presence as an entertainment destination for Canadians, providing in-theatre, at home and on-the-go experiences - Cineplex Anywhere; and
- Pursue selective acquisitions 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 food service offerings, in-theatre and out of home advertising, gaming options provided through family entertainment centres ("FEC") and other stand-alone gaming options, 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, showtime and digital out of home advertising sales through Cineplex Media, as well as further expansion of digital signage installations, network support and advertising sales through Cineplex Digital Media which includes the Cineplex digital lobby network as well as 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, download-to-own ("DTO") and video-on-demand ("VoD") movies online.

A detailed discussion of Cineplex's business strategy can be found in Cineplex's MD&A for the year ended December 31, 2013. That strategy has not changed materially during the second quarter of 2014.

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 56.1% of revenue

in the second quarter of 2014 and continues to represent Cineplex's largest revenue component.

Revenue mix % by year	Q2 2014	Q2 2013	Q2 2012	Q2 2011	Q2 2010
Box office	**56.1%**	57.8%	59.3%	58.5%	59.2%
Concessions	**30.3%**	29.7%	30.3%	29.5%	29.8%
Media	**9.6%**	8.8%	6.9%	8.7%	8.0%
Other	**4.0%**	3.7%	3.5%	3.3%	3.0%
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.

Food service revenues are comprised primarily of concession revenues, arising from food sales at theatre locations. CPP represents concession revenues divided by theatre attendance, and 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's media revenues are generated through Cineplex Media and Cineplex Digital Media. Cineplex Media sells 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. Cineplex Digital Media 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, which generated $7.6 million of revenue in 2013. Cineplex also generates adjusted EBITDA from its 50% share of Cineplex Starburst Inc. ("CSI"). CSI supplies and services all of the games in Cineplex's circuit while also supplying equipment to third party arcades, amusement parks and centres, bowling alleys and theatre circuits, in addition to owning and operating *Playdium*, a family entertainment centre located in Mississauga, Ontario. Cineplex has a commitment to acquire the 50% of issued and outstanding equity of CSI that it does not already own. After the transaction closes in the third quarter of 2015, Cineplex will own 100% of the issued and outstanding equity of CSI, which during the year ended December 31, 2013 generated $58.3 million in gross gaming revenues.

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

Cost of Sales and Expenses

Film cost represents the film rental fees paid to distributors on films exhibited in Cineplex theatres. Film costs are calculated as a percentage of box office revenue and are dependent on various factors including the performance of the film. Film costs are accrued on the related box office receipts at either mutually agreed-upon terms established prior to the opening of the film, or estimated terms where a mutually agreed settlement is reached upon conclusion of the film's run, depending upon the film licensing arrangement. Although the film cost percentage is relatively stable when reviewed on an annual basis, there can be significant variances throughout the quarters based on the actual results versus the expected results for specific films playing during each quarter.

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

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

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

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

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

Other operating expenses consist of fixed and variable expenses, with the largest component being theatre salaries and wages. Although theatre salaries and wages include a fixed cost component, these expenses vary in relation to revenues as theatre staffing levels are adjusted to handle fluctuations in attendance. Other components of this category include marketing and advertising, media, loyalty including SCENE, 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, Cineplex's 50% share of one theatre in Quebec and one IMAX screen in Ontario, 78.2% interest in the Canadian Digital Cinema Partnership ("CDCP"), 50% interest in CSI and 50% interest in YoYo's Yogurt Cafe ("YoYo's") are classified as joint ventures. Through equity accounting, Cineplex's share of the results of operations for these joint ventures are reported as a single item in the statements of operations, 'Share of income of joint ventures'. Theatre attendance for theatres held in joint ventures is not reported in Cineplex's consolidated attendance as the line-by-line results of the joint ventures are not included in the relevant lines in the statement of operations.

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

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

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

The following table presents summarized financial data for Cineplex for the three and six months ended June 30, 2014 and 2013 (expressed in thousands of Canadian dollars except Shares outstanding, per Share data, and per patron data, unless otherwise noted):

	Three months ended June 30, 2014	Three months ended June 30, 2013	Variance (%)	Six months ended June 30, 2014	Six months ended June 30, 2013	Variance (%)
Box office revenues	$ 181,419	$ 174,383	4.0%	$ 337,644	$ 319,548	5.7%
Food service revenues	98,024	89,693	9.3%	185,167	165,572	11.8%
Media revenues	30,990	26,350	17.6%	55,345	42,660	29.7%
Other revenues	13,063	11,206	16.6%	25,359	21,922	15.7%
Total revenues	323,496	301,632	7.2%	603,515	549,702	9.8%
Film cost	94,950	92,973	2.1%	175,408	166,362	5.4%
Cost of food service	21,147	19,173	10.3%	40,028	35,447	12.9%
Depreciation and amortization	19,195	16,527	16.1%	37,863	33,825	11.9%
Loss on disposal of assets	1,989	1,314	51.4%	1,933	2,376	-18.6%
Other costs (a)	148,977	131,875	13.0%	299,423	259,408	15.4%
Costs of operations	286,258	261,862	9.3%	554,655	497,418	11.5%
Net income	$ 23,205	$ 28,543	-18.7%	$ 28,276	$ 37,359	-24.3%
Adjusted EBITDA (i)	$ 59,430	$ 58,711	1.2%	$ 90,311	$ 90,401	-0.1%
(a) Other costs include:						
Theatre occupancy expenses	50,229	46,826	7.3%	101,253	93,384	8.4%
Other operating expenses	83,537	68,449	22.0%	167,748	132,917	26.2%
General and administrative expenses	15,211	16,600	-8.4%	30,422	33,107	-8.1%
Total other costs	$ 148,977	$ 131,875	13.0%	$ 299,423	$ 259,408	15.4%
Basic EPS	$ 0.37	$ 0.45	-17.8%	$ 0.45	$ 0.60	-25.0%
Diluted EPS	$ 0.37	$ 0.45	-17.8%	$ 0.45	$ 0.59	-23.7%
Total assets	$ 1,540,536	$ 1,290,498	19.4%	$ 1,540,536	$ 1,290,498	19.4%
Total long-term financial liabilities (ii)	$ 377,500	$ 150,000	151.7%	$ 377,500	$ 150,000	151.7%
Shares outstanding at period end	62,987,428	62,845,341	0.2%	62,987,428	62,845,341	0.2%
Cash dividends declared per Share	$ 0.3700	$ 0.3525	5.0%	$ 0.7300	$ 0.6900	5.8%
Adjusted free cash flow per Share (i)	$ 0.7734	$ 0.7347	5.3%	$ 1.0656	$ 1.1186	-4.7%
Box office revenue per patron (i)	$ 9.40	$ 9.36	0.4%	$ 9.23	$ 9.18	0.5%
Concession revenue per patron (i)	$ 5.08	$ 4.81	5.6%	$ 5.06	$ 4.76	6.3%
Film cost as a percentage of box office revenue	52.3%	53.3%	-1.0%	52.0%	52.1%	-0.1%
Attendance (in thousands of patrons) (i)	19,301	18,629	3.6%	36,573	34,820	5.0%
Theatre locations (at period end)	162	136	19.1%	162	136	19.1%
Theatre screens (at period end)	1,638	1,454	12.7%	1,638	1,454	12.7%

(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 AND SIX MONTHS ENDED JUNE 30, 2014

Total revenues

Total revenues for the three months ended June 30, 2014 increased $21.9 million (7.2%) to $323.5 million as compared to the prior year period. Total revenues for the six months ended June 30, 2014 increased $53.8 million (9.8%) to $603.5 million as compared to the prior year period. A discussion of the factors affecting the changes in box office, food service, media and other revenues for the period is provided below.

Non-GAAP measures discussed throughout this MD&A, including adjusted EBITDA, adjusted free cash flow, attendance, BPP, premium priced product, same store metrics, CPP, film cost percentage, 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 year to date (in thousands of Canadian dollars, except attendance reported in thousands of patrons, and per patron amounts, unless otherwise noted):

Box office revenues	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Box office revenues	$ 181,419	$ 174,383	4.0%	$ 337,644	$ 319,548	5.7%
Attendance (i)	19,301	18,629	3.6%	36,573	34,820	5.0%
Box office revenue per patron (i)	$ 9.40	$ 9.36	0.4%	$ 9.23	$ 9.18	0.5%
BPP excluding premium priced product (i)	$ 8.46	$ 8.37	1.1%	$ 8.34	$ 8.30	0.5%
Canadian industry revenues (ii)			-6.4%			-4.9%
Same store box office revenues (i)	$ 164,260	$ 171,460	-4.2%	$ 305,382	$ 313,218	-2.5%
Same store attendance (i)	17,408	18,319	-5.0%	32,852	34,140	-3.8%
% Total box from premium priced product (i)	41.8%	42.2%	-0.4%	40.1%	38.9%	1.2%

(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 7.9% for the period from April 4, 2014 to July 3, 2014 as compared to the period from April 5, 2013 to July 4, 2013. On a basis consistent with Cineplex's calendar reporting period (April 1 to June 30), the Canadian industry box office revenue change is estimated to be a decrease of 6.4%. MTAC reported that the Canadian exhibition industry reported a box office revenue decrease of 5.6% for the period from January 3, 2014 to July 3, 2014 as compared to the period from January 4, 2013 to July 4, 2013. On a basis consistent with Cineplex's calendar reporting period (January 1 to June 30), the Canadian industry box office revenues are estimated to be a decrease of 4.9%.

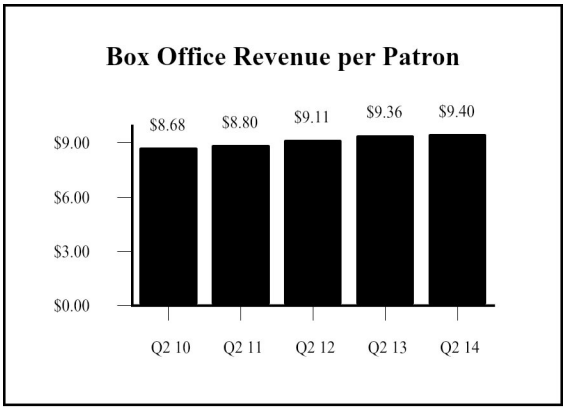
Box office continuity	Second Quarter		Year to Date	
	Box Office	Attendance	Box Office	Attendance
2013 as reported	$ 174,383	18,629	$ 319,548	34,820
Same store attendance change	(8,522)	(911)	(11,823)	(1,288)
Impact of same store BPP change	1,321	—	3,987	—
New and acquired theatres (i)	16,431	1,817	30,220	3,507
Disposed and closed theatres (i)	(2,194)	(234)	(4,288)	(466)
2014 as reported	$ 181,419	19,301	$ 337,644	36,573

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

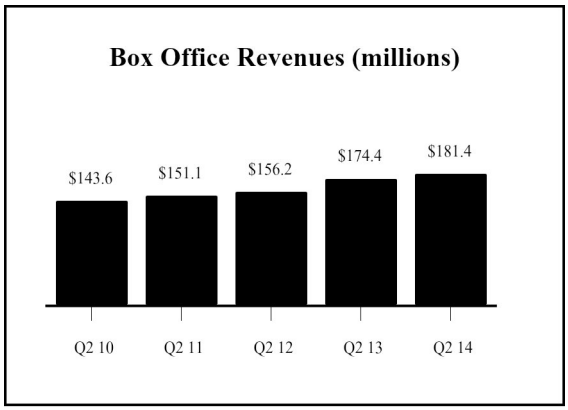
Second Quarter

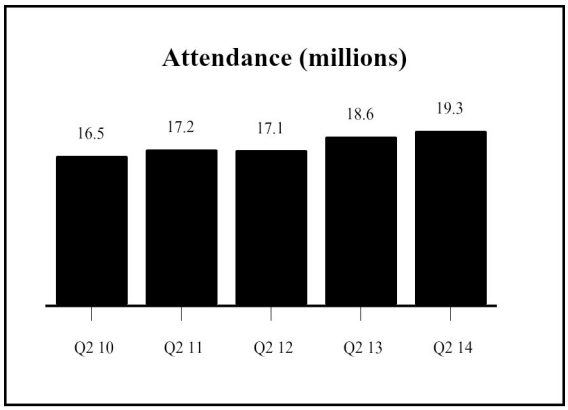
	Second Quarter 2014 Top Cineplex Films	3D	% Box		Second Quarter 2013 Top Cineplex Films	3D	% Box
1	Captain America: The Winter Soldier	✓	11.2%	1	Iron Man 3	✓	13.6%
2	X-Men: Days of Future Past	✓	9.4%	2	Star Trek: Into Darkness	✓	9.6%
3	The Amazing Spider-Man 2	✓	8.6%	3	Man of Steel	✓	7.9%
4	Godzilla	✓	7.5%	4	Fast and Furious 6		6.8%
5	Maleficent	✓	6.1%	5	The Great Gatsby	✓	4.4%

Box office revenues increased $7.0 million, or 4.0%, to $181.4 million during the second quarter of 2014, compared to $174.4 million recorded in the same period in 2013. The increase was due to the impact of the Atlantic Theatres, which contributed $13.1 million to box office revenues during the period, net of a 4.2% decrease in same store box office revenues. The weaker film slate in the current period compared to the prior year resulted in a 5.0% decrease in same store attendance and the 4.2% decline in same store box office revenues.



BPP for the three months ended June 30, 2014 was $9.40, a $0.04 increase from the prior year period and a second quarter record for Cineplex. 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 declining less than the Canadian industry in the period, with the industry estimated to be down 6.4% in the period compared to Cineplex's same-store decline of 4.2%.





Year to Date

	Year to Date 2014 Top Cineplex Films	3D	% Box		Year to Date 2013 Top Cineplex Films	3D	% Box
1	The Lego Movie	✔	6.1%	1	Iron Man 3	✔	7.4%
2	Captain America: The Winter Soldier	✔	5.6%	2	Star Trek: Into Darkness	✔	5.2%
3	X-Men: Days of Future Past	✔	4.7%	3	Man of Steel	✔	4.3%
4	The Amazing Spider-Man 2	✔	4.3%	4	Fast and Furious 6		3.7%
5	Godzilla	✔	3.7%	5	Oz: The Great and Powerful	✔	3.7%

Box office revenues for the six months ended June 30, 2014 were $337.6 million, an increase of $18.1 million or 5.7% over the prior year due to the contribution from the Atlantic Theatres ($23.9 million) more than offsetting the same store revenue decrease of 2.5% due to a 3.8% same store attendance decline. Attendance and box office revenues in the period were impacted by the weaker film product in the first half of 2014 compared to the prior

year period, and the impact of extreme weather conditions in certain areas of the country in the first quarter, particularly in the Atlantic provinces, where theatre closures, power outages and poor driving conditions deterred guests from visiting the theatres. The Canadian industry also under performed the US industry in the first quarter of the year, as certain films in the slate performed stronger in certain regions of the US market than they did in Canada.

Cineplex's BPP for the six months ended June 30, 2014 increased $0.05, or 0.5%, from $9.18 in the prior year period to $9.23 in the current period. This increase was primarily due to the increase in revenues from premium-priced product. Premium-priced offerings accounted for 40.1% of Cineplex's box office revenues in the six months ended June 30, 2014, compared to 38.9% in the prior year period. The top five films in the six months ended June 30, 2014 were all screened in 3D (2013 period - four in 3D). The BPP increase was partially mitigated by the top film during the period, *The Lego Movie*, catering to family audiences, resulting in a higher proportion of child tickets sold with a lower average ticket price.

Food service revenues

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

Food service revenues	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Food service revenues	$ 98,024	$ 89,693	9.3%	$ 185,167	$ 165,572	11.8%
Attendance (i)	19,301	18,629	3.6%	36,573	34,820	5.0%
CPP (i)	$ 5.08	$ 4.81	5.6%	$ 5.06	$ 4.76	6.3%
Same store food service revenues (i)	$ 87,860	$ 88,441	-0.7%	$ 165,630	$ 163,018	1.6%
Same store attendance (i)	17,408	18,319	-5.0%	32,852	34,140	-3.8%

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

Food service revenue continuity	Second Quarter		Year to Date	
	Food Service	Attendance	Concession	Attendance
2013 as reported	$ 89,693	18,629	$ 165,572	34,820
Same store attendance change	(4,395)	(911)	(6,153)	(1,288)
Impact of same store CPP change	3,814	—	8,765	—
New and acquired theatres (i)	9,854	1,817	18,748	3,507
Disposed and closed theatres (i)	(942)	(234)	(1,765)	(466)
2014 as reported	$ 98,024	19,301	$ 185,167	36,573

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

Second Quarter

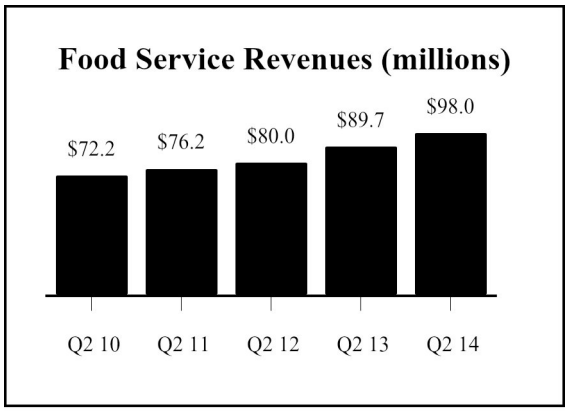
Food service revenues are comprised primarily of concession revenues, which includes food sales at theatre locations as well as non-theatre locations. Food service revenues increased $8.3 million, or 9.3% as compared to the prior year period primarily due to the acquisition of the Atlantic Theatres, which contributed $8.0 million to food service revenues in the period, and the CPP increase from $4.81 in the second quarter of 2013 to $5.08 in the same period in 2014. This represents a quarterly CPP record for Cineplex and the second quarter in a row that exceeds $5.00 for CPP. Expanded offerings outside of core food service products are driving a higher average order value, resulting in the record CPP in the period.

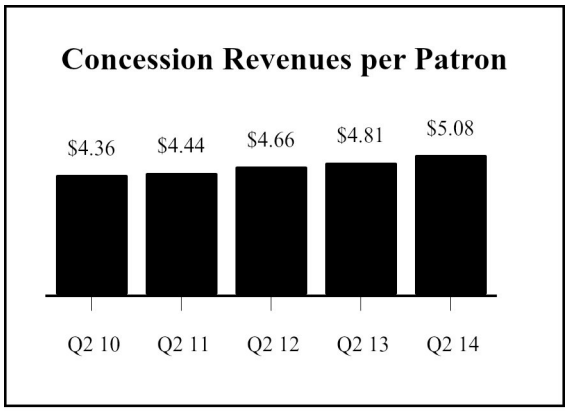
Year to Date

Food service revenues increased $19.6 million, or 11.8% as compared to the prior year, due to the acquisition of the Atlantic Theatres ($15.5 million) and the 6.3% increase in CPP. CPP increased from $4.76 in the 2013 period to $5.06 in the current period, the highest CPP Cineplex has reported through the first six months of a

year. Same store attendance decreased 3.8% compared to the prior year period, however same store food service revenues increased 1.6% due to the record CPP in the current period more than offsetting the impact of the same store attendance decline.

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





Media revenues

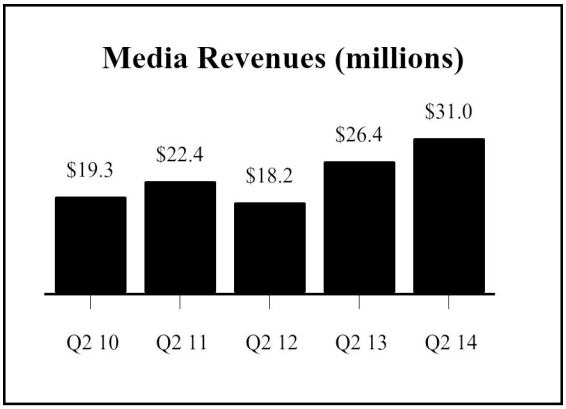
The following table highlights the movement in media revenues for the quarter and the year-to-date (in thousands of Canadian dollars):

Media revenues	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Cineplex Media	$ 21,241	$ 23,722	-10.5%	$ 37,192	$ 37,834	-1.7%
Cineplex Digital Media	9,749	2,628	271.0%	18,153	4,826	276.2%
Total	$ 30,990	$ 26,350	17.6%	$ 55,345	$ 42,660	29.7%

Second Quarter

Media revenues increased 17.6% to $31.0 million in the second quarter of 2014 compared to the prior year period. This increase was due to higher Cineplex Digital Media revenues, up $7.1 million as compared to the prior year period due to the inclusion of CDN's revenues of $7.0 million.

Cineplex Media revenues were $21.2 million, down $2.5 million (10.5%) from the prior year period, primarily due to lower showtime and pre-show revenues against a strong comparator, as the prior year period was a record second quarter for Cineplex Media revenues. Cineplex Media revenues are $5.4 million higher than the second quarter of 2012.



Year to Date

Media revenues increased $12.7 million in the six months ended June 30, 2014 compared to the prior year period. The increase was due to the $13.3 million increase in Cineplex Digital Media revenues arising from the acquisition of CDN.

Cineplex Media revenues were $0.6 million lower than the prior year period due to lower pre-show and showtime revenues due to the tough comparator against the prior year period record results, with declines in the packaged goods and electronics categories contributing to the decline. Cineplex Media revenues are $10.4 million higher than the first six months of 2012.

Other revenues

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

Other revenues	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Games	$ 1,759	$ 1,776	-1.0%	$ 3,637	$ 3,879	-6.2%
Other	11,304	9,430	19.9%	21,722	18,043	20.4%
Total other revenues	$ 13,063	$ 11,206	16.6%	$ 25,359	$ 21,922	15.7%

Second Quarter

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

Other revenues increased 16.6% to $13.1 million in the second quarter of 2014 compared to the prior year period. This increase was primarily due to additional revenues arising from enhanced guest service initiatives and new business initiatives. Games revenues decreased 1.0% in the period, due to the 5.0% decrease in same store attendance, partially offset by the inclusion of the Atlantic Theatres ($0.1 million).

Year to Date

For the year-to-date period, other revenues have increased 15.7% compared to the prior year period due to additional revenues arising from enhanced guest service initiatives and new business initiatives. Games revenues in the prior year period include a life-to-date one-time increase to games revenues in the 2013 period of $0.5 million arising from a change in accounting policy regarding the recognition of revenue on the sale of XSCAPE gaming cards. Excluding this one-time amount, games revenues increased $0.2 million in the 2014 period compared to the same period in 2013 due to the inclusion of the Atlantic Theatres.

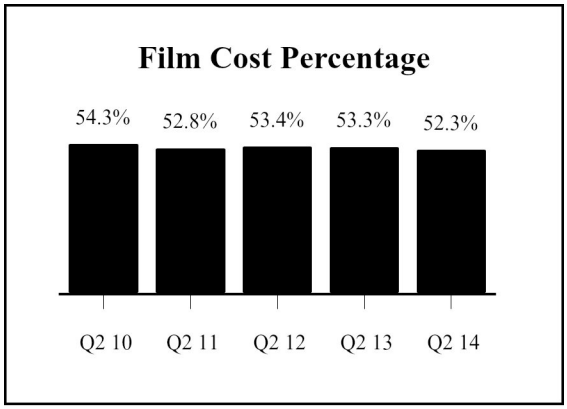
Film cost

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

Film cost	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Film cost	$ 94,950	$ 92,973	2.1 %	$ 175,408	$ 166,362	5.4 %
Film cost percentage (i)	52.3 %	53.3 %	-1.0 %	52.0 %	52.1 %	-0.1 %
(i) See Section 17, Non-GAAP measures.						

Second 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 second quarter of 2014 compared to the prior year period was due to the increase in box office revenue, partially offset by the 1.0% decrease in film cost percentage. The decrease in film cost percentage is primarily due to the settlement rate on the top films during the second quarter of 2014 being lower than the average film settlement rate in the 2013 period.



Year to Date

The year to date increase in film cost was due to the 5.7% increase in box office revenues, partially offset by the 0.1% decrease in film cost percentage during the period. The decrease in the film cost percentage as compared to the prior year period is primarily due to the settlement rate on certain titles during the 2014 period being lower than the average settlement rate in the 2013 period.

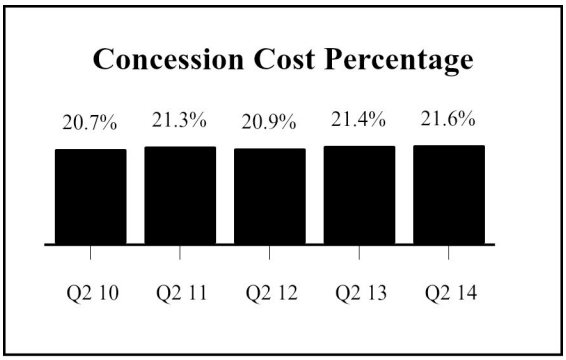
Cost of food service

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

Cost of food service	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Cost of food service	$ 21,147	$ 19,173	10.3%	$ 40,028	$ 35,447	12.9%
Concession cost percentage (i)	21.6%	21.4%	0.2%	21.6%	21.4%	0.2%
Concession margin per patron (i)	$ 3.98	$ 3.79	5.0%	$ 3.97	$ 3.74	6.1%
(i) See Section 17, Non-GAAP measures						

Second Quarter

Cost of food service varies primarily with theatre attendance as well as the quantity and mix of offerings sold. The increase in the cost of food service as compared to the prior year period was due to the higher food service revenues and the 0.2% increase in the concession cost percentage during the period. The concession margin per patron increased from $3.79 in the second quarter of 2013 to $3.98 in the same period in 2014, reflecting the impact of the higher CPP during the period.



Year to Date

The increase in the cost of food service as compared to the prior year period was due to the higher food service revenues and the 0.2% increase in the concession cost percentage during the period. The concession margin per patron increased from $3.74 in the prior year period to $3.97 in the current period, reflecting the impact of the higher CPP in the current period.

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

Depreciation and amortization

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

Depreciation and amortization expenses	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Depreciation of property, equipment and leaseholds	$ 17,333	$ 14,209	22.0%	$ 34,163	$ 27,988	22.1%
Amortization of intangible assets and other	1,862	2,318	-19.7%	3,700	5,837	-36.6%
Depreciation and amortization expenses as reported	$ 19,195	$ 16,527	16.1%	$ 37,863	$ 33,825	11.9%

The quarterly increase in depreciation of property, equipment and leaseholds of $3.1 million and year to date increase of $6.2 million is primarily due to the impact of equipment and leasehold improvements relating to assets acquired through acquisitions and new theatre construction.

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

Loss on disposal of assets

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

Loss on disposal of assets	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Loss on disposal of assets	$ 1,989	$ 1,314	51.4%	$ 1,933	$ 2,376	-18.6%

During the second quarter of 2014, Cineplex recorded a loss of $2.0 million on the disposal of assets that were sold or otherwise disposed (2013 - $1.3 million). For the six months ended June 30, 2014, disposal of assets resulted in a loss of $1.9 million on the disposal of assets that were sold or otherwise disposed of (2013 - $2.4 million). The current year to date period includes $0.6 million gain on the sale of land that was previously a drive-in theatre which is offset by losses on certain assets that were sold or otherwise disposed of.

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 year to date (in thousands of Canadian dollars):

Other costs	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Theatre occupancy expenses	$ 50,229	$ 46,826	7.3%	$ 101,253	$ 93,384	8.4%
Other operating expenses	83,537	68,449	22.0%	167,748	132,917	26.2%
General and administrative expenses	15,211	16,600	-8.4%	30,422	33,107	-8.1%
Total other costs	$ 148,977	$ 131,875	13.0%	$ 299,423	$ 259,408	15.4%

Theatre occupancy expenses

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

Theatre occupancy expenses	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Rent	$ 33,775	$ 31,434	7.4%	$ 67,284	$ 62,533	7.6%
Other occupancy	17,845	16,340	9.2%	35,637	32,786	8.7%
One-time items (i)	(1,391)	(948)	46.7%	(1,668)	(1,935)	-13.8%
Total	$ 50,229	$ 46,826	7.3%	$ 101,253	$ 93,384	8.4%

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

Theatre occupancy continuity	Second Quarter Occupancy	Year to Date Occupancy
2013 as reported	$ 46,826	$ 93,384
Impact of new and acquired theatres	3,731	7,897
Impact of disposed theatres	(447)	(935)
Same store rent change (i)	388	706
One-time items	(443)	267
Other	174	(66)
2014 as reported	$ 50,229	$ 101,253
(i) See Section 17, Non-GAAP measures		

Second Quarter

Theatre occupancy expenses increased $3.4 million during the second quarter of 2014 compared to the prior year period. This increase was primarily due to the impact of new and acquired theatres net of disposed theatres ($3.3 million, of which $3.1 million relates to the Atlantic Theatres). The remaining increase was due to higher same store rent expenses due to rent increases at certain theatre properties as well as higher insurance costs (included in "Other"), net of the impact of one-time items.

Year to Date

The increase in theatre occupancy expenses of $7.9 million for the 2014 period compared to the prior year was due to the impact of new and acquired theatres net of disposed theatres ($7.0 million, of which $6.1 million relates to the Atlantic Theatres). The remaining increase was due to higher same store rent expenses due to rent increases at certain theatre properties and the impact of one-time items.

Other operating expenses

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

Other operating expenses	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Theatre payroll	$ 33,127	$ 29,791	11.2%	$ 65,480	$ 57,807	13.3%
Media	13,467	6,108	120.5%	25,877	11,768	119.9%
Other	36,943	32,550	13.5%	76,391	63,342	20.6%
Other operating expenses	$ 83,537	$ 68,449	22.0%	$ 167,748	$ 132,917	26.2%

Other operating continuity	Second Quarter Other Operating	Year to Date Other Operating
2013 as reported	$ 68,449	$ 132,917
Impact of new and acquired theatres	6,068	12,897
Impact of disposed theatres	(700)	(1,304)
Same store payroll change (i)	446	1,917
Marketing change	(590)	420
Media acquisitions	6,972	13,617
Media change, excluding media acquisitions	388	492
New business initiatives change	1,101	3,853
Other	1,403	2,939
2014 as reported	$ 83,537	$ 167,748
(i) See Section 17, Non-GAAP measures		

Second Quarter

Other operating expenses during the second quarter of 2014 increased $15.1 million or 22.0% compared to the prior year period. The major components of the increase were the impact of CDN which was acquired in the third quarter of 2013 ($7.0 million), the impact of new and acquired theatres net of disposed theatres ($5.4 million), developing business initiatives including the Cineplex Store ($1.1 million), higher same-store payroll costs ($0.4 million) due in part to minimum wage increases, and other expenses ($1.4 million, discussed below). These increases were partially offset by lower marketing costs ($0.6 million) due to the timing of certain campaigns in the current period compared to the prior year.

The major movements in the Other category include the following:

- The increase in 3D attendance due to the additional 132 3D screens added since June 30, 2013 resulted in higher 3D royalty costs ($0.4 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 credit card service fees due to higher sales volumes arising from the acquisition of the Atlantic Theatres ($0.2 million); and
- Higher other costs ($0.3 million) including ongoing theatre maintenance.

Year to Date

For the six months ended June 30, 2014, other operating expenses increased $34.8 million or 26.2% compared to the prior year period. The major components of this increase were the impact of new and acquired theatres net of disposed theatres ($11.6 million) primarily due to the addition of the Atlantic Theatres, the inclusion of CDN ($13.6 million), developing business initiatives including the Cineplex Store ($3.9 million), higher same-store payroll costs ($1.9 million) due in part to minimum wage increases, higher marketing costs ($0.4 million) partially due to advertising initiatives undertaken as part of Cineplex's partnership with the Canadian Olympic Committee, and other expenses ($2.9 million, discussed below).

The major movements in the Other category include the following:

- The increase in 3D attendance due to the additional 132 3D screens added since June 30, 2013 resulted in higher 3D royalty costs ($0.6 million) as well as contributing to the higher cost of projector bulbs ($0.8 million) as 3D features require bulbs with higher output which significantly reduces the life of the bulbs;
- Higher credit card service fees due to higher sales volumes arising from the acquisition of the Atlantic Theatres ($0.4 million);
- Higher same-store utility costs ($0.3 million) due in part to the cold temperatures across parts of the country during the winter months in the current period; and
- Higher other costs ($0.8 million) including ongoing theatre maintenance.

General and administrative expenses

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

G&A expenses	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
G&A excluding LTIP and option plan expense	$ 13,523	$ 12,384	9.2%	$ 27,252	$ 25,123	8.5%
LTIP (i)	1,245	3,824	-67.4%	2,324	7,184	-67.7%
Option plan	443	392	13.0%	846	800	5.8%
G&A expenses as reported	$ 15,211	$ 16,600	-8.4%	$ 30,422	$ 33,107	-8.1%

(i) LTIP includes the expense for Cineplex's long-term incentive program ("LTIP") as well as the expense for the executive and Board deferred share unit plans.

Second Quarter

G&A expenses decreased $1.4 million during the second quarter of 2014 compared to the prior year period due to a $2.6 million decrease in LTIP expense partially offset by higher professional fees. The LTIP decrease is due in part to Cineplex's Share price decreasing from $42.07 at March 31, 2014 to $41.45 at June 30, 2014 compared to an increase from $34.48 at March 31, 2013 to $36.88 at June 30, 2013. G&A excluding LTIP and option plan expense increased $1.2 million due to higher professional fees relating to new business opportunities.

Year to Date

G&A expenses for the year to date period decreased $2.7 million compared to the prior year period, due to a $4.9 million decrease in LTIP expense due primarily to a decrease in Cineplex's Share price of 5.9% in the current period compared to an increase of 15.9% in the prior year period, partially offset by a $2.1 million increase in G&A excluding LTIP and option expense, due to a $0.8 million increase in head office payroll due to developing business initiatives and a $1.5 million increase in professional fees relating to new business opportunities and other ongoing initiatives.

Share of income of joint ventures

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

Share of income of joint ventures	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Share of (income) of CDCP	$ (675)	$ (779)	-13.4%	$ (620)	$ (1,112)	-44.2%
Share of (income) of CSI	(308)	(285)	8.1%	(471)	(536)	-12.1%
Share of loss (income) of other joint ventures	5	(152)	NM	58	(109)	NM
Total (income) of joint ventures	$ (978)	$ (1,216)	-19.6%	$ (1,033)	$ (1,757)	-41.2%

The decrease from income of $1.2 million in the second quarter of 2013 to income of $1.0 million in the current period is due to the impact of the weaker film product on Cineplex's 50% interest in one theatre in Quebec and its 50% interest in one IMAX screen in Ontario. The year to date decrease of $0.7 million is primarily due to lower CDCP income, with the decrease due in part to certain films during the period staying on screens for extended periods which decreases the virtual print fee revenues earned by CDCP.

Interest expense

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

Interest expense	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Long-term debt interest expense	$ 2,434	$ 1,565	55.5%	$ 4,445	$ 3,063	45.1%
Convertible debenture interest expense	1,206	—	NM	2,399	—	NM
Finance lease interest expense	351	407	-13.8%	713	819	-12.9%
Sub-total - cash interest expense	$ 3,991	$ 1,972	102.4%	$ 7,557	$ 3,882	94.7%
Deferred financing fee accretion and other non-cash interest	1,187	260	356.5%	2,351	401	486.3%
Convertible debenture accretion	467	—	NM	938	—	NM
Interest rate swap - non-cash	(62)	(234)	-73.5%	(46)	(569)	-91.9%
Sub-total - non-cash interest expense	1,592	26	NM	3,243	(168)	-2,030.4%
Total interest expense	$ 5,583	$ 1,998	179.4%	$ 10,800	$ 3,714	190.8%

Interest expense increased $3.6 million for the quarter and $7.1 million for the year to date compared to the prior year period, as cash interest increased $2.0 million and $3.7 million, respectively, due to increased borrowings and the issuance of convertible debentures in the fourth quarter of 2013 to fund the acquisition of CDN and the Atlantic Theatres.

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

Interest income

Interest income during the second quarter of 2014 and the six months ended June 30, 2014 was lower than the prior year periods due to lower average cash balances (in thousands of Canadian dollars):

Interest income	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Interest income	$ 43	$ 59	-27.1%	$ 113	$ 137	-17.5%

Income taxes

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

Income taxes	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Current income tax expense	$ 1,010	$ 1,926	-47.6%	$ 1,380	$ 1,199	15.1%
Deferred income tax expense	$ 8,461	$ 8,578	-1.4%	$ 9,550	$ 11,906	-19.8%

Taxable income earned by Cineplex during 2013 was offset by the use of loss carryforwards acquired through Cineplex's acquisition of AMC Ventures Inc. in 2012. As a result of the $147.0 million of non-capital losses acquired in this transaction, Cineplex's cash income taxes in 2013 were substantially reduced. Based on taxable income for the year ended December 31, 2013, approximately $44.4 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, totalling $2.3 million through June 30, 2014, have been recorded as deferred income tax assets and a reduction of deferred income tax expense.

Cineplex's blended federal and provincial statutory tax rate at June 30, 2014 and 2013 was 26.3%.

Net income

For the three months ended June 30, 2014, Cineplex reported net income of $23.2 million (2013 – $28.5 million). For the six months ended June 30, 2014, Cineplex reported net income of $28.3 million (2013 - $37.4 million) (in thousands of Canadian dollars):

Net income	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Net income	$ 23,205	$ 28,543	-18.7%	$ 28,276	$ 37,359	-24.3%

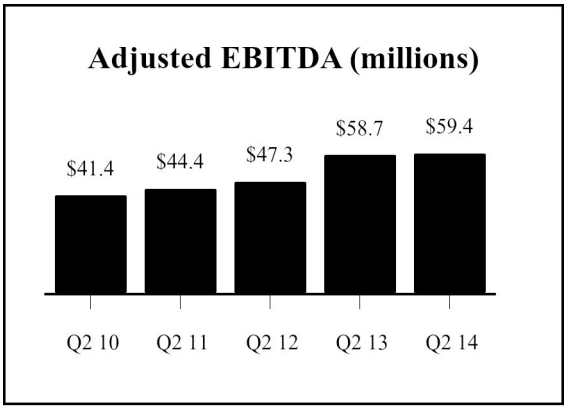
5.3 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (see Section 17, Non-GAAP measures)

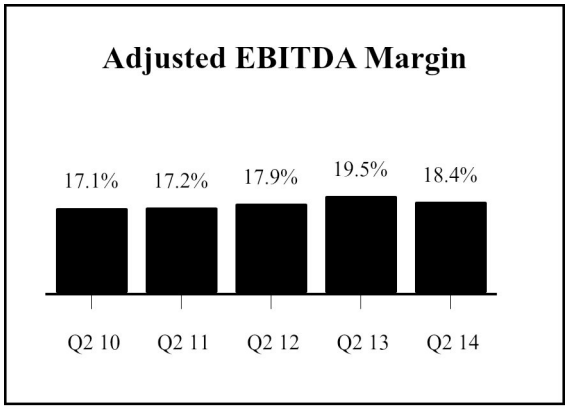
The following table presents EBITDA and adjusted EBITDA for the three and six months ended June 30, 2014 as compared to the prior year periods (expressed in thousands of Canadian dollars, except adjusted EBITDA margin):

EBITDA	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
EBITDA	$ 57,411	$ 57,513	-0.2%	$ 87,756	$ 87,866	-0.1%
Adjusted EBITDA	$ 59,430	$ 58,711	1.2%	$ 90,311	$ 90,401	-0.1%
Adjusted EBITDA margin	18.4%	19.5%	-1.1%	15.0%	16.4%	-1.4%

Adjusted EBITDA for the second quarter of 2014 increased $0.7 million, or 1.2%, as compared to the prior year period. The increase as compared to the prior year period was primarily due to the acquisitions of the Atlantic Theatres and CDN, partially offset by the weaker film product resulting in lower same store attendance, lower showtime and pre-show media revenues due to a tough comparator with the prior year and higher professional fees relating to new business opportunities. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 18.4% in the current period, down from 19.5% in the prior year period.

Adjusted EBITDA for the six months ended June 30, 2014 decreased $0.1 million, or 0.1%, as compared to the prior year period, due to the weaker film product in the current period resulting in lower same store attendance, lower showtime and pre-show media revenues due to a tough comparator with the prior year and higher professional fees relating to new business opportunities. The contribution from the Atlantic Theatres and CDN largely offset the period over period decrease. Adjusted EBITDA margin for the period was 15.0%, down from 16.4% in the prior year period.





6. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the six months ended June 30, 2014 (in thousands of Canadian dollars):

	June 30, 2014	December 31, 2013	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 14,499	$ 44,140	$ (29,641)	-67.2%
Trade and other receivables	64,236	100,891	(36,655)	-36.3%
Inventories	6,877	7,234	(357)	-4.9%
Prepaid expenses and other current assets	11,872	6,838	5,034	73.6%
	97,484	159,103	(61,619)	-38.7%
Non-current assets				
Property, equipment and leaseholds	477,375	459,112	18,263	4.0%
Deferred income taxes	8,493	17,635	(9,142)	-51.8%
Fair value of interest rate swap agreements	—	92	(92)	-100.0%
Interests in joint ventures	45,779	44,359	1,420	3.2%
Intangible assets	112,604	113,601	(997)	-0.9%
Goodwill	798,801	797,476	1,325	0.2%
	$ 1,540,536	$ 1,591,378	$ (50,842)	-3.2%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$ 114,087	$ 157,333	$ (43,246)	-27.5%
Share-based compensation	6,587	12,151	(5,564)	-45.8%
Dividends payable	7,873	7,552	321	4.3%
Income taxes payable	2,050	2,656	(606)	-22.8%
Deferred revenue	103,124	136,373	(33,249)	-24.4%
Finance lease obligations	2,528	2,394	134	5.6%
Fair value of interest rate swap agreements	776	635	141	22.2%
	237,025	319,094	(82,069)	-25.7%
Non-current liabilities				
Share-based compensation	11,865	15,622	(3,757)	-24.0%
Long-term debt	267,461	217,151	50,310	23.2%
Fair value of interest rate swap agreements	1,255	—	1,255	NM
Finance lease obligations	16,402	17,722	(1,320)	-7.4%
Post-employment benefit obligations	6,601	6,522	79	1.2%
Other liabilities	171,832	170,125	1,707	1.0%
Convertible debentures	97,807	96,870	937	1.0%
	810,248	843,106	(32,858)	-3.9%
Equity	730,288	748,272	(17,984)	-2.4%
	$ 1,540,536	$ 1,591,378	$ (50,842)	-3.2%

Trade and other receivables. The decrease in trade and other receivables is primarily due to the collection of receivables from the sales of gift cards, vouchers and media sales from the 2013 holiday period. December represents the highest volume month for gift card and voucher sales and is one of the strongest months for media sales during the year.

Prepaid expenses and other current assets. The increase in prepaid expenses and other current assets relates primarily to certain prepaid real estate tax installments which are paid during the first six months of the year.

Property, equipment and leaseholds. The increase in property, equipment and leaseholds is due to new build and other capital expenditures ($43.6 million), maintenance capital expenditures ($12.0 million) and acquisitions ($0.2 million), offset by amortization expenses ($34.2 million) and asset dispositions ($3.3 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 period.

Interests in joint ventures. The increase in interests in joint ventures is primarily due to the share of income from joint ventures in the period.

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

Goodwill. The increase in goodwill is due to the acquisition of a theatre property in Barrie, Ontario in the second quarter of 2014.

Accounts payable and accrued expenses. The decrease in accounts payable and accrued expenses primarily relates to the settlement of year-end liabilities relating to higher business volumes during the 2013 holiday period as compared to the end of the second quarter of 2014.

Share-based compensation. The decrease in share-based compensation is due in part to the payment of the 2011 LTIP, which vested in the first quarter of 2014.

Deferred revenue. Deferred revenue decreased primarily due to the redemption of gift cards and vouchers sold during the 2013 holiday season being higher than the sale of gift cards and vouchers in the first half of 2014.

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) and the deferred financing fee amortization recognized in the period.

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

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

Other liabilities. The increase is primarily due to the accretion of the deferred contingent consideration relating to CDN, 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 and six months ended June 30, 2014 and 2013 (in thousands of Canadian dollars):

Cash flows provided by operating activities	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Net income	$ 23,205	$ 28,543	$ (5,338)	$ 28,276	$ 37,359	$ (9,083)
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts (i)	18,903	15,079	3,824	37,335	30,949	6,386
Loss on disposal of assets	1,989	1,314	675	1,933	2,376	(443)
Deferred income taxes	8,461	8,578	(117)	9,550	11,906	(2,356)
Interest rate swap agreements - non-cash interest	(62)	(234)	172	(46)	(569)	523
Non-cash Share-based compensation	443	391	52	846	1,047	(201)
Accretion of convertible debentures	467	—	467	938	—	938
Net change in interests in joint ventures	(860)	(117)	(743)	(1,240)	(825)	(415)
Tenant inducements	—	348	(348)	2,842	3,305	(463)
Changes in operating assets and liabilities	(12,106)	20,542	(32,648)	(58,511)	(17,901)	(40,610)
Net cash provided by operating activities	**$ 40,440**	**$ 74,444**	**$(34,004)**	**$ 21,923**	**$ 67,647**	**$(45,724)**

(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.

Second Quarter

Cash provided by operating activities decreased $34.0 million in the second quarter of 2014 compared to the prior year period primarily due to the $5.3 million decrease in net income and the movement in operating assets and liabilities, which included a larger decrease in accounts payable and accrued expenses in the current period compared to the prior year.

Year to Date

For the six months ended June 30, 2014, cash provided by operating activities decreased $45.7 million compared to the prior year period due to the $9.1 million decrease in net income and the movement in operating assets and liabilities, which included a payment on the vesting of the 2011 LTIP.

7.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the three and six months ended June 30, 2014 and 2013 (in thousands of Canadian dollars):

Cash flows used in investing activities	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Proceeds from sale of assets	$ —	$ 2	$ (2)	$ 404	$ 2	$ 402
Purchases of property, equipment and leaseholds	(19,225)	(17,294)	(1,931)	(50,695)	(34,191)	(16,504)
Acquisition of businesses, net of cash acquired	(1,516)	—	(1,516)	(2,466)	(3,822)	1,356
Intangible asset addition	(2,750)	—	(2,750)	(2,750)	—	(2,750)
Deposit for business acquisition	—	(5,000)	5,000	—	(5,000)	5,000
Net cash received from (invested in) joint ventures	769	(403)	1,172	769	(549)	1,318
Net cash used in investing activities	**$ (22,722)**	**$ (22,695)**	**$ (27)**	**$ (54,738)**	**$ (43,560)**	**$ (11,178)**

Second Quarter

Cash used in investing activities during the second quarter of 2014 was in line with cash used in the prior year period. The 2014 period included $2.8 million for an intangible asset addition, $1.5 million spent on the acquisition of a theatre in Barrie, Ontario, and an increase of $1.9 million spent on purchases of property,

equipment and leaseholds over the prior year. The prior year period included a $5.0 million deposit for the acquisition of the Atlantic Theatres which was completed in the fourth quarter of 2013.

Year to Date

For the year to date period, cash used in investing activities increased $11.2 million as compared to the 2013 period. This was due to $16.5 million in higher purchases of property, equipment and leaseholds and the intangible asset addition. These increases were partially offset by $6.4 million in lower spending on business acquisitions which included the deposit for the Atlantic Theatres, and the impact of the net cash received from CDCP in the current period compared to net cash paid to CDCP in the prior period (net impact of $1.3 million).

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

Capital expenditures	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Gross capital expenditures	$ 19,225	$ 17,294	$ 1,931	$ 50,695	$ 34,191	$ 16,504
Less: tenant inducements	—	(348)	348	(2,842)	(3,305)	463
Net capital expenditures	$ 19,225	$ 16,946	$ 2,279	$ 47,853	$ 30,886	$ 16,967
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 15,774	$ 7,273	$ 8,501	$ 37,565	$ 9,578	$ 27,987
Tenant inducements	—	(348)	348	(2,842)	(3,305)	463
Premium formats (ii)	3,120	3,368	(248)	6,483	5,667	816
Maintenance capital expenditures	4,944	6,402	(1,458)	11,963	11,265	698
Other (iii)	(4,613)	251	(4,864)	(5,316)	7,681	(12,997)
	$ 19,225	$ 16,946	$ 2,279	$ 47,853	$ 30,886	$ 16,967

(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 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 ended June 30, 2014 and 2013 (in thousands of Canadian dollars):

Cash flows provided by (used in) financing activities	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Dividends paid	$ (22,983)	$ (21,682)	$ (1,301)	$ (45,640)	$ (42,873)	$ (2,767)
Borrowings (repayments) under credit facility, net	10,000	(15,000)	25,000	50,000	—	50,000
Payments under finance leases	(595)	(551)	(44)	(1,186)	(1,091)	(95)
Net cash (used in) provided by financing activities	**$ (13,578)**	**$ (37,233)**	**$ 23,655**	**$ 3,174**	**$ (43,964)**	**$ 47,138**

Second Quarter

Net cash used in financing activities in the second quarter of 2014 decreased by $23.7 million due to the net movement in borrowings under the credit facility of $25.0 million, partially offset by higher dividend payments and payments under finance leases.

Year to Date

Net cash provided by financing activities of $3.2 million in the current period was $47.1 million higher than the prior period due to an increase in net cash borrowed under the credit facilities of $50.0 million, partially offset by higher dividend payments and payments under finance leases.

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

7.4 CREDIT FACILITIES

Cineplex and the Partnership entered into certain credit facilities effective October 24, 2013 (the "Credit Facilities"). At June 30, 2014, the Credit Facilities consisted of the following (in millions of Canadian dollars):

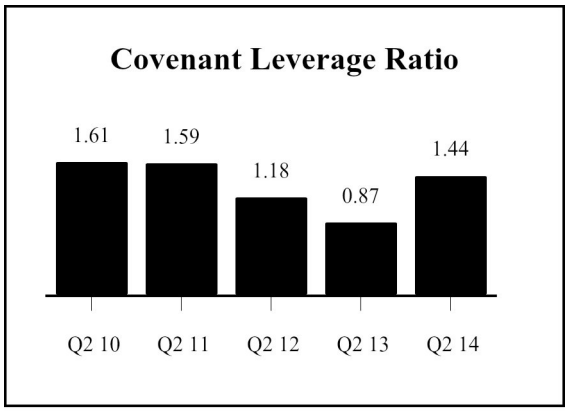
		Available	Drawn	Reserved	Remaining
(i)	a five-year senior secured revolving credit facility ("Revolving Facility")	$ 250.0	$ 120.0	$ 5.4	$ 124.6
(ii)	a five-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at June 30, 2014 of $5.4 million are reserved against the Revolving Facility.					

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

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

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

One of the key financial covenants in the Credit Facilities is the leverage covenant. As at June 30, 2014, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 1.44x, 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 increase in the leverage covenant from the prior year period is due in part to the increased borrowings in the fourth quarter of 2013 to finance the acquisitions of CDN and the Atlantic Theatres and borrowings in the current period for growth initiatives.

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

Interest rate swap agreements. Effective August 24, 2011, Cineplex entered into three interest rate swap agreements. Under these agreements, Cineplex pays a fixed rate of 1.715% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. These interest rate swap agreements have a term of five years that commenced in August 2011 and have an aggregate notional principal amount of $150.0 million. Based on the leverage ratio covenant at June 30, 2014, Cineplex's effective cost of borrowing on the $150.0 million Term Facility was 3.265% (June 30, 2013 - 3.215%).

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

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

7.5 FUTURE OBLIGATIONS

Cineplex has aggregate gross capital commitments of $88.9 million ($75.2 million net of tenant inducements) related to the completion of construction of nine theatre properties to include an aggregate of 92 screens (including 30 VIP auditoriums) over the next three years. In addition, Cineplex has gross commitments over the next two years of $41.2 million for other projects, including the conversion of regular auditoriums to VIP at certain theatres and certain digital media projects both in the theatre and for clients of CDS and CDN.

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

Cineplex's acquisition of CDN during the third quarter of 2013 includes an earn-out payment subject to an aggregate maximum purchase price of $78.0 million for both the initial payment and the earn-out payment. The earn-out payment will be based on 2015 operating results and will be paid in early 2016. Cineplex estimates that the maximum earn-out will be achieved, and at June 30, 2014, the deferred contingent consideration is recognized in Cineplex's balance sheet at an estimated fair value of $32.5 million, with an undiscounted value of $39.6 million. The deferred contingent consideration is being accreted to its maximum cap using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement.*

At June 30, 2014, Cineplex had $107.5 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2018. At June 30, 2014, the convertible debentures were recorded on Cineplex's balance sheet at $97.8 million. The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*. On and after December 31, 2016 and prior to December 31, 2017, Cineplex may, at its option, redeem the debentures in whole or in part from time to time, subject to specified market conditions. On or after December 31, 2017, the convertible debentures may be redeemed in whole or in part from time to time at the option of Cineplex at a price equal to their principal amount plus accrued and unpaid interest. Redemptions may be in cash or in the form of Shares, at the option of Cineplex. See Section 9, Share activity, for more information regarding the convertible debentures.

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

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

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

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

Effective for the May 2014 dividend payable in June 2014, the Board approved a dividend increase to $0.1250 per month per Share.

8.1 ADJUSTED FREE CASH FLOW

Cineplex distributes cash to its shareholders on a monthly basis. The following table illustrates adjusted free cash flow per Share, dividends paid per Share, and the payout ratio of dividends relative to adjusted free cash flow for the three months ended June 30, 2014 and 2013:

Adjusted free cash flow	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Adjusted free cash flow per Share	$ 0.7734	$ 0.7347	5.3%	$ 1.0656	$ 1.1186	-4.7%
Dividends declared per Share	$ 0.3700	$ 0.3525	5.0%	$ 0.7300	$ 0.6900	5.8%
Payout ratio - twelve months ended June 30				60.3%	61.1%	-0.8%

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

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

	Second Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Cash flows used in operations	$ 40,440	$ 74,444	-45.7%	$ 21,923	$ 67,647	-67.6%
Net income	$ 23,205	$ 28,543	-18.7%	$ 28,276	$ 37,359	-24.3%
Standardized free cash flow	$ 21,215	$ 57,152	-62.9%	$ (28,368)	$ 33,458	NM
Adjusted free cash flow	$ 48,699	$ 46,170	5.5%	$ 67,083	$ 70,277	-4.5%
Cash dividends declared	23,300	$ 22,153	5.2%	$ 45,961	$ 43,351	6.0%
Average number of Shares outstanding	62,966,909	62,844,730	0.2%	62,954,227	62,824,336	0.2%

8.2 DIVIDENDS

Subject to the discretion of the Board, dividends are typically declared on a monthly basis to common shareholders of record on the last business day of each month. For the three months ended June 30, 2014, Cineplex declared dividends totaling $0.3700 per Share. For the three months ended June 30, 2013, Cineplex declared dividends totaling $0.3525 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
May 2014	$	0.1250

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

9. SHARE ACTIVITY

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

The initial grants of Share equivalents were as follows:

	Base Share equivalents
2014 LTIP award	135,602
2013 LTIP award	124,936
2012 LTIP award	137,302
2011 LTIP award (vested)	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 outstanding options must be exercised over specified periods not to exceed 10 years from the date granted. As of June 30, 2014, 1.8 million Share options are outstanding under the Share option plan. Upon cashless exercise, the Share options exercised in excess of Shares issued are canceled and returned to the pool available for future grants. At June 30, 2014, 2.9 million Share options are available for grant under the plan.

A summary of option activities for the six months ended June 30, 2014 and 2013 is as follows:

	2014			2013	
	Weighted average remaining contractual life (years)	Number of underlying Shares	Weighted average exercise price	Number of underlying Shares	Weighted average exercise price
Options outstanding - January 1	7.96	1,459,772	$ 27.23	1,460,546	$ 24.38
Granted		540,519	40.45	385,834	33.49
Canceled		(10,694)	34.89	—	—
Exercised		(143,720)	25.86	(201,102)	23.24
Options outstanding – end of period	8.11	1,845,877	$ 31.16	1,645,278	$ 26.65

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

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

10. SEASONALITY AND QUARTERLY RESULTS

Historically, Cineplex's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures have traditionally been released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter, in attendance levels, theatre staffing levels and reported results. The seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. To meet working capital requirements during the traditionally lower-revenue quarters, Cineplex can draw upon the Revolving Facility. As of June 30, 2014, there was $120.0 million drawn on the Revolving Facility.

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

	2014		2013				2012 (i)	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues								
Box office	$ 181,419	$ 156,225	$ 177,692	$ 168,066	$ 174,383	$ 145,165	$ 170,524	$ 162,133
Food service	98,024	87,143	93,294	91,487	89,693	75,879	86,409	85,924
Media	30,990	24,355	39,196	27,725	26,350	16,310	30,801	22,590
Other	13,063	12,296	13,025	11,080	11,206	10,716	10,967	10,501
	323,496	280,019	323,207	298,358	301,632	248,070	298,701	281,148
Expenses								
Film cost	94,950	80,458	91,867	88,144	92,973	73,389	87,477	83,632
Cost of food service	21,147	18,881	19,835	19,411	19,173	16,274	18,077	17,831
Depreciation and amortization	19,195	18,668	19,748	17,317	16,527	17,298	16,968	14,044
Loss (gain) on disposal of assets	1,989	(56)	432	1,564	1,314	1,062	(3,138)	114
Other costs	148,977	150,446	158,025	134,386	131,875	127,533	136,319	126,253
	286,258	268,397	289,907	260,822	261,862	235,556	255,703	241,874
Income from operations	37,238	11,622	33,300	37,536	39,770	12,514	42,998	39,274
Adjusted EBITDA (ii)	59,430	30,881	54,144	57,896	58,711	31,690	57,507	54,575
Net income	$ 23,205	$ 5,071	$ 20,168	$ 26,030	$ 28,543	$ 8,816	$ 32,704	$ 51,712
Basic earnings per Share	$ 0.37	$ 0.08	$ 0.32	$ 0.41	$ 0.45	$ 0.14	$ 0.53	$ 0.84
Diluted earnings per Share (iii)	$ 0.37	$ 0.08	$ 0.32	$ 0.41	$ 0.45	$ 0.14	$ 0.52	$ 0.83
Cash provided by (used in) operating activities	40,440	(18,517)	134,455	22,546	74,444	(6,797)	109,445	38,955
Cash used in investing activities	(22,722)	(32,016)	(204,563)	(49,102)	(22,695)	(20,865)	(20,097)	(11,482)
Cash (used in) provided by financing activities	(13,578)	16,752	102,087	9,929	(37,233)	(6,731)	(42,609)	(41,428)
Net change in cash	$ 4,140	$ (33,781)	$ 31,979	$ (16,627)	$ 14,516	$ (34,393)	$ 46,739	$ (13,955)
Box office revenue per patron (ii)	$ 9.40	$ 9.04	$ 9.42	$ 8.84	$ 9.36	$ 8.97	$ 9.18	$ 8.84
Concession revenue per patron (ii)	$ 5.08	$ 5.05	$ 4.94	$ 4.81	$ 4.81	$ 4.69	$ 4.65	$ 4.68
Attendance (in thousands of patrons) (ii)	19,301	17,272	18,872	19,011	18,629	16,191	18,577	18,348
Theatre locations (at period end)	162	161	161	136	136	136	134	133
Theatre screens (at period end)	1,638	1,632	1,630	1,454	1,454	1,455	1,449	1,438

(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):

	2014		2013				2012 (i)	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Cash provided by (used in) operating activities	$ 40,440	$ (18,517)	$ 134,455	$ 22,546	$ 74,444	$ (6,797)	$ 109,586	$ 38,955
Less: Total capital expenditures net of proceeds on sale of assets	(19,225)	(31,066)	(14,394)	(10,254)	(17,292)	(16,897)	(19,907)	(16,066)
Standardized free cash flow	21,215	(49,583)	120,061	12,292	57,152	(23,694)	89,679	22,889
Add/(Less):								
Changes in operating assets and liabilities	12,106	46,405	(85,812)	30,609	(20,542)	38,443	(62,706)	3,052
Changes in operating assets and liabilities of joint ventures	(118)	325	(549)	317	(1,099)	167	(363)	(160)
Tenant inducements	—	(2,842)	(500)	(1,612)	(348)	(2,957)	(1,643)	(727)
Principal component of financing lease obligations	(595)	(591)	(615)	(571)	(551)	(540)	(531)	(520)
Growth capital expenditures and other	14,281	24,047	2,561	5,526	10,890	12,034	8,665	9,925
Share of income of joint ventures, net of non-cash depreciation	1,041	623	593	1,391	1,071	800	661	1,114
Net cash received from (invested in) CDCP	769	—	535	(36)	(403)	(146)	(190)	(4)
Adjusted free cash flow	$ 48,699	$ 18,384	$ 36,274	$ 47,916	$ 46,170	$ 24,107	$ 33,572	$ 35,569
Average number of Shares outstanding	62,966,909	62,941,405	62,875,151	62,848,551	62,844,730	62,803,716	62,137,513	61,996,063
Adjusted free cash flow per Share	$ 0.7734	$ 0.2921	$ 0.5769	$ 0.7624	$ 0.7347	$ 0.3838	$ 0.5403	$ 0.5737

(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 and six months ended June 30, 2014, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of $12.3 million and $24.6 million, respectively (2013 - $12.2 million and $23.9 million, respectively).

12. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

Cineplex makes estimates and assumptions concerning the future that may not equal actual results. These estimates and assumptions are outlined in Section 12 of Cineplex's annual MD&A. These estimates and assumptions have not changed materially since December 31, 2013.

13. ACCOUNTING POLICIES

13.1 ACCOUNTING STANDARDS ADOPTED IN 2013

The following standards and amendments to standards were adopted in the six months ended June 30, 2014:

IFRIC 21, Levies

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

IAS 32, Financial Instruments

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

13.2 FUTURE CHANGES IN ACCOUNTING POLICIES

Management of Cineplex reviews all changes to the IFRS when issued. The International Accounting Standards Board ("IASB") has issued the following standard, which has 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 standard will have on its consolidated financial statements or whether to early adopt the new standard. 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.

IFRS 15, Revenue from Contracts with Customers

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

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

14. RISK MANAGEMENT

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

Cineplex conducts an annual enterprise risk management assessment which is overseen by Cineplex's executive management team and the audit committee of the Board, and is reported to the whole of the Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across Cineplex. In addition Cineplex monitors risks and changing economic conditions on an ongoing basis and adapts its operating strategies as required.

Industry Risk

Cineplex's ability to operate successfully depends upon the availability, diversity and appeal of films, the availability, diversity and appeal of 3D product, the ability of Cineplex to license films and the performance of these films in Cineplex's markets. Cineplex primarily licenses first-run films, the success of which is dependent upon their quality, as well as on the marketing efforts of film studios and distributors. Cineplex continues to diversify its entertainment offerings to include alternative programming and to move into other sources of revenue such as digital commerce and expanded media offerings. Nonetheless, Cineplex is highly dependent on film product and film performance, including the number and success of blockbuster films. A reduction in quality or quantity of both 2D and 3D film product or any disruption in the production or release of films, including a strike or threat of a strike, a reduction in the marketing efforts of film studios and distributors or a significant change in film release patterns, would have a negative effect on film attendance and adversely affect Cineplex's business and results of operations.

In 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, showtimes available and the theatre's amenities. As a result, the building of new theatres, renovation of older theatres or the addition of screens to existing theatres by competitors in areas in which Cineplex operates theatres may result in reduced attendance levels at Cineplex's theatres.

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

Media Risk

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

Technology Risk

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

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. Cineplex aims to deliver an affordable out of home entertainment experience. Cineplex monitors pricing in all markets to ensure that it offers a reasonably priced out of home experience compared to other entertainment alternatives. If Cineplex is too aggressive in raising ticket prices or concession prices, there may be an adverse effect on attendance and food service revenues. In addition, historical data shows that movie attendance has not been negatively affected by economic downturns over the past 25 years.

Cineplex monitors customer needs to ensure that the in-theatre experience meets the anticipated needs of key demographic groups. Cineplex is differentiating the movie-going experience by providing UltraAVX auditoriums, D-BOX 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 in-theatre and out of home advertising, gaming options provided through FEC's and other stand-alone gaming options, 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 impact of labour disruption nationally is low.

Real Estate Risk

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

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

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

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 the Revolving Facility available.

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

Sourcing Risk

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

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

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

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

Health and Safety Risk

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

Business Continuity Risk

Cineplex's primary source of revenue is derived from providing an out of home entertainment experience. A terrorist threat or the outbreak of a pandemic may cause people to stay away from public places including movie theatres which would significantly impact business results. Cineplex operates in ten provinces which mitigates the risk to a specific location or locations. Cineplex also has communications and public relations plans to deal with crises of this nature. Cineplex has updated its procedures to manage such events should they occur. These procedures identify risks, prioritize key services, plan for large staff absences and clarify communication processes. However, should there be a national threat, it is uncertain to what extent Cineplex could mitigate this risk and the costs that may be associated with any such crises. Further, Cineplex purchases insurance coverage from third-party insurance companies to cover certain operational risks, and is self-insured for other matters.

Legal, Taxation and Accounting Risk

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

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

Environment/Sustainability Risk

Cineplex's business is primarily a service and retail business which delivers guest experiences rather than physical commercial products. Cineplex operates multiple locations in major urban markets and does not anticipate any dramatic changes to operations due to climate change. Because of these factors, should legislation change to require more stringent management of carbon emissions or more stringent reporting of environmental impacts, Cineplex anticipates this will result in minimal cost increases or changes to operating procedures.

Information Management Risk

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

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.

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 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.

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

16. OUTLOOK

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

THEATRE EXHIBITION

Film product during the second quarter of 2014 was not as strong as the prior year period, resulting in an industry box office decline of 6.4% and Cineplex's same-store box office revenue decline of 4.2%. Overall box office revenues increased 4.0% due to the inclusion of the Atlantic Theatres in the current period.

Box office revenues are highly dependent on the marketability, quality and appeal of the film product released by major motion picture studios. While film product in 2014 has been weaker than the prior year period, there is optimism for the second half of 2014, with highly anticipated films yet to be released including *Guardians of the Galaxy, Teenage Mutant Ninja Turtles, Interstellar, The Hunger Games: Mockingjay, Part 1* and *The Hobbit: The Battle of the Five Armies*. Certain highly anticipated releases originally scheduled for a 2014 release, including *Fast and Furious 7* and *Jupiter Ascending* were delayed until 2015, which already features a strong slate of films. Highlights of the 2015 film slate include *Avengers: Age of Ultron, Jurassic World, Ted 2,* the latest James Bond franchise release, *The Hunger Games: Mockingjay - Part 2, Mission: Impossible 5* and *Star Wars: Episode VII*.

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 the Atlantic Theatres in the balance of 2014 and beyond. Cineplex will continue to invest in each of the locations, rebranding them to *Cineplex Cinemas*, and may add UltraAVX auditoriums, VIP Cinemas, DBOX seating, expanded food offerings or XSCAPE entertainment centres to one or more of the locations.

Cineplex continues to focus on providing guests with a variety of premium viewing options through which to enjoy the theatre experience. These premium-priced offerings, which include UltraAVX, VIP Cinemas, IMAX and 3D, generate higher revenues per patron and expand the customer base. Premium-priced product accounted for over 40% of Cineplex's box office revenues in both the second quarters of 2014 and 2013, contributing to the BPP growth Cineplex has experienced in the past five years. 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.

MERCHANDISING

Food service revenues in the second quarter of 2014 exceeded the prior year period due to the addition of the Atlantic Theatres. Same store food service revenues were lower due to the weaker film product resulting in lower same store attendance. CPP exceeded the prior year by 5.6%, and the quarterly CPP of $5.08 represents an all-time quarterly record for Cineplex.

Although pricing does impact CPP, Cineplex's core focus is on operational execution, promotions and providing the optimal product mix to provide further growth in this area. As part of this strategy, Cineplex continues to expand its in-house brands *Outtakes* and *Poptopia* across the circuit; as well as *YoYo's Yogurt Café* locations in which Cineplex is a joint venture partner, both in-theatre and in other non-theatre locations. Cineplex also continues to roll-out new digital menu boards in its theatres which provide guests with more interactive messaging during visits to the concession stands.

MEDIA

Cineplex believes that no other medium engages viewers like the cinema experience: engaged moviegoers, sitting in a darkened theatre, ready to be entertained and fully focused on the screen. Research has shown that cinema media advertising reaches the most sought-after demographics, as well as Canada's high-income households and educated populations. Cineplex Media revenues decreased $2.5 million in the period as compared to the prior year period as the current quarter faced a tough comparator against the record results recognized in the prior year period.

Cineplex Digital Media revenues increased $7.1 million during the period due to the inclusion of CDN, acquired in the third quarter of 2013. CDN allows 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 and Tim Hortons have announced national launch plans for TimsTV. Deployment of the TimsTV network is in progress and is expected to be substantially completed in the third quarter of 2014.

During the second quarter of 2014, Cineplex and Oxford announced plans to create North America's first place-based digital ecosystem in 10 high-profile shopping centres across Canada. Cineplex Digital Media will work with Oxford to design, install and manage the digital ecosystems and Cineplex Media will sell advertising to be placed in the system in the balance of 2014 and beyond.

At June 30, 2014, Cineplex Digital Media operates digital signage systems in 8,979 Cineplex and customer locations through CDS and CDN. Cineplex believes that the strengths of Cineplex Digital Media will make Cineplex a leader in the indoor digital signage industry and provide a platform for significant growth throughout North America.

ALTERNATIVE PROGRAMMING

During the second quarter of 2014, Cineplex offered a wide variety of alternative programming, including presentations of the popular Metropolitan Opera Live in HD series, ethnic film programming, sports programming as well as Cineplex distributing on a national basis the film *Legends of Oz - Dorothy's Return*. Additionally, Cineplex partnered with HBO Canada to screen the fourth season finale of the popular TV show *Game of Thrones* in select theatres across the country.

With the circuit having 100% digital projection, Cineplex has 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

As at home and on-the-go content distribution and consumption is an emerging and transforming market, Cineplex believes it is well positioned to take advantage of this exciting market with the new digital commerce platform launched via the Cineplex Store during the second quarter of 2014. This new platform offers enhanced device integration as well as download capabilities, supporting over 7,500 movies that can be rented, purchased or viewed on multiple devices. This new platform, combined with the continued expansion of SuperTicket and other offerings, provides exciting opportunities for Cineplex in this emerging market.

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

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 5.8 million members at June 30, 2014. As part of the Cineplex Tuesdays program, SCENE members get 10% off all ticket prices on Tuesdays across the circuit, which are already generally discounted.

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

During the twelve months ended June 30, 2014, Cineplex generated adjusted free cash flow per Share of $2.4047, compared to $2.2326 in the prior year period. Cineplex declared dividends per Share of $1.4500 and $1.3650, respectively, in each period with corresponding payout ratios of approximately 60.3% and 61.1%. During the quarter, Cineplex announced a dividend increase to $1.50 per Share on an annual basis from $1.44 per Share. This increase was effective with the May 2014 dividend which was paid in June 2014. This increase represents Cineplex's fourth dividend increase since converting to a corporation on January 1, 2011.

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 the 2013 and 2014 periods.

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 June 30, 2014, Cineplex reported a leverage ratio of 1.44x as compared to a covenant of 3.50x.

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

which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

17. NON-GAAP MEASURES

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

17.1 EBITDA AND ADJUSTED EBITDA

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	**$ 23,205**	**$ 28,543**	**$ 28,276**	**$ 37,359**
Depreciation and amortization	19,195	16,527	37,863	33,825
Interest expense	5,583	1,998	10,800	3,714
Interest income	(43)	(59)	(113)	(137)
Current income tax expense	1,010	1,926	1,380	1,199
Deferred income tax expense	8,461	8,578	9,550	11,906
EBITDA	**$ 57,411**	**$ 57,513**	**$ 87,756**	**$ 87,866**
Loss on disposal of assets	1,989	1,314	1,933	2,376
CDCP equity income (i)	(675)	(779)	(620)	(1,112)
Depreciation and amortization - joint ventures (ii)	564	562	1,084	1,081
Joint venture taxes and interest (ii)	141	101	158	190
Adjusted EBITDA	**$ 59,430**	**$ 58,711**	**$ 90,311**	**$ 90,401**

(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):

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Cash provided by operating activities	$ 40,440	$ 74,444	$ 21,923	$ 67,647
Less: Total capital expenditures net of proceeds on sale of assets	(19,225)	(17,292)	(50,291)	(34,189)
Standardized free cash flow	21,215	57,152	(28,368)	33,458
Add/(Less):				
Changes in operating assets and liabilities (i)	12,106	(20,542)	58,511	17,901
Changes in operating assets and liabilities of joint ventures (i)	(118)	(1,099)	207	(932)
Tenant inducements (ii)	—	(348)	(2,842)	(3,305)
Principal component of finance lease obligations	(595)	(551)	(1,186)	(1,091)
Growth capital expenditures and other (iii)	14,281	10,890	38,328	22,924
Share of income of joint ventures, net of non-cash depreciation (iv)	1,041	1,071	1,664	1,871
Net cash received from (invested in) CDCP (iv)	769	(403)	769	(549)
Adjusted free cash flow	**$ 48,699**	**$ 46,170**	**$ 67,083**	**$ 70,277**
Average number of Shares outstanding	62,966,909	62,844,730	62,954,227	62,824,336
Adjusted free cash flow per Share	**$ 0.7734**	**$ 0.7347**	**$ 1.0656**	**$ 1.1186**
Dividends declared	**$ 0.3700**	**$ 0.3525**	**$ 0.7300**	**$ 0.6900**

(i) Changes in operating assets and liabilities are not considered a source or use of adjusted free cash flow.
(ii) Tenant inducements received are for the purpose of funding new theatre capital expenditures and are not considered a source of adjusted free cash flow.
(iii) Growth capital expenditures and other represent expenditures on Board approved projects, exclude maintenance capital expenditures, and are net of proceeds on asset sales. The Revolving Facility (discussed above in Section 7.4, Credit Facilities) is available to Cineplex to fund Board approved projects.
(iv) Excludes the share of income of CDCP, as CDCP is a limited-life financing vehicle funded by virtual print fees collected from distributors. Cash invested into CDCP, as well as cash distributions received from CDCP, are considered to be uses and sources of adjusted free cash flow.

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

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	$ 23,205	$ 28,543	$ 28,276	$ 37,359
Adjust for:				
Depreciation and amortization	19,195	16,527	37,863	33,825
Loss on disposal of assets	1,989	1,314	1,933	2,376
Non-cash interest (i)	1,592	26	3,243	(168)
Share of income of CDCP (ii)	(675)	(779)	(620)	(1,112)
Non-cash depreciation of joint ventures	564	562	1,084	1,081
Deferred income tax expense	8,461	8,578	9,550	11,906
Joint venture deferred income tax expense	174	72	167	145
Maintenance capital expenditures	(4,944)	(6,402)	(11,963)	(11,265)
Principal component of finance lease obligations	(595)	(551)	(1,186)	(1,091)
Net cash received from (invested in) CDCP (ii)	769	(403)	769	(549)
Non-cash items:				
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(1,479)	(1,708)	(2,879)	(3,277)
Non-cash Share-based compensation	443	391	846	1,047
Adjusted free cash flow	**$ 48,699**	**$ 46,170**	**$ 67,083**	**$ 70,277**

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

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

17.3 OTHER NON-GAAP MEASURES MONITORED BY MANAGEMENT

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

Per Patron Revenue Metrics

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

Attendance: Attendance is calculated as the total number of paying patrons that frequent Cineplex's theatres during the period.
BPP: Calculated as total box office revenues divided by total paid attendance for the period.
BPP excluding premium priced product: Calculated as total box office revenues for the period, less box office revenues from 3D, UltraAVX, VIP and IMAX product; divided by total paid attendance for the period, less paid attendance for 3D, UltraAVX, VIP and IMAX product.
CPP: Calculated as total food service revenues divided by total paid attendance for the period.
Premium priced product: Defined as 3D, UltraAVX, IMAX and VIP film product.
Concession margin per patron: Calculated as total 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 subsequent to the start of the prior year comparative period. For the three months ended June 30, 2014, the impact of the 29 locations that have been opened or acquired and the three locations that have been closed or otherwise disposed of have been excluded, resulting in 130 theatres being included in the same store metrics. For the six months ended June 30, 2014, the impact of the 31 locations that have been opened or acquired and the three locations that have been closed or otherwise disposed of have been excluded, resulting in 128 theatres being included in the same store metrics.

Cost of sales percentages

Cineplex reviews and reports cost of sales percentages for its two largest revenue sources, box office revenues and food service revenues as these measures are widely used in the theatre exhibition industry. These measures are reported as film cost percentage and food service 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 cost of food service divided by total food service revenues for the period.

Cineplex Inc.

Interim Condensed Consolidated Balance Sheets
(Unaudited)

(expressed in thousands of Canadian dollars)

	June 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 14,499	$ 44,140
Trade and other receivables	64,236	100,891
Inventories	6,877	7,234
Prepaid expenses and other current assets	11,872	6,838
	97,484	159,103
Non-current assets		
Property, equipment and leaseholds	477,375	459,112
Deferred income taxes	8,493	17,635
Fair value of interest rate swap agreements (note 3)	—	92
Interests in joint ventures	45,779	44,359
Intangible assets	112,604	113,601
Goodwill	798,801	797,476
	$ 1,540,536	$ 1,591,378

Commitment (note 11)

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

(expressed in thousands of Canadian dollars)

	June 30, 2014	December 31, 2013
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 114,087	$ 157,333
Share-based compensation (note 5)	6,587	12,151
Dividends payable	7,873	7,552
Income taxes payable	2,050	2,656
Deferred revenue	103,124	136,373
Finance lease obligations	2,528	2,394
Fair value of interest rate swap agreements (note 3)	776	635
	237,025	319,094
Non-current liabilities		
Share-based compensation (note 5)	11,865	15,622
Long-term debt (note 3)	267,461	217,151
Fair value of interest rate swap agreements (note 3)	1,255	—
Finance lease obligations	16,402	17,722
Post-employment benefit obligations	6,601	6,522
Other liabilities (note 3)	171,832	170,125
Convertible debentures	97,807	96,870
	573,223	524,012
Total liabilities	810,248	843,106
Equity		
Share capital (note 4)	853,870	853,411
Deficit	(125,008)	(107,323)
Accumulated other comprehensive loss	(2,860)	(1,715)
Contributed surplus	4,286	3,899
	730,288	748,272
	$ 1,540,536	$ 1,591,378

Approved by the Board of Directors

"Phyllis Yaffe"
Director

"Robert Steacy"
Director

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Operations
(Unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Revenues				
Box office	$ 181,419	$ 174,383	$ 337,644	$ 319,548
Food service	98,024	89,693	185,167	165,572
Media	30,990	26,350	55,345	42,660
Other	13,063	11,206	25,359	21,922
	323,496	301,632	603,515	549,702
Expenses				
Film cost	94,950	92,973	175,408	166,362
Cost of food service	21,147	19,173	40,028	35,447
Depreciation and amortization	19,195	16,527	37,863	33,825
Loss on disposal of assets	1,989	1,314	1,933	2,376
Other costs (note 6)	148,977	131,875	299,423	259,408
Share of income of joint ventures	(978)	(1,216)	(1,033)	(1,757)
Interest expense	5,583	1,998	10,800	3,714
Interest income	(43)	(59)	(113)	(137)
	290,820	262,585	564,309	499,238
Income before income taxes	32,676	39,047	39,206	50,464
Provision for income taxes				
Current (note 10)	1,010	1,926	1,380	1,199
Deferred (note 10)	8,461	8,578	9,550	11,906
	9,471	10,504	10,930	13,105
Net income	$ 23,205	$ 28,543	$ 28,276	$ 37,359
Basic net income per share (note 7)	$ 0.37	$ 0.45	$ 0.45	$ 0.60
Diluted net income per share (note 7)	$ 0.37	$ 0.45	$ 0.45	$ 0.59

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	$ 23,205	$ 28,543	$ 28,276	$ 37,359
Other comprehensive (loss) income				
Items that will be reclassified subsequently to net income:				
(Loss) income on hedging instruments (note 3)	(981)	1,610	(1,556)	844
Associated deferred income taxes recovery (expense)	260	(479)	411	(368)
Other comprehensive (loss) income	(721)	1,131	(1,145)	476
Comprehensive income	$ 22,484	$ 29,674	$ 27,131	$ 37,835

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)

(expressed in thousands of Canadian dollars)

	Share capital (note 4)	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance - January 1, 2014	$ 853,411	$ 3,899	$ (1,715)	$ (107,323)	$ 748,272
Net income	—	—	—	28,276	28,276
Other comprehensive (loss)	—	—	(1,145)	—	(1,145)
Total comprehensive income			**(1,145)**	**28,276**	**27,131**
Dividends declared	—	—	—	(45,961)	(45,961)
Share option expense	—	846	—	—	846
Issuance of shares on exercise of options	459	(459)	—	—	—
Balance - June 30, 2014	$ 853,870	$ 4,286	$ (2,860)	$ (125,008)	$ 730,288
Balance - January 1, 2013	$ 847,235	$ 3,768	$ (1,142)	$ (102,547)	$ 747,314
Net income	—	—	—	37,359	37,359
Other comprehensive income	—	—	476	—	476
Total comprehensive income			**476**	**37,359**	**37,835**
Dividends declared	—	—	—	(43,351)	(43,351)
Long-term incentive plan obligation	248	—	—	—	248
Share option expense	—	800	—	—	800
Issuance of shares on exercise of options	752	(752)	—	—	—
Balance - June 30, 2013	$ 848,235	$ 3,816	$ (666)	$ (108,539)	$ 742,846

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Cash provided by (used in)				
Operating activities				
Net income	$ 23,205	$ 28,543	$ 28,276	$ 37,359
Adjustments to reconcile net income to net cash used in operating activities				
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	19,195	16,527	37,863	33,825
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(1,479)	(1,708)	(2,879)	(3,277)
Accretion of debt issuance costs and other non-cash interest	1,187	260	2,351	401
Loss on disposal of assets	1,989	1,314	1,933	2,376
Deferred income taxes	8,461	8,578	9,550	11,906
Interest rate swap agreements - non-cash interest	(62)	(234)	(46)	(569)
Non-cash share-based compensation	443	391	846	1,047
Accretion of convertible debentures	467	—	938	—
Net change in interests in joint ventures	(860)	(117)	(1,240)	(825)
Tenant inducements	—	348	2,842	3,305
Changes in operating assets and liabilities (note 8)	(12,106)	20,542	(58,511)	(17,901)
Net cash provided by operating activities	40,440	74,444	21,923	67,647
Investing activities				
Proceeds from sale of assets	—	2	404	2
Purchases of property, equipment and leaseholds	(19,225)	(17,294)	(50,695)	(34,191)
Acquisition of businesses, net of cash acquired	(1,516)	—	(2,466)	(3,822)
Deposit for business acquisition	—	(5,000)	—	(5,000)
Intangible assets addition	(2,750)	—	(2,750)	—
Net cash received from (invested in) CDCP	769	(403)	769	(549)
Net cash used in investing activities	(22,722)	(22,695)	(54,738)	(43,560)
Financing activities				
Dividends paid	(22,983)	(21,682)	(45,640)	(42,873)
Borrowings (repayments) under credit facility, net	10,000	(15,000)	50,000	—
Payments under finance leases	(595)	(551)	(1,186)	(1,091)
Net cash (used in) provided by financing activities	(13,578)	(37,233)	3,174	(43,964)
Increase (decrease) in cash and cash equivalents	4,140	14,516	(29,641)	(19,877)
Cash and cash equivalents - Beginning of period	10,359	14,272	44,140	48,665
Cash and cash equivalents - End of period	$ 14,499	$ 28,788	$ 14,499	$ 28,788
Supplemental information				
Cash paid for interest	$ 5,018	$ 1,989	$ 7,421	$ 3,847
Cash paid for income taxes	$ 768	$ 311	$ 1,986	$ 12,510

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

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

1 General information

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

The Board of Directors approved these consolidated financial statements on August 5, 2014.

2 Basis of presentation and accounting standards changes

Basis of preparation and measurement

Cineplex prepares its unaudited interim condensed 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. 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. These unaudited interim condensed consolidated financial statements are presented in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The disclosures contained in these unaudited interim condensed consolidated financial statements do not contain all requirements of Canadian GAAP for annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013. These unaudited interim condensed consolidated financial statements follow the same accounting policies and methods of application as the audited financial statements for the year ended December 31, 2013, except as described for the following, which were adopted in the first quarter of 2014.

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

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

Accounting standards issued but not yet applied

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

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

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

3 Fair value of financial instruments

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.

In the first quarter of 2014, Cineplex entered into three interest rate swap agreements which commence at the maturity of the 2011 interest rate swap agreements, and mature on October 24, 2018. Under these interest rate swap agreements, Cineplex pays a fixed rate of 2.62% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. The interest rate swap agreements have an aggregate notional principal amount of $150,000, the principal balance of the Term Facility.

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

The deferred consideration for AMC and EK3 are recorded at fair value and included in other liabilities. The change in fair value during the six months ended June 30, 2014 is as follows:

				2014
		AMC		**EK3**
Fair value at beginning of year	$	2,929	$	30,577
Accretion		65		1,945
Fair value at end of period	$	2,994	$	32,522

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.

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

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.

4 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 June 30, 2014 and 2013 and transactions during the years are as follows:

2014

	Shares			Amount				
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust	Common shares, net	Common shares	Equity component of convertible debentures	LTIP common shares	LTIP obligation	Total
Balance - December 31, 2013	62,934,028	—	62,934,028	$ 848,940	$ 4,471	$ —	$ —	$ 853,411
Issuance of shares on exercise of options	53,400	—	53,400	459	—	—	—	459
Balance - June 30, 2014	62,987,428	—	62,987,428	$ 849,399	$ 4,471	$ —	$ —	$ 853,870

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
Transfers and costs of LTIP obligation	—	—	—	—	—	—	248	248
Issuance of shares on exercise of options	62,339	—	62,339	752	—	—	—	752
Transfer of common shares to LTIP participants	—	139,727	139,727	—	—	3,264	(3,264)	—
Balance - June 30, 2013	62,845,341	—	62,845,341	$ 848,235	$ —	$ —	$ —	$ 848,235

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

5 Share-based compensation

Option plan

Cineplex recorded $443 and $846 of employee benefits expense with respect to share options during the three and six months ended June 30, 2014, respectively (2013 - $391 and $800, respectively).

Cineplex granted options in 2014 and 2013 as follows:

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

Upon cashless exercises, the options exercised in excess of shares issued are cancelled and returned to the pool available for future grants. At June 30, 2014, 2,898,360 options are available for grant. A summary of option activities in 2014 and 2013 is as follows:

		2014		2013	
	Weighted average remaining contractual life (years)	Number of underlying shares	Weighted average exercise price	Number of underlying shares	Weighted average exercise price
Options outstanding, January 1	7.96	1,459,772	$ 27.23	1,460,546	$ 24.38
Granted		540,519	40.45	385,834	33.49
Cancelled		(10,694)	34.89	—	—
Exercised		(143,720)	25.86	(201,102)	23.24
Options outstanding, June 30	8.11	1,845,877	$ 31.16	1,645,278	$ 26.65

Long-term incentive plan ("LTIP")

For the three-year service period beginning on January 1, 2014, the LTIP award consists of a "phantom" stock plan, awarding 135,602 share equivalents (2013 - 124,936), which, subject to certain performance and market conditions, may decrease approximately 67% or increase by 100% subject to certain performance and market conditions. The base share equivalents attract compounding notional dividends at the same rate as outstanding common shares, which are notionally reinvested as additional base share equivalents. The awards will be settled in cash at the end of service periods, within 30 days of the approval of the consolidated financial statements by the Board of Directors.

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

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the year of change. Forfeitures are estimated at $nil. Cineplex recognized $1,292 and $2,575 of compensation costs under the LTIP for the three and six months ended June 30, 2014, respectively (2013 - $3,399 and $6,383, respectively).

6 Other costs

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Employee salaries and benefits	$ 51,681	$ 46,065	$ 103,377	$ 90,281
Rent	34,164	31,758	68,070	63,171
Realty and occupancy taxes and maintenance fees	16,042	15,076	33,266	30,120
Utilities	6,071	5,906	14,228	12,098
Purchased services	12,052	8,840	23,779	17,390
Other inventories consumed	3,709	2,346	6,391	4,319
Repairs and maintenance	5,051	4,356	10,558	8,662
Office and operating supplies	3,378	2,751	6,909	5,462
Licences and franchise fees	3,959	3,417	7,448	5,963
Insurance	711	614	1,284	1,273
Advertising and promotion	4,668	5,813	10,857	10,724
Professional and consulting fees	2,465	1,060	3,776	2,187
Telecommunications and data	1,287	1,091	2,620	2,115
Bad debts	92	45	215	126
Equipment rental	751	625	1,474	1,256
Other costs	2,896	2,112	5,171	4,261
	$ 148,977	$ 131,875	$ 299,423	$ 259,408

7 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.

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	$ 23,205	$ 28,543	$ 28,276	$ 37,359
Weighted average number of shares outstanding	62,966,909	62,844,730	62,954,227	62,770,298
Basic EPS	$ 0.37	$ 0.45	$ 0.45	$ 0.60

(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.

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	$ 23,205	$ 28,543	$ 28,276	$ 37,359
Weighted average number of shares outstanding	62,966,909	62,844,730	62,954,227	62,770,298
Adjustments for stock options	444,730	368,726	453,549	344,104
Weighted average number of shares for diluted EPS	63,411,639	63,213,456	63,407,776	63,114,402
Diluted EPS	$ 0.37	$ 0.45	$ 0.45	$ 0.59

8 Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Trade and other receivables	$ (17,424)	$ (10,439)	$ 38,029	$ 21,985
Inventories	(625)	(670)	371	(117)
Prepaid expenses and other current assets	(1,364)	(1,118)	(3,820)	(6,300)
Accounts payable and accrued expenses	12,845	32,779	(47,712)	(5,185)
Income taxes payable	242	1,615	(606)	(11,311)
Deferred revenue	(6,742)	(4,818)	(33,249)	(22,682)
Post-employment benefit obligations	140	(7)	79	120
Share-based compensation	1,245	3,824	(10,682)	6,936
Other liabilities	(423)	(624)	(921)	(1,347)
	$ (12,106)	$ 20,542	$ (58,511)	$ (17,901)
Non-cash investing activities:				
Property, equipment and leasehold purchases financed through accounts payable and accrued expenses	$ 16,039	$ 6,548	$ 16,039	$ 6,548

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

9 Segment information

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

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

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

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

	Three months ended June 30, 2014			Three months ended June 30, 2013		
	Exhibition	Media	Consolidated	Exhibition	Media	Consolidated
Revenues	$ 292,506	$ 30,990	$ 323,496	$ 275,282	$ 26,350	$ 301,632
EBITDA (i)	39,888	17,523	57,411	37,271	20,242	57,513
Depreciation and amortization	17,716	1,479	19,195	16,463	64	16,527
Interest expense			5,583			1,998
Interest income			(43)			(59)
Income taxes expense			9,471			10,504
Net income			$ 23,205			$ 28,543

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

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

	Six months ended June 30, 2014			Six months ended June 30, 2013		
	Exhibition	Media	Consolidated	Exhibition	Media	Consolidated
Revenues	$ 548,170	$ 55,345	$ 603,515	$ 507,042	$ 42,660	$ 549,702
EBITDA (i)	58,288	29,468	87,756	56,974	30,892	87,866
Depreciation and amortization	34,969	2,894	37,863	33,693	132	33,825
Interest expense			10,800			3,714
Interest income			(113)			(137)
Income taxes expense			10,930			13,105
Net income			$ 28,276			$ 37,359

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

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

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

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

10 Provision for income taxes

Taxable income earned by Cineplex during 2013 was offset by the use of loss carryforwards acquired through Cineplex's acquisition of AMC Ventures Inc. in 2012. As a result of the $147,034 non-capital losses acquired in this transaction, Cineplex's cash income taxes in 2013 were substantially reduced. Based on taxable income for the year ended December 31, 2013, approximately $44,391 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 $2,291 through June 30, 2014 have been recorded as deferred income tax assets and a reduction of deferred income tax expense.

11 Commitment

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

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