CINEPLEX®

2015

ANNUAL REPORT

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March 31, 2016

Dear Fellow Shareholders:

I am so pleased to begin this letter by stating that 2015 was the best year on record for Cineplex and we are optimistic about the outlook for 2016.

Please join us at the company's Annual Meeting, which will be held on May 11, 2016 at 10:30 AM Eastern Daylight Time at *Cineplex Cinemas Yonge-Dundas and VIP*, 10 Dundas Street East, Toronto, Ontario. The Cineplex board of directors and management have worked hard this past year as Cineplex continues to diversify the business to extract greater value from our core competencies.

The Annual Meeting is your opportunity to learn about the performance of the company and our plans for the future. Please read the accompanying Annual Report which provides a great deal of information on how the company operates its various business units. In advance of the meeting, I encourage you to read the Management Information Circular, which describes the business to be conducted at the meeting and provides Cineplex's approach to executive compensation and corporate governance practices. Another important document is the Annual Information Form, which provides details on the company's history and structure, describes the business strategy, and includes a range of other information that can be helpful to shareholders.

Now, it is my pleasure to provide an overview of the board's approach to strategy and governance.

Strategic Focus:

The board is fully engaged in the affairs of the company. We work diligently with management throughout the year on the company's strategic direction. The primary focus being diversifying the business beyond exhibition to lessen the dependency on Hollywood film product. As you review the annual report, you will see how this strategy contributed meaningfully to the company's record success in 2015.

Here are Cineplex's key strategic areas of focus:

- Continue to enhance and expand existing exhibition infrastructure and service offerings to attract new customers, increase the frequency of existing customers and maximize revenue per guest;
- Capitalize on core media strengths and infrastructure to provide continued growth of Cineplex's media businesses;

- Develop and scale gaming related amusement and leisure concepts, including *The Rec Room*, by extending existing capabilities and infrastructure;
- Continue to expand Cineplex's presence as an entertainment destination for Canadians, providing in-theatre, at-home and on-the-go experiences - Cineplex Anywhere; and
- Pursue selective acquisitions and opportunities that are strategic, accretive and capitalize on Cineplex's core strengths.

We address the corporate strategy at every regular board meeting and hold a board strategy meeting annually. Members of both the executive and senior management teams participate in these sessions where we review and provide oversight on the company's mid and long-term strategic focus.

Governance:

Strong governance and transparent reporting are the cornerstones of creating long-term shareholder value. Our commitment to corporate governance best practices plays a key role in managing the risks and opportunities of the business and ensuring the trust of our stakeholders.

The board, which is comprised of ten directors, has a diverse set of skills and experience. Through the *Compensation, Nominating and Corporate Governance Committee* of the board ("CNCG Committee"), we are kept apprised of major developments in corporate governance including important trends and new legal and regulatory requirements. Additionally, presentations are made regularly to the board on varying aspects of the company's business as well as updates on best practices in governance matters.

The full board meets with the CEO, the COO and the CFO every quarter in addition to separate strategy and corporate governance meetings. Additionally, we have complete and regular access to senior management both formally and informally throughout the year. We believe the company has capable potential executive successors due to the depth of management in place. Additionally, the board meets "in camera" without the CEO at the end of every board meeting so we can have an open conversation about the CEO and the company.

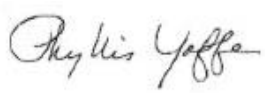
We believe in share ownership so a portion of all board members' compensation is held in deferred share units. Each director is required to hold three times their annual retainer in common shares by the end of their first three years on the board. Being a shareholder reinforces our commitment as directors as we are directly impacted by the success of the company.

Cineplex, through CEO Ellis Jacob and myself, joined the 30% Club Canada in 2015 to lend our support to the important work they are doing to improve the gender balance on boards and in the ranks of senior executives in Canada. We believe that board diversity contributes to a better board performance and corporate performance that benefits both the company and its shareholders.

On behalf of the entire board, I extend our thanks and appreciation to the management team and to all employees for their great work, passion and commitment to making Cineplex so successful. I would also like to thank my fellow board members for all of their contributions this past year. The board and management are excited about Cineplex's future and we thank you, our shareholders, for your confidence and continued support.

It has been my pleasure to lead this great group for the past six years and I look forward to seeing you at our Annual Meeting. Should you wish to contact me directly, please send your email to boardchair@cineplex.com

Sincerely yours



Phyllis Yaffe,
Chair, Cineplex Inc.

March 31, 2016

Dear Fellow Shareholders:

I am very pleased to report that 2015 was the most successful year in Cineplex's history! Record setting results were achieved in all key business areas.

Total revenue for the year increased 11.0% to $1.4 billion and adjusted EBITDA increased 24.3% to $249.8 million.

New annual records were established for Box Office revenue which increased 5.7% to $711.1 million and attendance which increased 4.6% to 77 million guests. This was due to the success of multiple blockbuster films during the year including *Star Wars: The Force Awakens*, *Jurassic World*, *The Avengers: Age of Ultron*, *Minions* and *Furious 7*. *Star Wars: The Force Awakens*, *Jurassic World* and *The Avengers: Age of Ultron* went on to become three of the all-time top 10 box office successes in North America.

Box Office per Patron increased 1.1% to $9.23 as a result of premium priced offerings including 3D, VIP Cinemas, UltraAVX™, IMAX® and D-BOX which accounted for 38.9% of Cineplex's annual box office revenue in 2015.

Food Service revenue increased 11.6% to $418.4 million and Concession per Patron reached $5.43, an increase of 6.7% in 2015. We attribute these increases to a combination of factors including higher attendance, expanded product offerings, Retail Branded Outlet ("RBO") optimization, the success and expansion of VIP Cinemas' licensed lounges and in-seat food service, and the completion of our digital menu board installation throughout our theatre circuit.

Total Media revenue increased 14.5% to $153.6 million compared to 2014. The increase was due to the record performance of Cineplex Media which grew $21.1 million or 23.1% during the year primarily due to strong show time capacity utilization and an expanded client base.

Other revenue increased 66.2% to $87.7 million mainly resulting from the consolidation of Cineplex Starburst Inc. ("CSI") following the acquisition on October 1, 2015 of the remaining 50% of issued and outstanding equity of CSI for $21.4 million. Other areas contributing to the increased revenue included additional revenue arising from enhanced guest service initiatives and breakage revenue for Cineplex gift cards, coupons and SCENE LP.

Our continued focus on diversifying our business model into new businesses that capitalize on our internal strengths and expertise contributed significantly to revenue growth during the year. We anticipate these businesses will be significant growth drivers for the company in the future.

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 existing customers and maximize revenue per guest;
- Capitalize on core media strengths and infrastructure to provide continued growth of Cineplex's media business;
- Develop and scale gaming related amusement and leisure concepts, including *The Rec Room*, by extending existing capabilities and infrastructure;
- Continue to expand Cineplex's presence as an entertainment destination for Canadians, providing in-theatre, at-home and on-the-go experiences - Cineplex Anywhere; and
- Pursue selective acquisitions and opportunities that are strategic, accretive and capitalize on Cineplex's core strengths.

Film Entertainment and Content

Investment in our Theatres:

We continued to focus on improving the entertainment experience for our guests through investment in, and installation of, premium offerings throughout our theatre network. Our premium large format ("PLF") UltraAVX experience continues to be very well received by theatre guests and leads the industry in terms of PLF box office performance. During the year we added 14 UltraAVX auditoriums, often as a second UltraAVX auditorium in the same theatre, bringing our total UltraAVX auditoriums to 80 at year-end.

VIP Cinemas continue to be extraordinarily well received wherever they open and four new locations were added in 2015. We now have 16 VIP Cinemas across the country with more to come in 2016.

Two new theatres opened during the year - *Cineplex Cinemas Lansdowne and VIP* in Ottawa and *Cineplex Cinemas Markham and VIP* in the Greater Toronto Area. We also renovated and rebranded theatres adding our VIP Cinemas experience to *Scotiabank Theatre Saskatoon and VIP* (formerly Galaxy Cinemas) and *Cineplex Cinemas Yonge - Eglinton and VIP* (formerly SilverCity) in Toronto. We completed major renovations to the *Fifth Avenue Cinemas* in Vancouver, converting it to an adult-only cinema with a licensed lounge and expanded food service. We also renovated and rebranded our popular *Cineplex Cinemas Varsity and VIP* (formerly Cineplex Odeon) in Toronto.

Due to the popularity of D-BOX, 18 additional auditoriums were outfitted with D-BOX motion seats bringing our circuit total to 43 locations at year end. Subsequent to year end, we announced an agreement to add D-BOX to 23 additional auditoriums across our circuit. We also added three IMAX auditoriums during 2015, bringing the total to 23.

In addition to new theatres and premium offerings, we also continued to improve the overall quality of our theatre assets through seat replacements in existing theatres, rebranding and repainting buildings, and lobby and concession counter renovations. We continue to reinvest in our buildings to ensure we provide our guests with the highest quality movie-going experience.

As of December 31, 2015, there were 162 Cineplex theatres with 1,655 screens located across Canada.

Subsequent to year-end, we opened a new theatre in Vancouver, BC (*Cineplex Cinemas Marine Gateway and VIP),* and we plan to open theatres in Barrie, ON *(Cineplex Cinemas North Barrie),* and in Kitchener, ON *(Cineplex Cinemas Kitchener and VIP)* later this year.

Food Service:

It was another record breaking year in 2015 for our Food Service business. We expanded our proprietary offerings adding three *Outtakes* locations bringing our total to 93, adding six new *Poptopia* locations for a total of 23 and 19 new *YoYo's* locations for a total of 72 across the circuit.

The growth in the number of VIP Cinemas combined with the continued enhancements to the menu contributed to the growth in Food Service revenue during the year.

Our food service business offers guests a wide range of food choices to enhance their theatre experience while generating strong profit margins. We continued to focus on process improvements designed to increase the speed of service at the concession counter in addition to optimizing the product offerings. Each of the RBO offerings are designed to target a wider market and to increase both purchase incidence and transaction value.

Alternative Programming:

Alternative programming includes both event programming through our Event Cinema group and our ethnic film programming team.

Ethnic film programming focuses on non-Hollywood filmed entertainment content primarily from Asia with films presented in Punjabi, Tamil, Hindi, Mandarin, Cantonese, Korean, Filipino, Telugu and Urdu. Given Canada's tremendous ethnic diversity, millions of Canadians are enjoying these films each year as this segment continues to grow. It has been a great addition to our traditional Hollywood and Canadian film programming.

Our Event Cinema group manages another area of entertainment within this business which includes presentations from *The Met Opera: Live in HD* from New York City, *National Theatre Live* from the UK, *In the Gallery* from some of world's best art galleries and museums, as well as various concerts, speaking engagements, sporting events and others. During the year we partnered with HBO to show the Season 5 finale of the very popular TV series *Game of Thrones* in select theatres across Canada. We also celebrated the 30th anniversary of *Back to the Future* through in-theatre fan events and fundraising screenings of the trilogy. As a result, we were pleased to raise more than $50,000 for the *Michael J Fox Foundation for Parkinson's Research*.

Digital Commerce:

Cineplex's digital commerce business is comprised of the CineplexStore.com, cineplex.com and our mobile apps.

CineplexStore.com experienced growth in its user base and we continued our device integration strategy. We expanded *SuperTicket*, which is a bundled offering that includes an in-theatre movie ticket and a digital download of the movie. In 2015, the majority of films released during the year were available as a *SuperTicket* which resulted in strong growth for the store. We also continued to focus on our Cineplex Anywhere strategy.

Cineplex.com registered a 19.5% increase in unique visitors and a 24% increase in visits during 2015 compared to 2014. Our mobile app has been downloaded more than 13.6 million times and recorded over 744.4 million app sessions as of December 31, 2015.

Media

Our media business is comprised of two areas – Cineplex Media and Cineplex Digital Media - which combined generated record results in 2015.

Cineplex Media:

Cineplex Media - our wholly-owned and operated advertising business - delivered its best ever results due to record show time advertising sales. While many Canadian media companies experienced revenue declines during 2015, Cineplex Media reported increases in every quarter during 2015. We feature a broad portfolio of media choices including show time, pre-show, Cineplex TimePlay, cineplex.com and mobile, Cineplex Magazine and Le magazine Cineplex, TimsTV, Brookfield Properties, ONroute service centres, Oxford Malls, concourse networks and special media. We also completed the roll-out of Interactive Media Zones ("IMZs") and Digital Poster Cases that were launched last year. Across the circuit, we now have a total of 46 IMZs and more than 430 Digital Poster Cases in 136 theatres.

Cineplex TimePlay is an innovative in-theatre pre-show app that turns your smartphone into a game controller enabling you to interact with on-screen content. *Cineplex TimePlay* continued to be very popular and is now available on more than 733 screens across Canada.

We were very pleased to learn that *Cineplex Magazine* became the #1 most read magazine in Canada for people under the age of 50, and is the #2 most read magazine in all of Canada, according to the most recent Vividata report.

Cineplex Digital Media:

Cineplex Digital Media ("CDM") represents our digital out-of-home ("DOOH") advertising business, which includes digital signage networks both on the *path to purchase* (shopping malls and office complexes) and at the *point of purchase* (quick service restaurants, financial institutions and retailers) across North America.

CDM's proprietary software platform combined with value added services such as creative, experiential, mobile, strategy, design, network operations and project management have made this award-winning business a leader in the DOOH indoor digital signage industry. CDM provides an innovative and turnkey digital solution for some of North America's top brands including *Tim Hortons*, *McDonalds Restaurants of Canada*, *A&W*, *Royal Bank of Canada*, *Scotiabank*, *Oxford Properties*, *Ivanhoe Cambridge, Brookfield Properties* and *Rogers* to name a few.

Subsequent to year end, *American Dairy Queen* named CDM as their endorsed provider of in-store digital merchandising solutions for their 4,800 stores throughout the United States and Canada.

We believe that CDM is well positioned for significant growth throughout North America.

Amusement Gaming and Leisure

This business unit is now comprised of three areas:

Cineplex Starburst Inc. - a leading operator and distributor of new and used amusement and vending equipment and supplies for B2B commercial, self-operating and home use throughout North America;

The Rec Room - a new social destination featuring dining, amusement gaming and live entertainment experiences all under one roof; and

WorldGaming Network - a new eSports gaming platform that combines online competitive video gaming with unique in-theatre tournament experiences in Cineplex theatres across Canada.

Cineplex Starburst Inc.

During 2015, we completed the acquisition of the remaining 50% of issued and outstanding equity of Cineplex Starburst Inc. that we did not already own for approximately $21.4 million. We also entered into a new venture with Brady Distributing Company - a leading US-based distributor of amusement and vending equipment. We are well positioned for future growth in this resurging business that includes a *route business* (where we provide the equipment and share the revenue with a third party operator such as theme parks and family entertainment centres) and a *distribution business* – where customers purchase games through our sales and service representation of more than 70 leading game manufacturers.

We operate 29 Family Entertainment Centres across the country including 24 of our in-theatre brand - XSCAPE Entertainment Centres, as well as Playdium in Mississauga and six other locations.

Amusement gaming is a strategic area of growth for us and we believe there are more opportunities to expand this business in the future organically and through additional M&A activity.

The Rec Room:

We were pleased to announce our first two locations during the year - South Edmonton Commons will open in June of 2016 and Deerfoot City in Calgary will open in 2017. Subsequent to year-end, we announced a Toronto location will open at the historic John Street Roundhouse across from the CN Tower, Ripley's Aquarium and Rogers Centre in the first quarter of 2017. Other locations currently in development will be announced as they are finalized. Our plan is to open 10-15 locations over the next few years across the country in major and mid-sized markets.

We are leveraging our industry-leading entertainment, amusement gaming, food service, digital media and operational capabilities to bring these technology-enhanced entertainment experiences to fruition. We have built a team of experts to manage this business to ensure we build a great entertainment and dining destination for Canadians and another great Canadian brand.

WorldGaming Network:

During the year we acquired an 80% interest in the operating assets of WG Limited through our subsidiary WGN. This acquisition enabled the creation of a new company focused on eSports by connecting online competitive video gaming with regular tournaments and league play in our theatres.

NewZoo, a global market research firm focused on the gaming industry, estimates eSports to be a $750 million business globally today and forecasts it to be a $3 billion business by 2020. Given our early entry into the arena, and our unique business model, we believe there is an opportunity to gain share in a meaningful portion of this business.

Subsequent to year end, Cineplex and WGN announced the signing of a comprehensive deal with Sony Computer Entertainment Canada ("SCEC") – a world leader in interactive entertainment and gaming hardware. SCEC is the exclusive Presenting Sponsor for all *Cineplex WorldGaming Canadian Tournaments Presented by PlayStation* for 2016. We anticipate hosting approximately four national tournaments annually. We also believe we can export this business model globally to other exhibitors and large venue operators providing a future recurring revenue opportunity.

Loyalty

Our SCENE loyalty program is a 50/50 joint venture agreement with the Bank of Nova Scotia ("Scotiabank"). Our relationship with Scotiabank has been very successful and has continued to grow over the years. In fact, in 2015 we extended the term of our agreement with Scotiabank for another 10 years. This extension also expanded their annual media commitment with Cineplex Media, expanded the naming rights agreement for Scotiabank Theatres to 10 locations and also extends the *VIP Cinemas presented by Scotiabank* sponsorship.

Additionally, we added a second strategic marketing partner to SCENE – CARA Operations Limited – one of Canada's largest and most successful restaurant operators with more than 800 locations from coast to coast as an earn and redemption partner. Our first strategic marketing partnership which we announced in 2014 with SportChek, has continued to exceed our mutual expectations and provides tremendous value to SCENE members.

During the year we implemented changes to earn and redemption rates for premium movie experiences, with members earning and redeeming more points based on the movie experience they choose.

For the third consecutive time SCENE added 1 million new members in a year bringing total SCENE membership to more than 7.3 million as of December 31, 2015. With the new strategic partnerships, program changes and enhanced member benefits, SCENE is one of the most successful and well respected loyalty programs in Canada.

Corporate and Community Investment

Corporate:

We were very pleased to once again be recognized as one of Canada's 10 Most Admired Corporate Cultures of 2015 by Waterstone Human Capital. The annual program celebrates 10 organizations across four categories with cultures that drive performance and contribute to the bottom line. This is the second time this honour has been awarded to Cineplex and each award is for a three year term.

At year-end, we launched a new integrated Cineplex brand platform that asks Canadians to 'See the Big Picture' and rediscover the importance of entertainment in their lives. The platform is intended to forge a stronger connection between Cineplex and our guests and customers, as well as unify all of our varied businesses and 13,000 employees across Canada.

If you visited our theatres between mid-December and February, you would have seen the first initiative of this brand platform which was an animated short film that was played before every movie. Entitled *Lily & the Snowman*, the film tells the story of a girl named Lily and a friendly snowman and showcases in a very heartfelt way, how life gets in the way of Lily enjoying the entertainment she once loved. Given the overwhelmingly positive response we have received from guests and both mainstream and social media, we certainly made the connection with people that we strove to achieve. In-theatre and online, where the film went viral, it has been seen by more than 30 million people. We encourage you to visit cineplex.com/snowman where you can see both the film and the "making of" story.

Subsequent to year end, we were pleased to be recognized by Canopy, an award-winning environmental not-for-profit organization, for our leadership in reducing our environmental footprint.

In the Community:

Early in 2015, we launched a wonderful new program entitled - Sensory Friendly Screenings - in partnership with Autism Speaks Canada. The program is designed for individuals and their families living with autism spectrum disorder to enjoy the movies in a relaxed environment. Initially launched in 12 theatres, the response from our guests was so tremendous that we expanded the program to 30 theatres across the country.

Our national charitable partnership with *Free the Children* continued for the second year in 2015 with a number of successful programs and events. Cineplex was pleased to once again be a major corporate sponsor of WE Day in Canada and our fundraising initiatives raised more than $1.1 million in 2015!

Expressed in thousands of Canadian dollars except per share, per patron and attendance data	**2015**	**2014**	**2013**	**2012**	**2011**
Revenue	$1,370,943	$1,234,716	$1,171,267	$1,091,866	$998,195
Adjusted EBITDA	249,802	201,002	202,441	200,484	173,174
Net income	134,249	76,271	83,557	120,484	49,260
Total assets	1,701,917	1,609,416	1,591,378	1,327,456	1,245,077
Adjusted free cash flow per share	2.49	2.31	2.46	2.08	1.97
Cash dividends declared per share	1.54	1.48	1.41	1.33	1.28
Box office revenue per patron	9.23	9.13	9.15	8.97	8.74
Concession revenue per patron	5.43	5.09	4.82	4.63	4.41
Attendance	77,023	73,648	72,703	71,198	66,059

Strong Operating Results:

Our management team continues to focus on growing and diversifying the business beyond core exhibition while simultaneously controlling costs and ensuring great guest and customer experiences. Our balance sheet is strong, our financial leverage remains low and we have strong sustainable cash flow. This gives us the flexibility to make strategic acquisitions as they arise and the ability to invest in new businesses to ensure long-term sustainability and strong growth in the future.

During 2015, our shareholders received a return of 9.5% and since inception have received a total return CAGR of 21%.

We have delivered strong multi-year financial results - growing margins and returns with low volatility – and have shown a great ability to adapt to changes. Our margins have been growing steadily since our Famous Players acquisition in 2005, even as we have been investing in new businesses for the long-run. Although potentially impacting short-term revenue, the management team is focused on building the long-term success of our business. In addition to the amount we have invested annually in businesses such as SCENE, digital commerce and premium experiences, we have also invested in growing newer businesses such as Cineplex Digital Media, Cineplex Starburst Inc., WorldGaming and The Rec Room.

We remain committed to providing consistent shareholder returns and for the fifth consecutive year, the board of directors of Cineplex announced a monthly dividend increase of 4% or $0.130 per share ($1.56 on an annual basis), up from $0.125 per share or $1.50 on an annual basis.

Conclusion:

It was an extraordinary year for Cineplex and we are very pleased with the results. Our business strategy is solid and focused on the future. We are excited about the year ahead and we look forward to the opening of *The Rec Room* in South Edmonton in June, our first year of in-theatre and online eSports tournaments, the continued growth of Cineplex Digital Media and the expansion Cineplex Starburst Inc.

The film slate also looks strong with a great number of films from a variety of genres targeted to a wide range of demographics each quarter throughout the year.

Thank you - to our investors for your ongoing support and belief in Cineplex, to our board of directors who are fully engaged in the affairs of the company and continue to provide good strategic guidance, to our more than 77 million guests who visited our theatres in 2015, and to our 13,000 Cineplex employees from coast-to-coast for delivering against our commitment to *passionately deliver an exceptional entertainment experience*.

I feel privileged to lead this great company with such talented people. Our management team and our employees do outstanding work every single day.

On behalf of the entire Cineplex management team, thank you for your support and we hope you continue to enjoy your movie-going experience and *See the Big Picture*!

Regards,

Ellis Jacob
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 8, 2016

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

Unless otherwise specified, all information in this MD&A is as of December 31, 2015 and all amounts are in Canadian dollars.

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

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

1. OVERVIEW OF CINEPLEX

Cineplex is one of Canada's leading entertainment companies and operates one of the most modern and fully digitized motion picture theatre circuits in the world. A top-tier Canadian brand, Cineplex operates numerous businesses. These include film entertainment and content (including theatrical exhibition, food services, in-theatre gaming, alternative programming, and the online sale of entertainment content), media (including Cineplex Media and Cineplex Digital Media), and amusement gaming and leisure (including Cineplex Starburst Inc. ("CSI"), The Rec Room and World Gaming Network Limited Partnership ("WGN")). These businesses are supported by Cineplex's joint venture partnership in SCENE, Canada's largest entertainment loyalty program.

Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets. As of December 31, 2015, Cineplex owned, leased or had a joint venture interest in 1,655 screens in 162 theatres from coast to coast.

Cineplex

Locations and screens at December 31, 2015

Province	Locations	Screens	Digital 3D Screens	UltraAVX	IMAX Screens (i)	VIP Auditoriums	D-BOX Locations
Ontario	67	721	344	35	12	35	23
Quebec	21	257	100	10	3	4	6
British Columbia	23	215	109	13	3	8	5
Alberta	17	193	97	16	2	3	6
Nova Scotia	13	92	44	1	1	—	—
Saskatchewan	6	54	28	2	—	3	2
Manitoba	5	49	26	1	1	3	1
New Brunswick	5	41	20	1	—	—	—
Newfoundland & Labrador	3	20	9	1	1	—	—
Prince Edward Island	2	13	6	—	—	—	—
TOTALS	**162**	**1,655**	**783**	**80**	**23**	**56**	**43**
Percentage of screens			47%	5%	1%	3%	3%

(i) All IMAX screens are 3D enabled. Total 3D screens including IMAX screens are 806 screens or 49% of the circuit.

Cineplex - Theatres, screens and premium offerings in the last eight quarters

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Theatres	162	162	162	161	161	161	162	161
Screens	1,655	1,652	1,652	1,648	1,639	1,639	1,638	1,632
3D Digital Screens	783	781	781	778	767	767	764	738
UltraAVX Screens	80	77	77	70	66	66	66	60
IMAX Screens	23	23	22	20	20	20	20	20
VIP Auditoriums	56	53	53	50	43	43	38	33
D-BOX Locations	43	38	33	28	25	21	21	21

1.1 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of dollars, except attendance in thousands of patrons and per Share and per patron amounts)	Fourth Quarter			Full Year		
	2015	2014	Change (i)	2015	2014	Change (i)
Total revenues	$ 407,372	$ 332,211	22.6%	$ 1,370,943	$ 1,234,716	11.0%
Attendance	20,383	19,037	7.1%	77,023	73,648	4.6%
Net income	$ 76,805	$ 32,081	139.4%	$ 134,249	$ 76,271	76.0%
Box office revenues per patron ("BPP") (ii)	$ 9.63	$ 9.06	6.3%	$ 9.23	$ 9.13	1.1%
Concession revenues per patron ("CPP") (ii)	$ 5.58	$ 5.14	8.6%	$ 5.43	$ 5.09	6.7%
Adjusted EBITDA (ii)	$ 85,163	$ 62,649	35.9%	$ 249,802	$ 201,002	24.3%
Adjusted EBITDA margin (ii)	20.9%	18.9%	2.0%	18.2%	16.3%	1.9%
Adjusted free cash flow (ii)	$ 52,871	$ 42,540	24.3%	$ 157,220	$ 145,506	8.1%
Adjusted free cash flow per common share of Cineplex ("Share") (ii)	$ 0.837	$ 0.675	24.0%	$ 2.492	$ 2.311	7.8%
Earnings per Share attributable to owners of Cineplex ("EPS") - basic	$ 1.22	$ 0.51	139.2%	$ 2.13	$ 1.21	76.0%
EPS excluding non-recurring items - basic (ii)	$ 0.64	$ 0.51	25.5%	$ 1.56	$ 1.21	28.9%
EPS - diluted	$ 1.20	$ 0.51	135.3%	$ 2.12	$ 1.20	76.7%
EPS excluding non-recurring items - diluted (ii)	$ 0.64	$ 0.51	25.5%	$ 1.55	$ 1.20	29.2%

(i) Throughout this MD&A, changes in percentage amounts are calculated as 2015 value less 2014 value.

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

Total revenues for the fourth quarter of 2015 increased 22.6%, or $75.2 million as compared to the prior year period, primarily due to records in all key metrics as well as an additional $23.6 million in revenues resulting from the consolidation of CSI following Cineplex's acquisition on October 1, 2015 of the 50% of CSI it did not already own. The strong performance of *Star Wars: The Force Awakens* contributed to all-time quarterly records for box office and food service revenues, attendance, BPP and CPP. Media revenues increased 17.9% to an all-time quarterly record of $55.3 million with the increase due to strong pre-show and showtime revenues. As a result of these increases, Cineplex achieved all-time quarterly records for adjusted EBITDA (which increased $22.5 million or 35.9% to $85.2 million) and adjusted free cash flow per Share ($0.837, a 24.0% increase from $0.675 in the prior year period).

Total revenues of $1.4 billion for the year ended December 31, 2015 increased 11.0%, or $136.2 million compared to the prior year as a result of higher revenues in all major categories, including the additional $23.6 million in revenues from the consolidation of CSI. The largest contributor to the growth in total revenues is food service revenues, with the combination of the record annual CPP and the 4.6% increase in attendance resulting in an 11.6% increase in revenues in this category. Adjusted EBITDA increased 24.3%, from $201.0 million to an annual record of $249.8 million as a result of the revenue increases in all major categories. Adjusted free cash flow per Share increased 7.8%, from $2.311 in 2014 to an annual record of $2.492 in 2015.

1.2 KEY DEVELOPMENTS IN 2015

The following describes certain key business initiatives undertaken and results achieved during 2015 in each of Cineplex's core business areas:

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

- Reported Cineplex's highest ever box office revenues of $711.1 million (5.7% higher than 2014), attendance of 77.0 million (4.6% higher than 2014) and BPP of $9.23 (1.1% higher than 2014) due to the success of multiple blockbusters in the year, including *Star Wars: The Force Awakens* in the fourth quarter, which has become the highest grossing film of all-time in North America.
- Opened two new theatres, *Cineplex Cinemas Lansdowne and VIP* in Ottawa, Ontario featuring ten auditoriums including four VIP and one UltraAVX auditoriums; and *Cineplex Cinemas Markham and VIP* in Markham, Ontario featuring 13 screens including three VIP and one IMAX auditoriums.
- Added VIP Cinemas to *Scotiabank Theatre Saskatoon and VIP* in Saskatoon, Saskatchewan and *Cineplex Cinemas Yonge-Eglinton and VIP*, with three VIP auditoriums added to each location.
- Acquired a single screen IMAX theatre in Quebec City, Quebec, which is one of the largest IMAX screens in the world.
- Expanded premium offerings, adding 14 UltraAVX auditoriums and D-BOX to 13 theatres across the circuit.

Food Service

- Reported record annual food service revenues of $418.4 million (11.6% higher than 2014) and CPP of $5.43 (6.7% higher than 2014), exceeding the previous records of $375.0 million and $5.09, both set in 2014.
- VIP Cinemas, which feature a specialty food menu, contributed to the growth of food service revenues, with the addition of 13 VIP auditoriums across four locations.
- Continued the expansion of Cineplex's proprietary brands, bringing the total across the circuit to 93 *Outtakes* locations, 23 full serve *Poptopia* locations and 73 *YoYo's Yogurt Cafe ("YoYo's")* locations at December 31, 2015.

Alternative Programming

- Reported strong results from the Metropolitan Opera: Live in HD series, In the Gallery presentations, concert films and performances from the National Theatre in London including *Hamlet* featuring Benedict Cumberbatch.
- Featured numerous ethnic films, including Hindi, Tamil, Punjabi and Mandarin language films in

select markets across the country.
- Partnered with HBO Canada to show the Season 5 finale of *Game of Thrones* live in participating theatres across Canada.
- Celebrated the 30th anniversary of *Back to the Future* with in-theatre fan events and screenings of the trilogy, with Cineplex raising $0.1 million on behalf of Team Fox for Parkinson's Research.

Digital Commerce
- Cineplex.com registered a 46% increase in unique visitors and a 51% increase in visits during 2015 compared to 2014.
- As at December 31, 2015, the Cineplex app had been downloaded 13.6 million times and recorded over 744.4 million app sessions.
- Growth of SuperTicket continued, with a majority of films now available in this format.
- Continued device integration with the Cineplex Store while increasing the user base throughout the year.

MEDIA
- Reported record annual media revenues of $153.6 million, 14.5% higher than the previous record set in 2014 as a result of higher Cineplex Media revenues.

Cineplex Media
- Cineplex Media achieved record revenues of $112.5 million (23.1% higher than 2014) due to record showtime advertising sales, with robust results seen in the automotive and electronics categories.
- According to Vividata's first Canadian readership study released in 2015, Cineplex Magazine is the most-read entertainment magazine in Canada, and overall the second-most read magazine in Canada.
- Signed an expanded naming rights and sponsorship agreement with the Bank of Nova Scotia ("Scotiabank") in 2015, extending both theatre naming rights to two additional theatres (to a total of ten theatres across the circuit) as well as Scotiabank's presenting sponsorship of Cineplex's VIP Cinemas.
- Completed the rollout of interactive media zones ("IMZ") and digital poster cases in select theatres across the circuit in the year.

Cineplex Digital Media
- Cineplex Digital Media recorded higher digital advertising revenues in 2015 as compared to 2014, including those in the TimsTV and Oxford shopping mall networks. These increases were offset by lower project revenues due to the timing of project installations which fluctuate with the timing of clients' requirements.
- In the fourth quarter of 2015, Cineplex Digital Networks ("CDN") announced it had been selected by A&W Food Services of Canada Inc. ("A&W") to become the sole provider of digital menu boards for its over 850 restaurants across Canada.
- Subsequent to the year end, Cineplex Digital Media announced that it had been selected by American Dairy Queen Corporation ("ADQ") as the endorsed provider of in-store digital merchandising solutions for the Dairy Queen system in the US and Canada.

AMUSEMENT GAMING AND LEISURE
- Cineplex added six XSCAPE Entertainment Centres to its theatre circuit during the year, bringing the total number of XSCAPE locations to 24 at December 31, 2015.

Cineplex Starburst Inc.
- Cineplex completed the acquisition of the remaining 50% of issued and outstanding equity of CSI that it did not already own, for approximately $21.0 million.
- CSI entered into a new venture with Brady Distributing Company, of which CSI owns 80%, creating Brady Starburst LLC ("BSL"), one of North America's largest distributors of amusement and vending equipment, expanding CSI's presence in the US.

The Rec Room

- Announced plans for *The Rec Room*, a social entertainment destination featuring upscale casual dining, a bar area, amusement gaming and live entertainment.
- Cineplex has announced plans to build two locations, the first in Edmonton, Alberta scheduled to open in the second quarter of 2016 and the second in Calgary, Alberta scheduled to open in early 2017.

eSports

- Acquired an 80% interest in the operating assets of WG Limited through Cineplex's subsidiary, WGN. This acquisition resulted in the creation of a new company focused on eSports by creating a community that connects live online gaming with unique in-theatre tournament experiences to be held in Cineplex theatres across the country.
- Subsequent to the year end, Cineplex and WGN announced the signing of a comprehensive deal with Sony Computer Entertainment Canada as well as its first in a series of national video gaming tournaments featuring *Call of Duty: Black Ops III*, with online qualifiers produced by WGN and the regional and Canadian final events hosted at Cineplex theatres.

LOYALTY

- Membership in the SCENE loyalty program increased more than 1.0 million members in 2015, reaching a membership of 7.3 million at December 31, 2015.
- Cineplex and Scotiabank announced a ten year extension to October 31, 2025 of the SCENE loyalty program.
- SCENE entered into a strategic marketing partnership with CARA Operations Limited ("CARA"), making CARA the exclusive restaurant partner of SCENE, allowing members to earn and redeem points at over 800 CARA restaurants across Canada.
- SCENE implemented changes to the earn and redemption rates for premium movie experiences in the fourth quarter, with members earning and redeeming SCENE points based on the type of movie experience they choose. Premium movies now earn 50% more points and require 50% more points for redemption, and VIP movies earn 100% more points and require 100% more points for redemption.

CORPORATE

- Effective with the May 2015 dividend, the board of directors of Cineplex (the "Board") announced a monthly dividend increase to $0.13 per Share ($1.56 on an annual basis) up from $0.125 per Share ($1.50 on an annual basis).
- Launched a new integrated brand platform entitled "See The Big Picture" to forge stronger connections with Cineplex guests and customers, as well as unify all of its businesses.
- Cineplex hosted its fifth annual National Community Day in October 2015 in support of Free the Children, its national charitable partner. In the past five years, Cineplex has raised over $2.0 million on Community Days.
- During 2015, Cineplex was once again named by Waterstone Human Capital one of Canada's 10 Most Admired Corporate Cultures in the large enterprise category for a second consecutive three year term.

1.3 BUSINESS ACQUISITIONS

Cineplex Starburst Inc.

On October 1, 2015, Cineplex acquired the 50% of the issued and outstanding equity of CSI that Cineplex did not already own, for $21.4 million cash, resulting in Cineplex owning 100% of the issued and outstanding equity of CSI. Cineplex began consolidating CSI's financial results from the acquisition date. Immaterial transaction costs were expensed as incurred.

Cineplex previously equity-accounted for its interest in CSI. At the acquisition date, Cineplex recognized 100% of identifiable net assets of CSI. Cineplex's existing interest was remeasured at fair value at the acquisition date, resulting in a gain on equity interest of $7.4 million recognized in the statement of operations.

Cineplex recognized $6.6 million of goodwill relating primarily to its pre-existing gaming arrangements with CSI. The goodwill is not deductible for tax purposes (in thousands of dollars):

Assets acquired and liabilities assumed		
Net working capital, including cash of $6,710	$	13,180
Equipment		20,995
Intangible assets - customer relationships		11,414
Goodwill		6,618
Debt		(2,669)
Deferred income taxes		(6,395)
Non-controlling interest		(299)
Net assets		42,844
Less: Cash from acquisition		(6,710)
Less: 50% interest held previously		(21,422)
	$	14,712
Consideration given - cash paid		21,422
Less: Cash from acquisition		(6,710)
	$	14,712

CSI has arrangements with customers to operate CSI's gaming equipment on a revenue share basis. The fair value of customer relationships recognized reflect annual renewal rates of 90%-95% for existing customers. They will be amortized on straight-line bases over five or seven years.

The equipment will be amortized on a straight-line basis over six years.

As at December 31, 2015, the fair value assigned to the assets and liabilities have been determined on a provisional basis, pending finalization of the post-acquisition review of the fair value of the customer relationships and equipment acquired, and liabilities assumed. The non-controlling interests in a subsidiary of CSI (BSL) have been valued at the acquisition date fair value. Any variations may be material.

From the date of acquisition through December 31, 2015, the acquired business had total revenues of $21.2 million, and net income of $1.2 million, including amortization of $1.4 million relating to the assets acquired.

If the transaction had occurred at the beginning of the year, Cineplex consolidated revenues would have been $1.4 billion and net income would have been $133.6 million, including incremental depreciation and amortization of $4.2 million.

WorldGaming Network LP

On September 17, 2015, Cineplex acquired an 80% interest in the operating assets of WG Limited through Cineplex's subsidiary, WGN. WGN is a leading online gaming platform that facilitates tournaments, leagues and gaming ladders for the competitive gaming community. Intertaintech Corporation, an affiliate of WG Limited owns the other 20% of WGN.

The total cash consideration paid was $19.8 million. Transaction costs of $0.4 million associated with the transaction were expensed as incurred.

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

Assets acquired and liabilities assumed		
Net working capital, including cash of $7,285	$	5,998
Intangible assets, including software		18,621
Equipment		77
Non-controlling interests		(4,939)
Net assets		19,757
Less: Cash from acquisition		(7,285)
	$	12,472
Consideration given - cash paid	$	19,757
Less: Cash from acquisition		(7,285)
	$	12,472

During the fourth quarter, the fair values were finalized based on the post-acquisition review of the fair value of the software and equipment acquired, and liabilities assumed, resulting in $0.1 million lower value of software and $0.1 million increase in working capital. The non-controlling interests were valued at the acquisition date fair value.

WGN's functional currency is the United States dollar, resulting in a cumulative translation adjustment at each balance sheet date. The cumulative translation adjustment is presented in equity.

Since the acquisition, WGN did not have material revenues or income. Cineplex's reported revenues and income would not have been materially different if the acquisition had occurred at January 1, 2015.

For the thirty-six month period beginning one year after the acquisition, Intertaintech Corporation has the right, but not the obligation to require Cineplex to acquire their entire 20% interest in WGN at fair value. Cineplex has recognized an initial liability of USD $3.8 million, ($4.9 million based on the exchange rate on the transaction date), equivalent to the initial fair value of the non-controlling interests, reducing contributed surplus by $4.9 million. Fluctuations in value due to exchange rates or changes in the underlying value of the option are presented in the statement of operations. The $5.2 million balance based on the exchange rate as at December 31, 2015 is included in accounts payable and accrued liabilities.

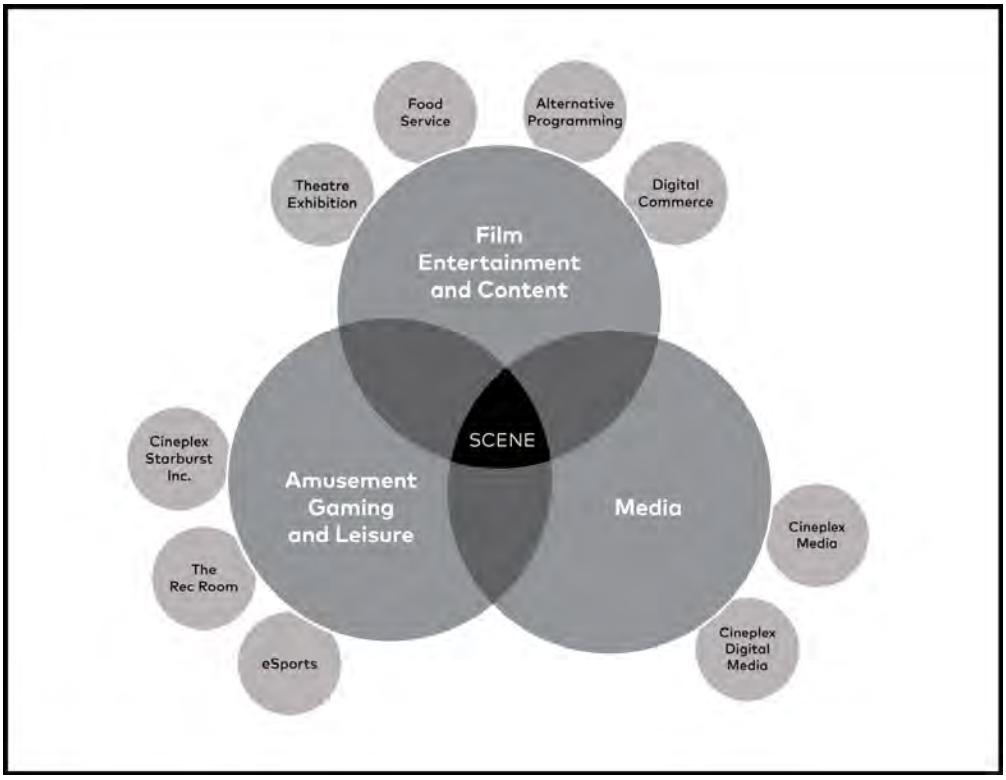
Cineplex has the right, but not the obligation, to acquire Intertaintech Corporation's entire 20% interest in WGN at fair value at any time beginning two years after the acquisition.

2. 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 existing customers and maximize revenue per patron;
- Capitalize on core media strengths and infrastructure to provide continued growth of Cineplex's media business both inside and outside theatres;
- Develop and scale gaming-related amusement gaming and leisure concepts, including *The Rec Room*, by extending existing capabilities and infrastructure;
- Continue to expand Cineplex's presence as an entertainment destination for Canadians, providing in-theatre, at-home and on-the-go experiences - Cineplex Anywhere; and
- Pursue selective acquisitions and opportunities that are strategic, accretive and capitalize on Cineplex's core strengths.

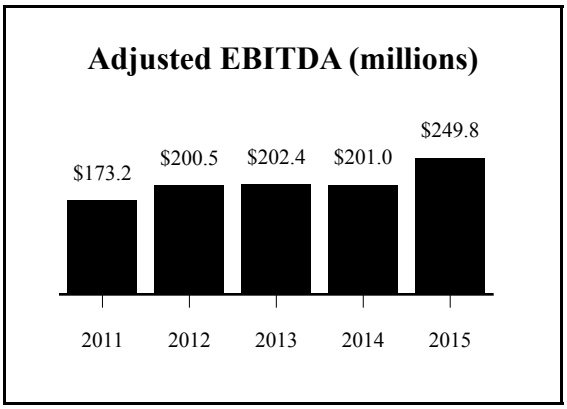
Cineplex uses the SCENE program and database as a strategic asset to link these areas of focus and drive customer acquisition and ancillary businesses.

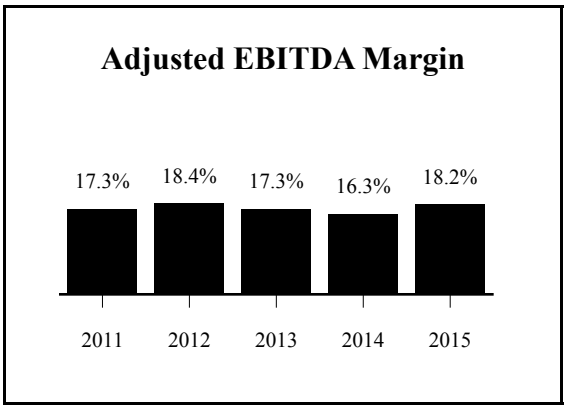


Key elements of this strategy include going beyond movies to reach customers in new ways and maximizing revenue per patron. With this in mind, Cineplex has implemented in-theatre initiatives to improve the overall entertainment experience, including increased premium offerings, enhanced in-theatre services, alternative pricing strategies, continued development of the SCENE loyalty program and initiatives in food service 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, amusement gaming and leisure, the Cineplex Store, promotions and other revenue streams have increased as a share of total revenues. Cineplex is committed to diversifying its revenue streams outside of the traditional theatre exhibition model through its media and amusement gaming and leisure businesses. The margins on these other revenue streams, particularly media, are much higher than on admission sales and have enhanced Cineplex's profitability.

Although Cineplex focuses on growth initiatives, management remains vigilant in controlling costs without compromising the guest experience. Cineplex will continue to invest in new revenue generating activities, as it did in 2015. The following tables show Cineplex's adjusted EBITDA and adjusted EBITDA margin performance over the last five years (see Section 17, Non-GAAP measures, for a discussion of adjusted EBITDA and adjusted EBITDA margin).





3. CINEPLEX'S BUSINESSES

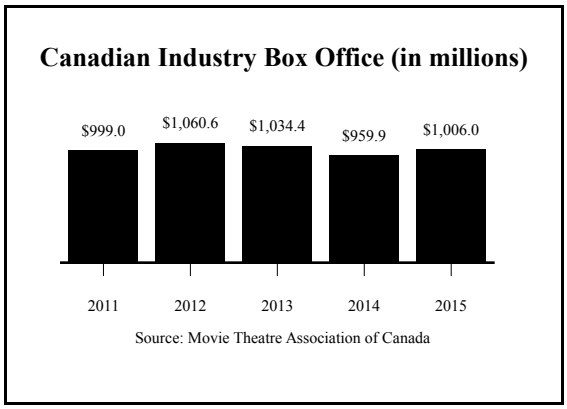
Cineplex's operations are primarily conducted in three main areas: film entertainment and content, media, and amusement gaming and leisure, all supported by the SCENE loyalty program.

FILM ENTERTAINMENT AND CONTENT

Theatre exhibition

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

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and creation of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary channel for new motion picture releases and is the core business function of Cineplex. The Canadian industry reported an increase of 4.8% in box office revenues in 2015 compared to the prior year.



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

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

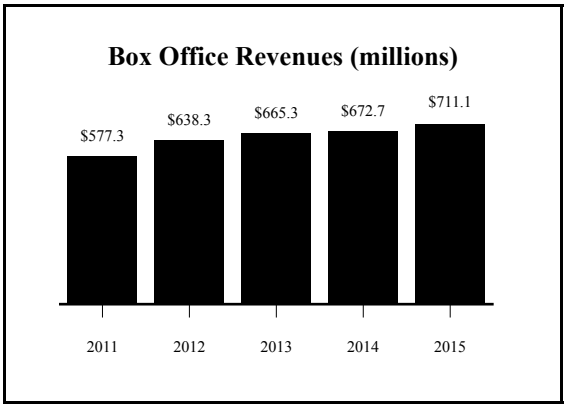
- *Continued supply of successful films.* Studios are increasingly producing film franchises, such as *Star Wars, Jurassic Park, Fast and Furious* and *James Bond*. Additionally, new franchises continue to be developed, such as *The Avengers, Guardians of the Galaxy* and *Captain America*. When the first film in a franchise is successful, subsequent films in the franchise benefit from existing public awareness and anticipation. The result is that such features typically attract large audiences and generate strong box office revenues. The success of a broader range of film genres also benefits film

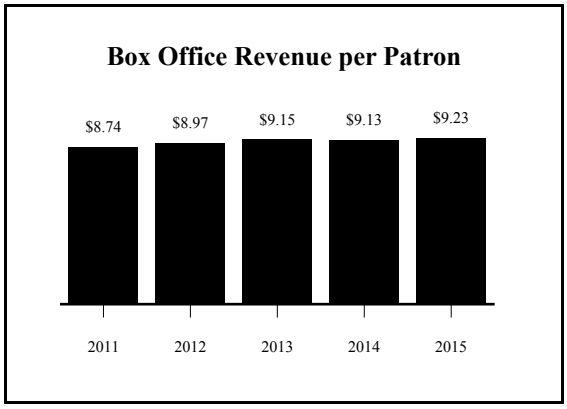
exhibitors. In 2016, the studios are releasing a strong slate of films, including *Deadpool, Batman v Superman: Dawn of Justice, Captain America: Civil War, Alice Through the Looking Glass, Finding Dory, Ghostbusters, Star Trek Beyond, Suicide Squad, Doctor Strange, Fantastic Beasts and Where to Find Them* and *Rogue One: A Star Wars Story.*

- *Convenient and affordable form of out-of-home entertainment.* Cineplex's BPP was $9.23 and $9.13 in 2015 and 2014 respectively. Excluding the impact of Cineplex's premium-priced product, BPP was $8.30 and $8.27 in 2015 and 2014 respectively. The movie-going experience continues to provide value and compares favourably to alternative forms of out-of-home entertainment in Canada such as professional sporting events or live theatre, and with Cineplex, SCENE members enjoy the ability to earn points towards free movies as well as a 10% discount on all food service purchases.

- *Providing a variety of premium theatre experiences.* Premium priced theatre offerings include 3D, UltraAVX, VIP, IMAX and D-BOX. BPP for premium-priced product was $11.21 in 2015, and premium-priced product accounted for 38.9% of total box office revenues in 2015. In response to the increased demand for premium entertainment experiences, Cineplex added three IMAX, 14 UltraAVX auditoriums, 13 VIP auditoriums, 18 D-BOX locations during 2015, bringing the circuit total to 23 IMAX, 80 UltraAVX, 56 VIP, 23 IMAX auditoriums and 43 D-BOX enabled auditoriums at the end of the year. Cineplex increased its number of 3D screens from 767 at December 31, 2014 to 783 at December 31, 2015.

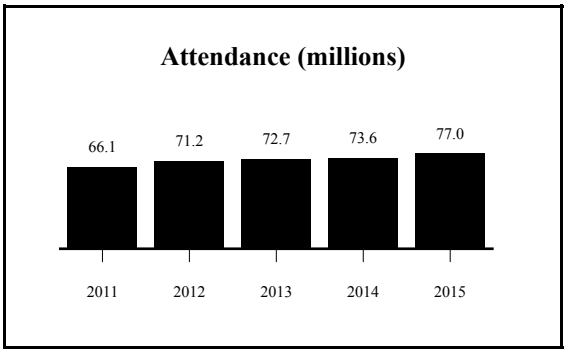
- *Reduced seasonality of revenues.* Historically, film exhibition industry revenues have been seasonal, with the most marketable motion pictures generally being released during the summer and the late-November through December holiday season. The seasonality of motion picture exhibition attendance has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





In the next few years, Cineplex plans to open or renovate an average of two to three new theatres per year and continue to expand its premium offerings through these new theatres and existing locations. During 2015, Cineplex opened two new theatres, *Cineplex Cinemas Lansdowne and VIP* in Ottawa, Ontario and *Cineplex Cinemas Markham and VIP* in Markham, Ontario as well as adding VIP Cinemas to *Scotiabank Theatre Saskatoon and VIP* in Saskatoon, Saskatchewan and *Cineplex Cinemas Yonge-Eglinton and VIP* in Toronto, Ontario. Cineplex also acquired a single screen IMAX theatre in Quebec City, Quebec during the year.

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

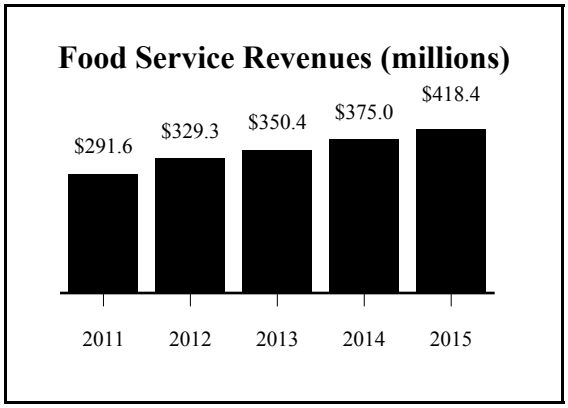


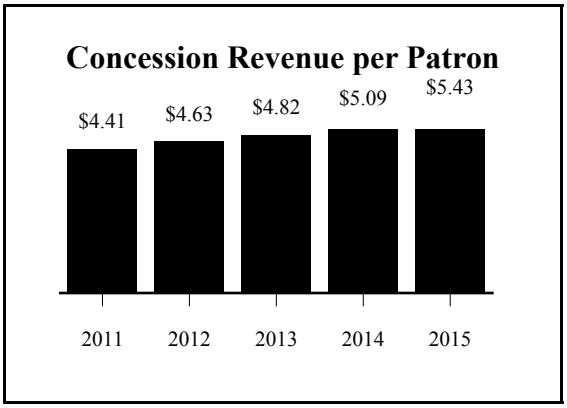
The development of premium experiences through design, structure and digital technology makes Cineplex theatres ideal locations for meetings and corporate events. Organizations, particularly corporations with offices across the country, can use Cineplex's theatres and digital technology for annual meetings,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

Food Service

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

Cineplex continually focuses on process improvements designed to increase the speed of service at the concession counter in addition to optimizing the RBO's available at Cineplex's theatres. Each of the wide range of menu items available at *Outtakes* locations as well as the expanded menu and the licensed lounge service available at VIP Cinemas are designed to reach a wider market and to increase both purchase incidence and transaction value. Digital menu boards installed across the circuit offer flexibility in menu offerings to guests which contribute to an improved guest experience while also creating additional revenue opportunities. The execution of this strategy contributed to a record CPP of $5.43 in 2015, an increase of $0.34 from the previous record of $5.09 achieved in 2014.





Alternative Programming

Alternative programming includes Cineplex's ethnic film programming as well as content offered under its *Event Cinema* brand offering, including The Metropolitan Opera, WWE and UFC programming, sporting events and concerts, which is typically premium priced. Ethnic film programming includes Bollywood content as well as Hindi, Tamil, Punjabi and Mandarin language films, amongst others, in select theatres across the country based on local demographics. This programming attracts a more diverse audience, expanding Cineplex's demographic reach and enhancing revenues.

The success of Cineplex's alternative programming events has led to further expansion of offerings including the Bolshoi Ballet from Moscow, the National Theatre from London, and screening select television content on the big screen. Cineplex offers the Classic Film Series and Family Favourites programming at non-peak hours to enhance theatre utilization rates. As more content becomes available, Cineplex anticipates capitalizing on its digital infrastructure by screening additional alternative programming events in 2016 and beyond.

Digital Commerce

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

These features and others enable Cineplex to engage and interact with its guests online and on-the-go, allowing Cineplex to offer engaging, targeted and sponsored content to visitors and advertisers, resulting in opportunities to generate additional revenues. Cineplex.com recorded over 105 million visits and over 530 million page views and the Cineplex app has been downloaded 13.6 million times and recorded over 744 million app sessions in 2015.

The Cineplex Store rents and sells movies in digital form (through DTO and VoD movies) and sells Cineplex gift cards. Cineplex also offers SuperTicket, a bundled offering that allows movie-goers to purchase a movie admission ticket and pre-order the digital download of a movie at the same time. SuperTicket provides Cineplex with the flexibility to customize offerings to consumers, providing enhanced value above and beyond an in-theatre or at-home experience.

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

MEDIA

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

Cineplex Media

Cineplex Media represents traditional cinema media advertising, which incorporates advertising mediums related to theatre exhibition. With its national presence and over 90% market share of the Canadian movie-going attendance, Cineplex Media is well positioned for continued growth and is the ideal channel for advertisers wanting to reach all demographics, especially the highly sought-after 17 to 25-year-old Canadian market. Cineplex Media includes showtime and pre-show advertising for Cineplex as well as other circuits through representation sales agreements, *Cineplex Magazine* and *Le magazine Cineplex,* website and mobile advertising as well as lobby advertising.

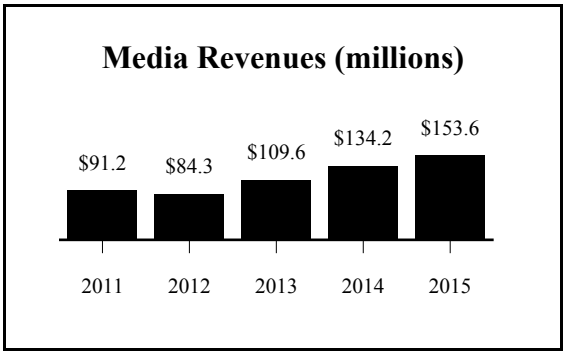
Cineplex Media's key offerings are showtime and pre-show advertising, engaging guests with key advertising messages and customizable content from 20 minutes prior to showtime right up until the start of the Coming Attractions. With a distribution of approximately 750,000 copies per month through physical delivery as well as online distribution, *Cineplex Magazine* and *Le magazine Cineplex*, offer advertising opportunities in Canada's leading entertainment magazine. According to Vividata's first Canadian readership study released in 2015, Cineplex Magazine is the most-read entertainment magazine in Canada, and the second-most read magazine overall in Canada.

Select Cineplex theatres offer the following media opportunities:

- The IMZ, an interactive media experience allowing advertisers to engage and interact with Cineplex guests in high traffic lobby locations.
- Timeplay, a third-party app that allows Cineplex to sell media integrated into real-time content on the big screen, with movie-goers using the app to compete for prizes and receive special offers from Cineplex and advertisers.
- Digital poster cases, which provide integration of dynamic digital advertising options into what were previously static poster displays.

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

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



Cineplex Digital Media

Cineplex Digital Media represents Cineplex's digital out-of-home advertising business, which incorporates digital signage networks on both the path to purchase (including shopping malls, office complexes and other path to purchase locations) and at the point of purchase (such as the quick-service restaurant, financial and retail markets across North America).

Cineplex's advertising sales team combined with the project management, system design, network operations, and creative services teams at Cineplex Digital Media, have Cineplex well positioned to expand its media

reach throughout its current infrastructure as well as in numerous out-of-home advertising locations across the country. Cineplex believes that the strength of Cineplex Digital Media will make it a leader in the indoor digital signage industry and provide a platform for significant growth throughout North America.

AMUSEMENT GAMING AND LEISURE

Amusement gaming and leisure includes three significant areas of operations: CSI, one of the largest distributors of amusement gaming and vending equipment in North America; *The Rec Room*, social entertainment destinations featuring gaming, entertainment and upscale casual dining; and WGN, which features an online video gaming network as well as offering eSports entertainment through a community that connects live online gaming with unique in-theatre tournament experiences in Cineplex theatres.

Cineplex Starburst Inc.

Cineplex acquired the 50% of the issued and outstanding equity of CSI that it did not own on October 1, 2015 and began consolidating the results of CSI as of that date. CSI generates revenues from the following activities in both Canada, as well as in the United States through CSI's wholly-owned subsidiary Premier Amusements Inc. ("Premier") and through its joint venture interest in BSL:

- Route operations: CSI collects a revenue share on all games revenues earned by CSI-owned amusement and vending equipment placed into locations such as family entertainment centres, arcades, theatres, restaurants, bars and other locations.
- Third party equipment sales.
- Operations of *Playdium*, a 32,000 square foot interactive, virtual and physical entertainment centre focused on family entertainment located in Mississauga, Ontario, which features more than 200 high-tech attractions, rides and simulators as well as food service at its in-house diner.

In addition to expanding Cineplex's amusement gaming presence outside of its theatres, the acquisition of CSI has allowed Cineplex to vertically integrate its gaming operations. Cineplex's in-theatre gaming business features Cineplex's 24 XSCAPE Entertainment Centres as well as arcade games in select Cineplex theatres, with all of the games supplied and serviced by CSI.

The Rec Room

In 2015, Cineplex announced its plans for *The Rec Room*, a social entertainment destination featuring a wide range of entertainment options including an attractions area featuring simulation, redemption and recreational gaming, an auditorium-style live entertainment venue with a theatre-sized high definition screen for watching a wide range of entertainment programming. These entertainment options will be complemented with an upscale casual dining environment, featuring an open kitchen and contemporary menu, as well as a centre bar with a wide range of digital monitors and a large screen above the bar for watching the big game or other major events.

The first location is scheduled to open in the second quarter of 2016 at South Edmonton Common in Edmonton, Alberta in an approximately 60,000 square foot location in proximity to Cineplex's existing theatre at that location. The second location is scheduled to open in early 2017 at Deerfoot City in Calgary, Alberta in an approximately 50,000 square foot location.

eSports and World Gaming

Cineplex acquired an 80% interest in the operating assets of WGN in 2015, resulting in the creation of a new company focused on eSports. Cineplex's two major eSports offerings include:

- Online facilitation of tournaments, leagues and gaming ladders for the competitive gaming community in Canada and worldwide.
- Connecting online video gaming with in-theatre tournaments, with regional qualifiers held at Cineplex locations leading to National Championship live finals at a Cineplex flagship location, starting in 2016.

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

LOYALTY

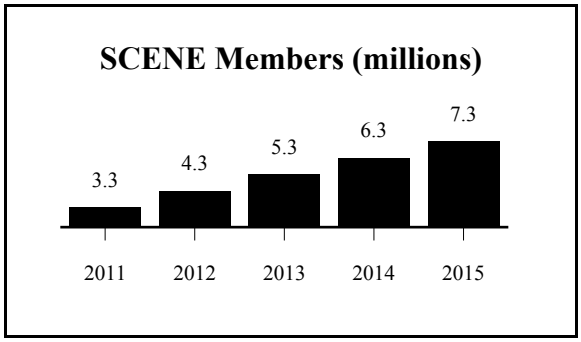
In 2007, Cineplex entered into a joint venture agreement with Scotiabank to launch the SCENE loyalty program, providing Cineplex with a more comprehensive understanding of the demographics and movie-going habits of its audience as well as new ways to engage its customers. Cineplex and Scotiabank each have a 50% interest in the program.

SCENE is a customer loyalty program designed to offer members discounts and the opportunity to earn and redeem SCENE points. SCENE members can earn and redeem SCENE points on box office and food service purchases at Cineplex's theatres as well as receiving 10% off food service purchases. As part of the Cineplex Tuesdays program, SCENE members get 10% off all ticket prices on Tuesdays across the circuit. SCENE members can also earn and redeem points online at the Cineplex Store. SCENE is a key differentiator and source of competitive advantage for the Cineplex Store versus competitors for the in-home and on-the-go movie market.

The SCENE program has been well received as evidenced by the strong membership growth and high engagement levels of the program members. Membership in the SCENE loyalty program at December 31, 2015 was approximately 7.3 million, an increase of approximately 1.0 million members during 2015. Through SCENE, Cineplex has gained a more thorough understanding of its customers, driven increased customer frequency, increased overall spending at its theatres and provides Cineplex with the ability to communicate directly and regularly with customers. Management believes the benefits of the program are reflected in box office and food service revenues.

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

SCENE continues to build its strategic marketing partnership with sports and active lifestyle retailer SportChek, which enables members to earn and redeem points for products available at more than 180 SportChek locations across Canada. In 2015, SCENE launched a strategic marketing partnership with CARA restaurant brands, which allows members to earn and burn points at over 800 restaurants across Canada. SCENE also provides promotions and offerings with numerous other partners.



4. OVERVIEW OF OPERATIONS

Revenues

Cineplex generates revenues primarily from box office and food service sales. These revenues are affected primarily by attendance levels and by changes in BPP and CPP. Box office revenue represented 51.9% of revenue in 2015 and continues to represent Cineplex's largest revenue component.

Revenue mix % by year	2015	2014	2013	2012	2011
Box office	**51.9%**	54.5%	56.8%	58.5%	57.9%
Food service	**30.5%**	30.4%	29.9%	30.1%	29.2%
Media	**11.2%**	10.9%	9.4%	7.7%	8.7%
Other	**6.4%**	4.2%	3.9%	3.7%	4.2%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

A key component of Cineplex's business strategy is to position itself as the leading exhibitor in the Canadian market by focusing on providing customers with an exceptional entertainment experience. Cineplex's share of the Canadian theatre exhibition market was approximately 78% based on Canadian industry box office revenues for the year ended December 31, 2015. As a result of Cineplex's focus on diversifying its business beyond the traditional movie exhibition model, its revenue mix has shifted from box office revenue to other revenue sources. These revenue sources typically provide higher incremental contribution margins than traditional exhibition revenues.

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

Food service revenues are comprised primarily of concession revenues, arising from food sales at theatre locations. CPP represents food service revenues divided by theatre attendance, and is impacted by food service product mix, food service prices, film genre, promotions, the 10% SCENE discount and the issuance of SCENE points on the purchase of certain food service combos. Film product targeted to families and teenagers tends to result in a higher CPP and more adult-oriented product tends to result in a lower CPP. As a result, CPP can fluctuate from quarter to quarter depending on the genre of film product playing. The 10% SCENE discount offer and SCENE points issued on food service purchases both decrease food service revenues on individual purchases. Cineplex believes the program drives incremental 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.

Media revenues include both Cineplex Media and Cineplex Digital Media revenues. Cineplex Media generates revenues primarily from selling pre-show and showtime advertising in Cineplex's theatres as well as other circuits through representation sales agreements and magazine advertising for *Cineplex Magazine* and *Le Magazine Cineplex*. Additionally Cineplex Media sells sponsorship and advertising for eSports events both in-theatre and online, digital advertising for cineplex.com, the Cineplex mobile app and on third party networks; also offering special media placements throughout Cineplex's circuit including digital poster cases and the IMZ in select Cineplex theatre lobbies. Cineplex Digital Media designs, installs, maintains and operates digital signage networks on both the path to purchase, with digital place-based media offerings in public spaces such as shopping malls and office towers, as well as at the point of purchase with a focus on quick service restaurants, financial institutions and retailers.

Games revenues include revenues generated by CSI, which supplies and services all of the games in Cineplex's circuit while also supplying equipment to third party arcades, amusement parks and centres, bowling alleys and theatre circuits, in addition to owning and operating *Playdium*, a family entertainment centre located in Mississauga, Ontario. CSI revenues also include revenues from US based operations through BSL and Premier. Games revenues also include revenues generated by Cineplex's XSCAPE Entertainment Centres and game rooms in theatres. Cineplex also generated adjusted EBITDA from its 50% share of CSI prior to October 1, 2015.

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

Cost of Sales and Expenses

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

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

Depreciation and amortization represents the depreciation and amortization of Cineplex's property, equipment and leaseholds, as well as certain of its intangible assets. Depreciation and amortization are calculated on a 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, CSI, WGN, loyalty including SCENE, digital commerce, amusement gaming and leisure, supplies and services, utilities and maintenance.

General and administrative expenses are primarily costs associated with managing Cineplex's business, including film buying, marketing and promotions, operations and food service management, accounting and financial reporting, legal, treasury, design and construction, real estate development, communications and investor relations, information systems and administration. Included in these costs are payroll (including the long-term incentive plan ("LTIP") and Share option plan costs) 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 IMAX screen in Ontario, its 78.2% interest in the Canadian Digital Cinema Partnership ("CDCP") and 50% interest in 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's 50% interest in CSI was recognized as a joint venture prior to October 1, 2015 (see section 1.3, Business acquisitions).

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

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

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

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Box office revenues	$ 711,107	$ 672,678	$ 665,306
Food service revenues	418,445	375,039	350,353
Media revenues	153,646	134,189	109,581
Other revenues	87,745	52,810	46,027
Total revenues	1,370,943	1,234,716	1,171,267
Film cost	379,103	349,564	346,373
Cost of food service	90,530	81,455	74,693
Depreciation and amortization	89,339	77,450	70,890
Loss on disposal of assets	3,236	3,393	4,372
Other costs (a)	655,389	606,677	551,819
Costs of operations	1,217,597	1,118,539	1,048,147
Net income	$ 134,249	$ 76,271	$ 83,557
Adjusted EBITDA (i)	$ 249,802	$ 201,002	$ 202,441
(a) Other costs include:			
Theatre occupancy expenses	203,356	202,085	188,388
Other operating expenses	383,281	345,907	297,594
General and administrative expenses	68,752	58,685	65,837
Total other costs	$ 655,389	$ 606,677	$ 551,819
EPS - basic	$ 2.13	$ 1.21	$ 1.33
EPS excluding non-recurring items - basic (i)	$ 1.56	$ 1.21	$ 1.33
EPS - diluted	$ 2.12	$ 1.20	$ 1.32
EPS excluding non-recurring items - diluted (i)	$ 1.55	$ 1.20	$ 1.32
Total assets	$ 1,701,917	$ 1,609,416	$ 1,591,378
Total long-term financial liabilities (ii)	$ 331,500	$ 339,500	$ 327,500
Shares outstanding at period end	63,370,059	63,015,023	62,934,028
Cash dividends declared per Share	$ 1.540	$ 1.480	$ 1.410
Adjusted free cash flow per Share (i)	$ 2.492	$ 2.311	$ 2.458
Box office revenue per patron (i)	$ 9.23	$ 9.13	$ 9.15
Concession revenue per patron (i)	$ 5.43	$ 5.09	$ 4.82
Film cost as a percentage of box office revenues	53.3%	52.0%	52.1%
Attendance (in thousands of patrons) (i)	77,023	73,648	72,703
Theatre locations (at period end)	162	161	161
Theatre screens (at period end)	1,655	1,639	1,630

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

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

5.2 OPERATING RESULTS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2015

Total revenues

Total revenues for the three months ended December 31, 2015 increased $75.2 million (22.6%) to $407.4 million as compared to the prior year period. Total revenues for the year ended December 31, 2015 increased $136.2 million (11.0%) to $1.4 billion as compared to the prior year. A discussion of the factors affecting the changes in box office, food service, media and other revenues for the period is provided below.

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

Box office revenues

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

Box office revenues	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Box office revenues	$ 196,293	$ 172,460	13.8%	$ 711,107	$ 672,678	5.7%
Attendance (i)	20,383	19,037	7.1%	77,023	73,648	4.6%
Box office revenue per patron (i)	$ 9.63	$ 9.06	6.3%	$ 9.23	$ 9.13	1.1%
BPP excluding premium priced product (i)	$ 8.41	$ 8.39	0.2%	$ 8.30	$ 8.27	0.4%
Canadian industry revenues (ii)			12.2%			4.8%
Same store box office revenues (i)	$ 192,035	$ 171,505	12.0%	$ 691,746	$ 665,477	3.9%
Same store attendance (i)	19,977	18,923	5.6%	75,040	72,851	3.0%
% Total box from premium priced product (i)	46.8%	29.4%	17.4%	38.9%	37.8%	1.1%

(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 increase of 12.2% for the period from October 2, 2015 to December 31, 2015 as compared to the period from October 3, 2014 to January 1, 2015. MTAC reported that the Canadian exhibition industry reported a box office revenue increase of 4.8% for the period from January 2, 2015 to December 31, 2015 as compared to the period from January 3, 2014 to January 1, 2015.

Box office continuity	Fourth Quarter		Full Year	
	Box Office	Attendance	Box Office	Attendance
2014 as reported	$ 172,460	19,037	$ 672,678	73,648
Same store attendance change	9,550	1,054	19,998	2,189
Impact of same store BPP change	10,980	—	6,271	—
New and acquired theatres (i)	4,258	407	14,753	1,489
Disposed and closed theatres (i)	(955)	(115)	(2,593)	(303)
2015 as reported	$ 196,293	20,383	$ 711,107	77,023

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

Fourth Quarter

	Fourth Quarter 2015 Top Cineplex Films	3D	% Box		Fourth Quarter 2014 Top Cineplex Films	3D	% Box
1	Star Wars: The Force Awakens	✔	22.0%	1	The Hunger Games: Mockingjay - Part 1		11.1%
2	Spectre		10.8%	2	The Hobbit: The Battle of the Five Armies	✔	10.2%
3	The Martian	✔	9.2%	3	Big Hero 6	✔	7.6%
4	The Hunger Games: Mockingjay - Part 2		8.2%	4	Interstellar		7.5%
5	Hotel Transylvania 2	✔	4.3%	5	Gone Girl		6.6%

Box office revenues increased $23.8 million, or 13.8%, to $196.3 million during the fourth quarter of 2015, compared to $172.5 million recorded in the same period in 2014, due to the record breaking success of *Star Wars: The Force Awakens* which was in theatres for 14 days in the quarter. Both box office revenues and attendance (which increased 7.1% in the period) were all-time quarterly records for Cineplex.

BPP for the three months ended December 31, 2015 was $9.63, a $0.57 increase from the prior year period and an all-time quarterly record for Cineplex. The increase in BPP was due to the strong performance of *Star Wars: The Force Awakens* which was available in 3D and was a popular choice for premium-viewing options including UltraAVX, VIP, IMAX and D-BOX. Box office revenues from premium product accounted for 46.8% of box office revenues in the current period, up from 29.4% in the prior year period, and represents the highest percentage ever reported in a quarter by Cineplex.

Full Year

	Full Year 2015 Top Cineplex Films	3D	% Box		Full Year 2014 Top Cineplex Films	3D	% Box
1	Star Wars: The Force Awakens	✔	6.1%	1	Guardians of the Galaxy	✔	4.0%
2	Jurassic World	✔	5.5%	2	The Lego Movie	✔	3.1%
3	The Avengers: Age of Ultron	✔	4.2%	3	The Hunger Games: Mockingjay - Part 1		2.8%
4	Minions	✔	3.3%	4	Captain America: The Winter Soldier	✔	2.8%
5	Furious 7		3.1%	5	The Hobbit: The Battle of the Five Armies	✔	2.6%

Box office revenues for the year ended December 31, 2015 were $711.1 million, an increase of $38.4 million or 5.7% over the prior year. The attendance and box office increases in the period were due to the strong film product released in the year, and both represent annual records for Cineplex. The success of the blockbuster titles released in the year resulted in the top five films in the current period outperforming the top five films in the prior year. The top five films in 2015 rank in the top eleven highest grossing films of all-time, with the current year top five accounting for 22.2% of box office revenues compared to 15.3% in the prior year period.

Cineplex's BPP for the year ended December 31, 2015 increased $0.10, or 1.1%, from $9.13 in 2014 to $9.23 in 2015. This increase was primarily due to the film mix in the current year compared to the prior year, with the current year featuring stronger performing premium-priced offerings. Premium-priced offerings accounted for 38.9% of Cineplex's box office revenues in the year ended December 31, 2015, compared to 37.8% in the due to expanded VIP, UltraAVX, IMAX and D-BOX offerings across the circuit.

Food service revenues

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

Food service revenues	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Food service revenues	$ 113,799	$ 97,778	16.4%	$ 418,445	$ 375,039	11.6%
Attendance (i)	20,383	19,037	7.1%	77,023	73,648	4.6%
CPP (i)	$ 5.58	$ 5.14	8.6%	$ 5.43	$ 5.09	6.7%
Same store food service revenues (i)	$ 111,300	$ 97,375	14.3%	$ 405,005	$ 370,704	9.3%
Same store attendance (i)	19,977	18,923	5.6%	75,040	72,851	3.0%
(i) See Section 17, Non-GAAP Measures.						

Food service revenue continuity	Fourth Quarter		Full Year	
	Food Service	Attendance	Concession	Attendance
2014 as reported	$ 97,778	19,037	$ 375,039	73,648
Same store attendance change	5,422	1,054	11,140	2,189
Impact of same store CPP change	8,503	—	23,161	—
New and acquired theatres (i)	2,499	407	10,175	1,489
Disposed and closed theatres (i)	(403)	(115)	(1,070)	(303)
2015 as reported	$ 113,799	20,383	$ 418,445	77,023

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

Fourth Quarter

Food service revenues increased $16.0 million, or 16.4% as compared to the prior year period due to the 8.6% increase in CPP and the impact of the 7.1% increase in attendance. Both food service revenues and the CPP of $5.58 are all-time quarterly records for Cineplex. Expanded offerings outside of core food service products, including offerings at Cineplex's VIP Cinemas, have resulted in higher average transaction values, resulting in the higher CPP in the period.

Full Year

Food service revenues increased $43.4 million, or 11.6% as compared to the prior year due to both higher CPP and higher attendance, resulting in an annual record of $418.4 million. CPP increased from $5.09 in 2014 to $5.43 in 2015, an annual record for Cineplex.

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

Media revenues

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

Media revenues	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Cineplex Media	$ 42,116	$ 30,514	38.0%	$ 112,479	$ 91,378	23.1%
Cineplex Digital Media	13,142	16,338	-19.6%	41,167	42,811	-3.8%
Total media revenues	$ 55,258	$ 46,852	17.9%	$ 153,646	$ 134,189	14.5%

(i) Certain prior period comparatives have been reclassified to conform to the current period's presentation.

Fourth Quarter

Total media revenues increased 17.9% to $55.3 million in the fourth quarter of 2015 compared to the prior year period. This increase was due to record Cineplex Media revenues, up $11.6 million (38.0%) as compared to the prior year period. This growth came from strong pre-show and showtime results, particularly in the electronics and gaming industries.

Cineplex Digital Media revenues decreased $3.2 million due to lower project revenues as compared to the prior year period due to the timing of project installations in 2015 as compared to 2014. This decrease was partially offset by higher advertising and service revenues on various networks including TimsTV and Oxford shopping mall networks. During the quarter, Cineplex Digital Media announced it had been selected by A&W to be the sole provider of digital menu boards for its over 850 restaurants across Canada, and subsequent to the period end announced it had been selected by ADQ as the endorsed provider of in-store digital merchandising solutions for the Dairy Queen system in the US and Canada. The rollout of the A&W and

ADQ projects in 2016 will result in project revenues as well as subsequent advertising and service revenues once the networks are installed and operational.

Full Year

Total media revenues increased $19.5 million, or 14.5%, in the year ended December 31, 2015 compared to the prior year. The increase was due to the record performance of Cineplex Media, which reported growth of $21.1 million (23.1%) compared to the prior year due primarily to strong showtime results in the automotive and electronics industries. Cineplex Digital Media revenues decreased $1.6 million due to lower project revenues in 2015 compared to 2014, partially offset by higher advertising and service revenues on various networks including TimsTV and Oxford.

Other revenues

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

Other revenues	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Games - Cineplex exhibition (i)	$ 2,394	$ 1,867	28.2%	$ 9,410	$ 7,317	28.6%
Games - CSI excluding Cineplex exhibition (i)	21,183	—	NM	21,183	—	NM
Other	18,445	13,254	39.2%	$ 57,152	$ 45,493	25.6%
Total other revenues	$ 42,022	$ 15,121	177.9%	$ 87,745	$ 52,810	66.2%

(i) Cineplex receives a venue revenue share on games revenues earned at in-theatre game rooms and XSCAPE entertainment centres. Games - Cineplex exhibition reports the total of this venue revenue share which is consistent with the historical presentation of Cineplex's Games revenues. Games - CSI excluding Cineplex exhibition reflects CSI's gross gaming revenues, net of the venue revenue share paid to Cineplex reflected in Games - Cineplex exhibition above.

Fourth Quarter

Other revenues increased 177.9%, or $26.9 million, to $42.0 million in the fourth quarter of 2015 compared to the prior year period primarily due to the consolidation of CSI following Cineplex's acquisition on October 1, 2015 of the 50% of CSI it did not already own ($21.2 million). Games revenues from Cineplex exhibition locations increased $0.5 million due to higher attendance in the theatres and the addition of six XSCAPE Entertainment Centres since the prior year period.

The increase in Other of $5.2 million in the period was primarily due to additional revenues arising from enhanced guest service initiatives, higher breakage revenues for Cineplex gift cards and coupons as well as breakage revenues recognized in SCENE LP, and new business initiatives.

Full Year

For the first three quarters of 2015 and all of 2014, games revenues did not include Cineplex's 50% share of the results of CSI, which were included in 'Share of income of joint ventures'. Other revenues increased 66.2% from $52.8 million in 2014 to $87.7 million during 2015, primarily due to the $21.2 million impact of CSI in the fourth quarter of 2015. Games revenues from Cineplex exhibition locations increased $2.1 million primarily due to the addition of six XSCAPE Entertainment Centres since the prior year period.

The increase in Other of $11.7 million was primarily due to additional revenues arising from enhanced guest service initiatives, higher breakage revenues for Cineplex gift cards and coupons as well as breakage revenues recognized in SCENE LP, and new business initiatives.

Film cost

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

Film cost	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Film cost	$105,210	$ 88,657	18.7%	$ 379,103	$ 349,564	8.5%
Film cost percentage (i)	53.6%	51.4%	2.2%	53.3%	52.0%	1.3%
(i) See Section 17, Non-GAAP Measures.						

Fourth Quarter

Film cost varies primarily with box office revenues, and can vary from quarter to quarter based on the relative strength of the titles exhibited during the period. The increase in film cost percentage in the current period is as a result of the concentration of box office results from a few titles, with the top four films in the current period accounting for 50.2% of box office revenues (2014 - top four represented 36.4%).

Full Year

The full year increase in film cost was due to the 5.7% increase in box office revenues and the 1.3% increase in film cost percentage during the year. The increase in the film cost percentage as compared to the prior year is as a result of the concentration of box office revenues from a few titles. The top five films in the current year rank in the top eleven highest grossing films of all-time, and accounted for 22.2% of box office revenues in 2015(2014 - top five represented 15.3%).

Cost of food service

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

Cost of food service	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Cost of food service	$ 24,836	$ 21,579	15.1%	$ 90,530	$ 81,455	11.1%
Concession cost percentage (i)	21.8%	22.1%	-0.3%	21.6%	21.7%	-0.1%
Concession margin per patron (i)	$ 4.36	$ 4.00	9.0%	$ 4.26	$ 3.99	6.8%
(i) See Section 17, Non-GAAP Measures						

Fourth Quarter

Cost of food service varies primarily with theatre attendance as well as the quantity and mix of offerings sold. The increase in the cost of food service as compared to the prior year period was due to the higher food service revenues, partially offset by the 0.3% decrease in the concession cost percentage during the period. The concession margin per patron increased from $4.00 in the fourth quarter of 2014 to $4.36 in the same period in 2015, reflecting the impact of the higher CPP during the period and the impact of the lower concession cost percentage.

Full Year

The increase in the cost of food service as compared to the prior year was due to higher food service revenues, partially offset by the 0.1% decrease in the concession cost percentage during the year. The concession margin per patron increased from $3.99 in the prior year period to $4.26 in the current period, reflecting the impact of the higher CPP in the current year and the lower concession cost percentage.
Despite the 10% discount offered to SCENE members and SCENE points offered on select offerings, which

contributes to a higher concession cost percentage, Cineplex believes the SCENE program drives incremental attendance and purchase incidence which increases food service revenues and CPP.

Depreciation and amortization

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

Depreciation and amortization expenses	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Depreciation of property, equipment and leaseholds	$ 20,981	$ 18,019	16.4%	$ 80,079	$ 69,944	14.5%
Amortization of intangible assets and other	3,545	1,903	86.3%	9,260	7,506	23.4%
Depreciation and amortization expenses as reported	$ 24,526	$ 19,922	23.1%	$ 89,339	$ 77,450	15.4%

The quarterly and annual increase in depreciation of property, equipment and leaseholds of $3.0 million and year to date increase of $10.1 million is primarily due to the impact of equipment and leasehold improvements relating to assets acquired through acquisitions, new theatre construction and digital media asset additions.

The quarterly and annual increase in amortization of intangible assets and other are primarily due to intangible assets acquired in the WGN and CSI transactions.

Loss on disposal of assets

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

Loss on disposal of assets	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Loss on disposal of assets	$ 899	$ 626	43.6%	$ 3,236	$ 3,393	-4.6%

Gain on acquisition of business

The following table shows the gain on acquisition of business relating to Cineplex's acquisition of the 50% interest in CSI in the fourth quarter of 2015 that it did not previously own. Cineplex previously equity-accounted for its interest in CSI. At the acquisition date, Cineplex recognized 100% of identifiable net assets of CSI. Cineplex's existing interest was remeasured at fair value at the acquisition date, resulting in a gain on the equity interest of $7.4 million (in thousands of dollars):

Gain on acquisition of business	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Gain on acquisition of business	$ (7,447)	$ —	NM	$ (7,447)	$ —	NM

Other costs

Other costs include three main sub-categories of expenses, including theatre occupancy expenses, which capture the rent and associated occupancy costs for Cineplex's various operations; other operating expenses, which include the costs related to running Cineplex's film entertainment and content, media, amusement gaming and leisure as well as Cineplex's ancillary businesses; and general and administrative expenses, which includes costs related to managing Cineplex's operations, including head office expenses. Please see the discussions below for more details on these categories. The following table highlights the movement in other costs for the quarter and full year (in thousands of dollars):

Other costs	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Theatre occupancy expenses	$ 50,535	$ 50,051	1.0%	$ 203,356	$ 202,085	0.6%
Other operating expenses	123,329	94,442	30.6%	383,281	345,907	10.8%
General and administrative expenses	18,514	15,787	17.3%	68,752	58,685	17.2%
Total other costs	$ 192,378	$ 160,280	20.0%	$ 655,389	$ 606,677	8.0%

Theatre occupancy expenses

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

Theatre occupancy expenses	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Rent	$ 33,970	$ 33,837	0.4%	$ 135,482	$ 134,594	0.7%
Other occupancy	17,086	17,127	-0.2%	71,014	70,361	0.9%
One-time items (i)	(521)	(913)	-42.9%	(3,140)	(2,870)	9.4%
Total	$ 50,535	$ 50,051	1.0%	$ 203,356	$ 202,085	0.6%

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

Theatre occupancy continuity	Fourth Quarter Occupancy	Full Year Occupancy
2014 as reported	$ 50,051	$ 202,085
Impact of new and acquired theatres	12	2,204
Impact of disposed theatres	(259)	(1,668)
Same store rent change (i)	595	1,044
One-time items	391	(270)
Other	(255)	(39)
2015 as reported	$ 50,535	$ 203,356

(i) See Section 17, Non-GAAP Measures

Fourth Quarter

Theatre occupancy expenses increased $0.5 million during the fourth quarter of 2015 compared to the prior year period. This increase was primarily due to higher same store rent expense ($0.6 million) and the impact of lower one-time credits in the current period than the prior year ($0.4 million), partially offset by the impact of disposed theatres net of new and acquired theatres ($0.2 million).

Full Year

The increase in theatre occupancy expenses of $1.3 million for 2015 compared to the prior year was primarily due to the impact of new and acquired theatres net of disposed theatres and higher same-store rent expenses, partially offset by the impact of one-time credits.

Other operating expenses

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

Other operating expenses	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Theatre payroll	$ 37,959	$ 32,899	15.4%	$ 141,257	$ 129,837	8.8%
Media	16,367	19,708	-17.0%	55,831	59,378	-6.0%
CSI	18,975	—	NM	18,975	—	NM
Other	50,028	41,835	19.6%	167,218	156,692	6.7%
Other operating expenses	$ 123,329	$ 94,442	30.6%	$ 383,281	$ 345,907	10.8%

Other operating continuity	Fourth Quarter Other Operating	Full Year Other Operating
2014 as reported	$ 94,442	$ 345,907
Impact of new and acquired theatres	1,968	7,129
Impact of disposed theatres	(334)	(807)
Same store payroll change (i)	4,035	7,051
Marketing change	7	1,522
Media change	(3,341)	(3,547)
CSI change	18,975	18,975
Amusement gaming and leisure, excluding CSI	2,148	2,716
Other	5,429	4,335
2015 as reported	$ 123,329	$ 383,281
(i) See Section 17, Non-GAAP Measures		

Fourth Quarter

Other operating expenses during the fourth quarter of 2015 increased $28.9 million or 30.6% compared to the prior year period. The major component of the increase was the impact of CSI acquired in 2015 ($19.0 million) and not included in prior year comparatives. Same store payroll costs increased $4.0 million due to the extended operating hours at select theatres for the opening of *Star Wars: The Force Awakens*, as well as higher minimum wage rates in certain areas of the country. The decrease in media related costs are due to the lower volume of digital media project installations in the period compared to the prior year.

The major movements in the Other category include higher 3D royalty fees ($1.3 million) due to higher 3D attendance in the current period compared to the prior year, higher SCENE program costs ($1.2 million) due to marketing campaigns surrounding the program's earn and redeem changes implemented in the quarter as well as marketing support for the program's partnerships with SportChek and CARA, higher credit card service fees due primarily to the record ticket pre-sales for *Star Wars: The Force Awakens* ($0.7 million), and higher costs relating to the higher business volumes in the theatres compared to the prior year period.

Full Year

For the year ended December 31, 2015, other operating expenses increased $37.4 million, primarily due to the inclusion of CSI ($19.0 million). Same store payroll costs increased $7.1 million due to the higher business volumes throughout the year as well as the extended operating hours at select theatres for the opening of *Star Wars: The Force Awakens*, and higher minimum wage rates. The impact of new and acquired theatres net of disposed theatres contributed $6.3 million to the increase year over year. The decrease in media related costs are due to the lower volume of digital media project installations in 2015 compared to 2014.

The major movement in the Other category is higher SCENE program costs ($2.8 million) due to marketing campaigns surrounding the program's earn and redeem changes, support for the SportChek and CARA partnerships and the impact of the larger member base.

General and administrative expenses

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

G&A expenses	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
G&A excluding LTIP and option plan expense	$ 13,959	$ 12,321	13.3%	$ 54,908	$ 51,535	6.5%
LTIP (i)	4,127	3,042	35.7%	12,150	5,435	123.6%
Option plan	428	424	0.9%	1,694	1,715	-1.2%
G&A expenses as reported	$ 18,514	$ 15,787	17.3%	$ 68,752	$ 58,685	17.2%
(i) LTIP includes the expense for the LTIP program as well as the expense for the executive and Board deferred share unit plans.						

Fourth Quarter

G&A expenses increased $2.7 million during the fourth quarter of 2015 compared to the prior year period primarily due to higher head office payroll expenses and a $1.1 million increase in LTIP expense.

Full Year

G&A expenses for 2015 increased $10.1 million compared to the prior year, due to the $6.7 million increase in LTIP expense due primarily to the larger appreciation in Cineplex's Share price in 2015 compared to 2014. The $3.4 million increase in G&A excluding LTIP and option expense is primarily due to higher head office payroll.

Share of income of joint ventures

Cineplex's joint ventures in 2015 include its 78.2% interest in CDCP, 50% interest in CSI (until October 1, 2015), 50% interest in one IMAX screen in Ontario and 50% interest in YoYo's. For the 2014 period, Cineplex's joint ventures included 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. The following table highlights the components of share of income of joint ventures during the quarter and the full year (in thousands of dollars):

Share of income of joint ventures	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Share of (income) of CDCP	$ (952)	$ (380)	150.5%	$ (1,672)	$ (1,388)	20.5%
Share of (income) of CSI	—	(264)	-100.0%	(1,782)	(1,400)	27.3%
Share of (income) of other joint ventures	(18)	(116)	-84.5%	(102)	(68)	50.0%
Total (income) of joint ventures	$ (970)	$ (760)	27.6%	$ (3,556)	$ (2,856)	24.5%

On October 1, 2015, Cineplex acquired the 50% of CSI that it did not already own. Effective that date, Cineplex ceased equity accounting for CSI and began consolidating its results.

Interest expense

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

Interest expense	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Long-term debt interest expense	$ 2,135	$ 2,392	-10.7%	$ 9,118	$ 9,086	0.4%
Convertible debenture interest expense	1,220	1,220	—%	4,838	4,838	—%
Finance lease interest expense	282	330	-14.5%	1,202	1,384	-13.2%
Sub-total - cash interest expense	$ 3,637	$ 3,942	-7.7%	$ 15,158	$ 15,308	-1.0%
Deferred financing fee accretion and other non-cash interest	952	1,264	-24.7%	4,947	4,845	2.1%
Convertible debenture accretion	492	460	7.0%	1,976	1,858	6.4%
Interest rate swap - non-cash	213	10	NM	362	(63)	NM
Sub-total - non-cash interest expense	1,657	1,734	-4.4%	7,285	6,640	9.7%
Total interest expense	$ 5,294	$ 5,676	-6.7%	$ 22,443	$ 21,948	2.3%

Interest expense decreased $0.4 million for the quarter and $0.5 million for the full year compared to the prior year periods. Cash interest decreased $0.3 million and $0.2 million, respectively, due to lower finance lease interest expenses and the impact of lower interest rates on Cineplex's Revolving Facility. Non-cash interest decreased in the quarter due to the impact of non-cash foreign exchange gains offsetting accretion and other non-cash interest expenses. For the full year, the non-cash interest increase was primarily due to the higher accretion of the earn-out payment for the CDN acquisition and the accretion of the convertible debentures, partially offset by the impact of the non-cash foreign exchange gains.

Interest income

Interest income during the fourth quarter of 2015 and the full year of 2015 was as follows (in thousands of dollars):

Interest income	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Interest income	$ 52	$ 45	15.6%	$ 186	$ 330	-43.6%

Change in fair value of financial instrument

The deferred consideration relating to Cineplex's acquisition of CDN in 2013 is recorded at fair value and included in accounts payable and accrued liabilities on the balance sheet as at December 31, 2015. The sale and purchase agreement sets out a process by which the final consideration will be determined and will be settled in early 2016. Cineplex has measured the liability as at December 31, 2015 based on a weighted average probability of reasonably possible outcomes. Cineplex has adjusted the deferred consideration to the best estimate of the expected value, being $10.0 million. This resulted in a reduction of the liability of $29.1 million (in thousands of dollars):

Change in fair value of financial instrument	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Change in fair value of financial instrument	$ (29,076)	$ —	NM	$ (29,076)	$ —	NM

Income taxes

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

Income taxes	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Current income tax expense	$ 15,190	$ 8,238	84.4%	$ 37,026	$ 10,625	248.5%
Deferred income tax (recovery) expense	$ (221)	$ (4,043)	-94.5%	$ (107)	$ 10,519	NM
Provision for income taxes	$ 14,969	$ 4,195	256.8%	$ 36,919	$ 21,144	74.6%

The increase in current tax expense over the prior year periods is the result of the full utilization in 2014 of the losses acquired through Cineplex's 2012 acquisition of AMC Ventures Inc. As a result of the $147 million of non-capital losses acquired in that transaction, Cineplex's cash income taxes in 2014 were substantially reduced. None of those losses are available to reduce taxable income in 2015. Due to the reduction in taxable income through the use of losses in both 2014 and 2013, Cineplex was subject to minimum tax in certain jurisdictions in 2015, which may be credited against income taxes payable on taxable income earned in excess of the minimum tax. In 2015, all of the minimum tax credits totaling $1.1 million were utilized to reduce provincial income taxes payable.

Cineplex's blended federal and provincial statutory tax rate at December 31, 2015 was 26.6% (2014 - 26.3%).

Net income

For the three months ended December 31, 2015, Cineplex reported net income of $76.8 million (2014 – $32.1 million). For the year ended December 31, 2015, Cineplex reported net income of $134.2 million (2014 - $76.3 million) (in thousands of dollars):

Net income	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Net income	$ 76,805	$ 32,081	139.4%	$ 134,249	$ 76,271	76.0%

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

The following table presents EBITDA and adjusted EBITDA for the three months and year ended December 31, 2015 as compared to the prior year periods (expressed in thousands of dollars, except adjusted EBITDA margin):

EBITDA	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
EBITDA	$121,542	$ 61,829	96.6%	$282,764	$196,483	43.9%
Adjusted EBITDA	$ 85,163	$ 62,649	35.9%	$249,802	$201,002	24.3%
Adjusted EBITDA margin	20.9%	18.9%	2.0%	18.2%	16.3%	1.9%

Adjusted EBITDA for the fourth quarter of 2015 increased $22.5 million, or 35.9%, as compared to the prior year period, to $85.2 million. This represents an all-time quarterly record for Cineplex, exceeding the previous record of $65.3 million recognized in the second quarter of 2015. The increase as compared to the prior year period was primarily due to record attendance resulting in record film entertainment revenues, and higher contribution from Cineplex Media due to record media sales volumes. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 20.9% in the current period, an increase of 2.0% from 18.9% in the prior year period.

Adjusted EBITDA for the year ended December 31, 2015 increased $48.8 million, or 24.3%, as compared to the prior year due to higher revenues in all major categories compared to the prior year. The adjusted EBITDA of $249.8 million represents an annual record for Cineplex. Adjusted EBITDA margin was 18.2% in 2015 compared to 16.3% in 2014.

6. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the year ended December 31, 2015 as compared to December 31, 2014 (in thousands of dollars):

	December 31, 2015	December 31, 2014	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 35,713	$ 34,367	$ 1,346	3.9%
Trade and other receivables	121,398	101,462	19,936	19.6%
Inventories	19,691	7,978	11,713	146.8%
Prepaid expenses and other current assets	10,025	8,102	1,923	23.7%
	186,827	151,909	34,918	23.0%
Non-current assets				
Property, equipment and leaseholds	533,192	495,532	37,660	7.6%
Deferred income taxes	6,517	6,971	(454)	-6.5%
Interests in joint ventures	35,288	46,457	(11,169)	-24.0%
Intangible assets	132,140	109,746	22,394	20.4%
Goodwill	807,953	798,801	9,152	1.1%
	$ 1,701,917	$ 1,609,416	$ 92,501	5.7%
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$ 209,657	$ 159,152	$ 50,505	31.7%
Share-based compensation	9,742	6,160	3,582	58.1%
Dividends payable	8,238	7,877	361	4.6%
Income taxes payable	30,464	9,735	20,729	212.9%
Deferred revenue	159,568	149,644	9,924	6.6%
Current debt	3,737	—	3,737	NM
Finance lease obligations	2,957	2,670	287	10.7%
Fair value of interest rate swap agreements	1,414	692	722	104.3%
	425,777	335,930	89,847	26.7%
Non-current liabilities				
Share-based compensation	18,907	15,504	3,403	21.9%
Long-term debt	222,340	229,754	(7,414)	-3.2%
Fair value of interest rate swap agreements	4,188	2,117	2,071	97.8%
Finance lease obligations	12,052	15,008	(2,956)	-19.7%
Post-employment benefit obligations	7,296	6,977	319	4.6%
Other liabilities	131,874	173,550	(41,676)	-24.0%
Deferred income taxes	6,283	—	6,283	NM
Convertible debentures	100,703	98,727	1,976	2.0%
	929,420	877,567	51,853	5.9%
Total equity attributable to owners of Cineplex	767,473	731,849	35,624	4.9%
Non-controlling interests	5,024	—	5,024	NM
	$ 1,701,917	$ 1,609,416	$ 92,501	5.7%

Trade and other receivables. The increase in trade and other receivables is primarily due to the higher sales of gift cards and vouchers, as well as media sales during the 2015 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. The consolidation of CSI contributed $5.8 million to the balance at December 31, 2015.

Inventories. The increase in inventories is primarily due to the consolidation of CSI following the acquisition in the fourth quarter of 2015 of the 50% issued and outstanding equity of CSI that Cineplex did not previously own. CSI holds various games and gaming equipment in inventory as part of the normal course of its operations.

Prepaid expenses and other current assets. The increase is primarily due to the acquisition of the 50% issued and outstanding equity of CSI that Cineplex did not previously own in the fourth quarter of 2015.

Property, equipment and leaseholds. The increase in property, equipment and leaseholds is due to new build and other capital expenditures ($64.5 million), maintenance capital expenditures ($33.6 million) and assets acquired through business acquisitions ($23.0 million) offset by amortization expenses ($80.1 million) and asset dispositions ($3.3 million).

Interests in joint ventures. The decrease in interests in joint ventures is due to the derecognition of CSI as a joint venture following its acquisition on October 1, 2015 as well as dividends received from joint ventures in the year, partially offset by Cineplex's share of income from joint ventures.

Intangible assets. The increase in intangible assets is primarily due to assets acquired as part of the WGN and CSI acquisitions, partially offset by amortization.

Goodwill. The increase in goodwill is primarily due to the CSI transaction in the fourth quarter of 2015. Increases were also recognized for the acquisition of the 50% of a theatre in Quebec that Cineplex did not already own during the first quarter of 2015 and the acquisition of an IMAX theatre in Quebec during the second quarter of 2015.

Accounts payable and accrued liabilities. The increase in accounts payable and accrued liabilities primarily relates to higher business volumes in December 2015 compared to the prior year, as well as the inclusion of the deferred contingent consideration of $10.0 million recognized as part of the CDN acquisition from 2013 and payable in early 2016.

Share-based compensation. The increase in share-based compensation is due to the expense recognition of the LTIP and deferred share unit plan liabilities in the year.

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

Deferred revenue. Deferred revenue increased primarily due to the sale of gift cards and vouchers during the 2015 holiday season.

Current debt. The current debt balance represents debt held by BSL, acquired as part of the CSI transaction, that is repayable within one year.

Long-term debt. The decrease in long-term debt relates to repayments under the Revolving Facility (defined and discussed in Section 7.4, Credit Facilities) due to the strong exhibition and media results in the fourth quarter of 2015.

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 in the year.

Other liabilities. The decrease is primarily due to the reclassification of the deferred consideration recognized as part of the CDN acquisition in 2013 to accounts payable and accrued liabilities in the current period (2014-$34.5 million). The amortization of lease-related liabilities also contributed to the decrease.

Deferred income taxes. Cineplex recognized deferred income tax liabilities for CSI following its acquisition in 2015.

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

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 OPERATING ACTIVITIES

Cash flow is generated primarily from film entertainment (the sale of admission tickets and food service sales), media sales and services, amusement gaming and leisure (gaming and food service sales) and other revenues. Generally, this provides Cineplex with positive working capital, since certain cash revenues are normally collected in advance of the payment of certain expenses. Box office revenues are directly related to the success and appeal of the film product produced and distributed by the studios. The following table highlights the movements in cash from operating activities for the three months and year ended December 31, 2015 and 2014 (in thousands of dollars):

Net cash provided by operating activities	**Fourth Quarter**			**Full Year**		
	2015	**2014**	**Change**	**2015**	**2014**	**Change**
Net income	$ 76,805	$ 32,081	$ 44,724	$ 134,249	$ 76,271	$ 57,978
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts (i)	23,596	20,084	3,512	86,454	76,545	9,909
Loss on disposal of assets	899	626	273	3,236	3,393	(157)
Gain on acquisition of business	(7,447)	—	(7,447)	(7,447)	—	(7,447)
Deferred income taxes	(221)	(4,043)	3,822	(107)	10,519	(10,626)
Interest rate swap agreements - non-cash interest	213	10	203	362	(63)	425
Non-cash Share-based compensation	428	424	4	1,694	1,715	(21)
Change in fair value of financial instrument	(29,076)	—	(29,076)	(29,076)	—	(29,076)
Accretion of convertible debentures	492	460	32	1,976	1,858	118
Net change in interests in joint ventures	(2,636)	(2,701)	65	(4,860)	(2,604)	(2,256)
Tenant inducements	811	818	(7)	1,568	4,215	(2,647)
Changes in operating assets and liabilities	92,482	87,666	4,816	42,545	8,409	34,136
Net cash provided by operating activities	**$ 156,346**	**$ 135,425**	**$ 20,921**	**$ 230,594**	**$ 180,258**	**$ 50,336**

(i) Includes amortization of property, equipment and leaseholds and intangible assets, amortization of tenant inducements and rent averaging liabilities, and accretion of debt issuance and other non-cash interest costs.

Fourth Quarter

Cash provided by operating activities increased $20.9 million in the fourth quarter of 2015 compared to the prior year period. The success of *Star Wars: The Force Awakens* resulted in record film entertainment revenues which combined with the record media results to generate strong net income and operating cash flow.

Full Year

For the year ended December 31, 2015, cash provided by operating activities increased $50.3 million compared to the prior year, due to the higher net income as a result of the record annual results for film entertainment and media.

7.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the three months and year ended December 31, 2015 and 2014 (in thousands of dollars):

Net cash used in investing activities	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Proceeds from sale of assets	$ —	$ 3,928	$ (3,928)	$ 108	$ 4,333	$ (4,225)
Purchases of property, equipment and leaseholds	(23,094)	(22,035)	(1,059)	(95,979)	(106,196)	10,217
Acquisition of businesses, net of cash acquired	(14,713)	(139)	(14,574)	(30,343)	(2,605)	(27,738)
Intangible assets additions	(225)	(950)	725	(694)	(3,700)	3,006
Net cash received from joint ventures	680	547	133	1,843	1,456	387
Net cash used in investing activities	**$ (37,352)**	**$ (18,649)**	**$ (18,703)**	**$(125,065)**	**$(106,712)**	**$ (18,353)**

Fourth Quarter

Cash used in investing activities during the fourth quarter of 2015 increased by $18.7 million compared to the prior year period. The increase was primarily due to the CSI acquisition ($14.7 million) in the current period, with the prior period including only nominal acquisition activity.

Full Year

For the full year, cash used in investing activities increased $18.4 million due to increaed spending on acquisitions in 2015 as compared to 2014, partially offset by lower purchases of property, equipment and leaseholds. The decrease in purchases of property, equipment and leaseholds was due to less media growth capital expenditures in the current year due to select digital media projects rolled out in the 2014 period.

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

Capital expenditures	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Gross capital expenditures	$ 23,094	$ 22,035	$ 1,059	$ 95,979	$ 106,196	$ (10,217)
Less: tenant inducements	(811)	(818)	7	(1,568)	(4,215)	2,647
Net capital expenditures	$ 22,283	$ 21,217	$ 1,066	$ 94,411	$ 101,981	$ (7,570)
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 12,119	$ 13,639	$ (1,520)	$ 41,832	$ 60,356	$ (18,524)
Tenant inducements	(811)	(818)	7	(1,568)	(4,215)	2,647
Media growth capital expenditures	523	5,959	(5,436)	11,639	22,513	(10,874)
Premium formats (ii)	1,792	75	1,717	9,531	7,348	2,183
Maintenance capital expenditures (iii)	12,053	7,214	4,839	33,619	24,974	8,645
Other (iv)	(3,393)	(4,852)	1,459	(642)	(8,995)	8,353
	$ 22,283	$ 21,217	$ 1,066	$ 94,411	$ 101,981	$ (7,570)

(i) Growth and acquisition capital expenditures include expenditures on the construction of new theatre buildings (including VIP auditoriums) and other Board approved growth projects with the exception of premium formats and media growth capital expenditures. Also includes capital expenditures for Cineplex's eSports tournaments that were announced subsequent to period end.

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

(iii) Maintenance capital expenditures include amounts for CSI from October 1, 2015 onwards.

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

7.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the three months and year ended December 31, 2015 and 2014 (in thousands of dollars):

Net cash used in financing activities	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Dividends paid	$ (24,639)	$ (23,621)	$ (1,018)	$ (96,843)	$ (92,881)	$ (3,962)
(Repayments) borrowings under credit facilities, net	(86,000)	(67,000)	(19,000)	(8,000)	12,000	(20,000)
BSL borrowings	1,068	—	1,068	1,068	—	1,068
Options exercised for cash	2,034	—	2,034	2,034	—	2,034
Payments under finance leases	(690)	(660)	(30)	(2,670)	(2,438)	(232)
Net cash used in financing activities	**$ (108,227)**	**$ (91,281)**	**$ (16,946)**	**$ (104,411)**	**$ (83,319)**	**$ (21,092)**

Fourth Quarter

Cash flows used in financing activities were $108.2 million in the fourth quarter of 2015, an increase of $16.9 million from the prior year period, with the movement primarily due to higher repayments under the credit facilities in the current period compared to the prior year due to the strong operating cash flow generated in the current period.

Full Year

Cash flows used in financing activities were $104.4 million in 2015, an increase of $21.1 million from the prior year, with the movement due to the net repayments on the credit facilities in 2015 compared to borrowings in the prior year, as well as higher dividend payments.

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 entered into certain credit facilities effective October 24, 2013 (the "Credit Facilities"). At December 31, 2015, the Credit Facilities consisted of the following (in millions of dollars):

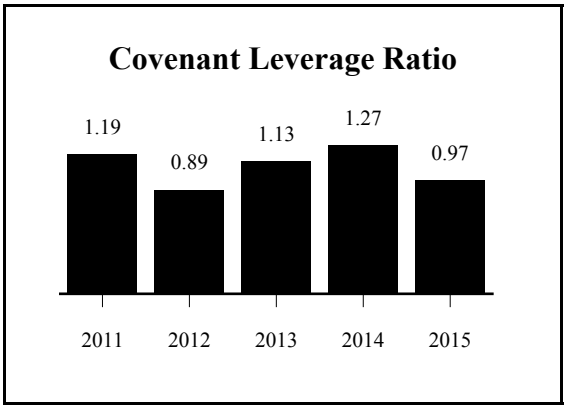
	Available	Drawn	Reserved	Remaining
(i) a five-year senior secured revolving credit facility ("Revolving Facility")	$ 250.0	$ 74.0	$ 5.7	$ 170.3
(ii) a five-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at December 31, 2015 of $5.7 million are reserved against the Revolving Facility.				

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

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

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

One of the key financial covenants in the Credit Facilities is the leverage covenant. As at December 31, 2015, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 0.97x, as compared to a covenant of 3.50x. The definition of debt in the Credit Facilities 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 Facilities definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres or acquisitions.



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

Interest rate swap agreements. Effective August 24, 2011, Cineplex entered into three interest rate swap agreements. Under these agreements, Cineplex pays a fixed rate of 1.715% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly. These interest rate swap agreements have a term of five years that commenced in August 2011 and have an aggregate notional principal amount of $150.0 million. Based on the leverage ratio covenant at December 31, 2015, Cineplex's effective cost of borrowing on the $150.0 million Term Facility was 3.115% (December 31, 2014 - 3.265%).

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

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

7.5 FUTURE OBLIGATIONS

At December 31, 2015, Cineplex had the following contractual or other commitments authorized by the Board (expressed in thousands of dollars):

	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Current debt	$ 3,737	$ 3,737	$ —	$ —	$ —
Long-term debt	224,000	—	224,000	—	—
Convertible debentures	107,500	—	107,500	—	
Interest rate swap agreements	6,437	1,499	4,938	—	—
Construction - Theatre and The Rec Room	103,586	50,774	49,006	3,806	—
Deferred consideration - AMC	3,134	—	3,134	—	—
Deferred consideration - EK3	10,000	10,000	—	—	—
Equipment obligations	12,322	2,077	4,154	3,954	2,137
Finance lease obligations	17,658	3,955	7,910	5,793	—
Operating lease obligations	1,230,189	150,891	289,349	237,426	552,523
Total contractual obligations	**$ 1,718,563**	**$ 222,933**	**$ 689,991**	**$ 250,979**	**$ 554,660**

Cineplex has aggregate gross capital commitments of $103.6 million ($90.9 million net of tenant inducements) related to the completion of construction of 11 operating locations, including both theatres and *The Rec Room* locations, over the next four years.

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

Cineplex is 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, which could be mitigated by Cineplex operating any theatres under default. 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.

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 is based on normalized 2015 operating results and will be paid in the first quarter of 2016. In the fourth quarter of 2015, based on a weighted probability of reasonably possible outcomes, Cineplex adjusted the deferred consideration to the best estimate of the expected value, being $10.0 million.

At December 31, 2015, Cineplex had $107.5 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2018. At December 31, 2015, the convertible debentures were recorded on Cineplex's balance sheet at $100.7 million. The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*. The debentures may not be redeemable by Cineplex prior to December 31, 2016. After that date, at the holder's option, the debentures may be converted into Shares at any time prior to the close of business five days before the earlier of the maturity date, the date fixed for redemption by Cineplex, or if called for repurchase in the event of a change in control, the payment date, at a conversion price of $56 per Share. See Section 9, Share activity, for more information regarding the convertible debentures.

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

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

Effective for the May 2015 dividend, which was paid in June 2015, the Board approved a dividend increase to $0.13 per month per Share ($1.56 on an annual basis).

8.1 ADJUSTED FREE CASH FLOW

Cineplex distributes cash to its shareholders on a monthly basis. The following table illustrates adjusted free cash flow per Share, dividends paid per Share, and the payout ratio of dividends relative to adjusted free cash flow for the three months and year ended December 31, 2015 and 2014:

Adjusted free cash flow	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Adjusted free cash flow per Share	$ 0.837	$ 0.675	24.0%	$ 2.492	$ 2.311	7.8%
Dividends declared per Share	$ 0.390	$ 0.375	4.0%	$ 1.540	$ 1.480	4.1%
Payout ratio - year ended December 31				61.8%	64.1%	-2.3%

Adjusted free cash flow per Share for both the fourth quarter and full year of 2015 were record results for Cineplex due to the strong exhibition and media results in the periods as well as the inclusion of CSI beginning October 1, 2015. Adjusted free cash flow per Share and the payout ratios for the 2014 periods were 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 2014 being substantially reduced.

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

	Fourth Quarter			Full Year		
	2015	2014	Change	2015	2014	Change
Cash flows provided by operations	$ 156,346	$ 135,425	15.4%	$ 230,594	$ 180,258	27.9%
Net income	$ 76,805	$ 32,081	139.4%	$ 134,249	$ 76,271	76.0%
Standardized free cash flow	$ 133,252	$ 117,318	13.6%	$ 134,723	$ 78,395	71.9%
Adjusted free cash flow	$ 52,871	$ 42,540	24.3%	$ 157,220	$ 145,506	8.1%
Cash dividends declared	24,676	$ 23,625	4.4%	$ 97,204	$ 93,207	4.3%
Average number of Shares outstanding	63,204,838	62,995,236	0.3%	63,100,085	62,973,074	0.2%

8.2 DIVIDENDS

Subject to the discretion of the Board, dividends are typically declared on a monthly basis to common shareholders of record on the last business day of each month. For the three months and year ended December 31, 2015, Cineplex declared dividends totaling $0.390 per Share and $1.540 per Share, respectively. For the three months and year ended December 31, 2014, Cineplex declared dividends totaling $0.375 per Share and $1.480 per Share, respectively.

The following table outlines Cineplex's dividend history (including distribution history of the Cineplex Galaxy Income Fund (the "Fund"), the predecessor entity to Cineplex):

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
May 2015	$ 0.1300

(i) For the 36 day period from November 26, 2003 (the inception of the Fund) to December 31, 2003, the Fund declared a distribution of $0.1118.

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

9. SHARE ACTIVITY

Share capital at December 31, 2015 and the transactions during the year is as follows (expressed in thousands of dollars except Share amounts):

	Shares	Amount		
	Number of common shares issued and outstanding	**Common shares**	**Equity component of convertible debentures**	**Total**
Balance - December 31, 2014	63,015,023	$ 849,602	$ 4,471	$ 854,073
Issuance of shares on exercise of options	355,036	4,232		4,232
Balance - December 31, 2015	63,370,059	$ 853,834	$ 4,471	$ 858,305

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
2015 LTIP award	114,335
2014 LTIP award	135,602
2013 LTIP award	124,936

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

Cineplex has an incentive Share option plan for certain employees. The aggregate number of Shares that may be issued under the option plan is limited to 5.3 million Shares. All of the options must be exercised over specified periods not to exceed ten years from the date granted (five years for options granted on or before December 31, 2010). As of December 31, 2015, 1.6 million Share options are outstanding under the Share option plan. Upon cashless exercise, the Share options exercised in excess of Shares issued are canceled and returned to the pool available for future grants. At December 31, 2015, 2.8 million Share options remain available for grant under the plan.

A summary of option activities for the year ended December 31, 2015 and 2014 is as follows:

	2015			2014	
	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	7.65	1,776,173	$ 31.37	1,459,772	$ 27.23
Granted		446,004	49.14	540,519	40.45
Canceled		—	—	(18,964)	36.06
Exercised		(671,656)	26.47	(205,154)	25.39
Options outstanding – end of period	7.73	1,550,521	$ 38.60	1,776,173	$ 31.37

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. The most marketable motion pictures were traditionally released during the summer and the late-November through December holiday season. This caused changes, from quarter to quarter, in attendance affecting theatre exhibition reported results. The seasonality of attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. Cineplex's diversification into other businesses such as digital media and amusement gaming and leisure, which are not dependent on motion picture content, has contributed to reduce the impact of this seasonality on Cineplex's consolidated results. To meet working capital requirements during the traditionally lower-revenue quarters, Cineplex can draw upon the Revolving Facility, which had $74.0 million drawn as of December 31, 2015.

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

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Box office revenues	$ 196,293	$ 172,571	$ 186,202	$ 156,041	$ 172,460	$ 162,574	$ 181,419	$ 156,225
Food service revenues	113,799	105,464	108,397	90,785	97,778	92,094	98,024	87,143
Media revenues	55,258	34,296	35,020	29,072	46,852	31,992	30,990	24,355
Other revenues	42,022	15,915	15,921	13,887	15,121	12,330	13,063	12,296
	407,372	328,246	345,540	289,785	332,211	298,990	323,496	280,019
Expenses								
Film cost	105,210	91,567	102,155	80,171	88,657	85,499	94,950	80,458
Cost of food service	24,836	22,325	23,921	19,448	21,579	19,848	21,147	18,881
Depreciation and amortization	24,526	22,111	21,802	20,900	19,922	19,665	19,195	18,668
Loss (gain) on disposal of assets	899	987	1,033	317	626	834	1,989	(56)
Other costs	192,378	156,743	155,334	150,934	160,280	146,974	148,977	150,446
	347,849	293,733	304,245	271,770	291,064	272,820	286,258	268,397
Income from operations	59,523	34,513	41,295	18,015	41,147	26,170	37,238	11,622
Adjusted EBITDA (i)	85,163	59,081	65,310	40,248	62,649	48,042	59,430	30,881
Net income	$ 76,805	$ 21,439	$ 25,478	$ 10,527	$ 32,081	$ 15,914	$ 23,205	$ 5,071
EPS - basic	$ 1.22	$ 0.34	$ 0.40	$ 0.17	$ 0.51	$ 0.25	$ 0.37	$ 0.08
EPS - diluted	$ 1.20	$ 0.34	$ 0.40	$ 0.17	$ 0.51	$ 0.25	$ 0.37	$ 0.08
Cash provided by (used in) operating activities	$ 156,346	$ 36,272	$ 54,434	$ (16,458)	$ 135,425	$ 22,910	$ 40,440	$ (18,517)
Cash used in investing activities	(37,352)	(37,980)	(22,751)	(26,982)	(18,649)	(33,325)	(22,722)	(32,016)
Cash used in (provided by) financing activities	(108,227)	2,726	(24,625)	25,715	(91,281)	4,788	(13,578)	16,752
Effect of exchange rate differences on cash	151	77	—	—	—	—	—	—
Net change in cash	$ 10,918	$ 1,095	$ 7,058	$ (17,725)	$ 25,495	$ (5,627)	$ 4,140	$ (33,781)
Box office revenue per patron (i)	$ 9.63	$ 8.89	$ 9.45	$ 8.90	$ 9.06	$ 9.01	$ 9.40	$ 9.04
Concession revenue per patron (i)	$ 5.58	$ 5.43	$ 5.50	$ 5.18	$ 5.14	$ 5.11	$ 5.08	$ 5.05
Attendance (in thousands of patrons) (i)	20,383	19,407	19,695	17,538	19,037	18,038	19,301	17,272
Theatre locations (at period end)	162	162	162	161	161	161	162	161
Theatre screens (at period end)	1,655	1,652	1,652	1,648	1,639	1,639	1,638	1,632

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

(ii) Excludes the conversion of convertible debentures as such conversion would be anti-dilutive for all quarters with the exception of the fourth quarter of 2015 where conversion was dilutive.

Summary of adjusted free cash flow by quarter

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

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by (used in) operating activities	$156,346	$ 36,272	$ 54,434	$(16,458)	$135,425	$ 22,910	$ 40,440	$(18,517)
Less: Total capital expenditures net of proceeds on sale of assets	(23,094)	(25,560)	(20,406)	(26,811)	(18,107)	(33,465)	(19,225)	(31,066)
Standardized free cash flow	133,252	10,712	34,028	(43,269)	117,318	(10,555)	21,215	(49,583)
Add/(Less):								
Changes in operating assets and liabilities	(92,482)	9,280	(7,920)	48,577	(87,666)	20,746	12,106	46,405
Changes in operating assets and liabilities of joint ventures	1,666	(2,135)	1,439	334	1,941	(2,400)	(118)	325
Tenant inducements	(811)	—	—	(757)	(818)	(555)	—	(2,842)
Principal component of financing lease obligations	(690)	(671)	(659)	(650)	(660)	(592)	(595)	(591)
Growth capital expenditures and other	11,041	16,797	12,615	21,799	10,893	27,668	14,281	24,047
Share of income of joint ventures, net of non-cash depreciation	84	1,436	1,180	1,016	985	1,431	1,041	623
Non-controlling interests of WGN and BSL	131	34	—	—	—	—	—	—
Net cash received from (invested in) CDCP	680	407	329	427	547	140	769	—
Adjusted free cash flow	$ 52,871	$ 35,860	$ 41,012	$ 27,477	$ 42,540	$ 35,883	$ 48,699	$ 18,384
Average number of Shares outstanding	63,204,838	63,086,232	63,073,248	63,034,270	62,995,236	62,987,992	62,966,909	62,941,405
Adjusted free cash flow per Share	$ 0.837	$ 0.568	$ 0.650	$ 0.436	$ 0.675	$ 0.570	$ 0.773	$ 0.292

11. RELATED PARTY TRANSACTIONS

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

The Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan") serves as a member of the Board. During the three months and year ended December 31, 2015, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of $11.0 million and $44.8 million, respectively (2014 - $10.8 million and $44.0 million, respectively).

12. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

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

Goodwill - recoverable amount

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

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

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

Revenue recognition - gift cards

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

Income taxes

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

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

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

Financial instruments - contingent consideration for CDN

Cineplex recognized the fair value of contingent consideration relating to its acquisition of CDN at the date the transaction closed, and Cineplex is required to revalue the contingent consideration at each subsequent reporting date until its settlement. The sale and purchase agreement sets out a process by which the final consideration will be determined and will be settled in early 2016. Cineplex has measured the liability as at December 31, 2015 based on a weighted average probability of reasonably possible outcomes. Cineplex has adjusted the deferred consideration to the best estimate of the expected value, being $10.0 million. The sale and purchase agreement includes a maximum contingent consideration payment of $39.5 million. Final settlement of the consideration payable to the vendors may be materially different from the amount accrued as at December 31, 2015.

Share-based compensation

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

performance since the grant of the award. Future revenue growth relative to peers is based on historical performance and current projections, updated at least annually for actual performance since the grant of the award by Cineplex and its peers. Total shareholder return for Cineplex and its peers is updated at each consolidated balance sheet date based on financial models, taking into account financial market observable inputs.

13. ACCOUNTING POLICIES

ACCOUNTING STANDARDS ADOPTED IN THE CURRENT YEAR

Cineplex adopted no changes in accounting standards in the current year.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

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

IFRS 9, Financial Instruments

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

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

IFRS 9 was amended in November 2013 to: (i) include guidance on hedge accounting; (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9). IFRS 9 will be effective January 1, 2018.

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, 2018, 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.

IAS 1, Presentation of Financial Statements

IAS 1, *Presentation of Financial Statements*, was amended in December 2014 to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Amendment is effective for years beginning on or after January 1, 2016. Cineplex is analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations.

IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. As Cineplex has significant contractual obligations classified as operating leases under the existing standard and there will be a material increase to both assets and liabilities upon adoption of the new standard, and material changes to the timing of recognition of expenses associated with the lease arrangements. Cineplex is analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations.

14. RISKS AND UNCERTAINTIES

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

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

This section describes the principal risks and uncertainties that could have a material adverse effect on Cineplex's business and financial results. The risks and uncertainties described below are not the only risks that may impact Cineplex's business. Additional risks not currently known to Cineplex or that management currently believes are immaterial may also have a material adverse effect on future business and operations. Any discussion about risks should be read in conjunction with "Forward-Looking Statements".

Customer Risk

Cineplex competes for the leisure time and disposable income of all potential customers. All other forms of entertainment including home and online consumption of content, sporting events, live music concerts, live theatre and restaurants are substantial competitors to the movie-going experience. 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 response to this risk, Cineplex offers the SCENE loyalty program, which rewards guests for their patronage with the ability to earn and redeem points, receive discounts on food service purchases and with special offers. Additionally, Cineplex monitors customer needs to ensure that the in-theatre experience meets the anticipated needs of key demographic groups. Cineplex is differentiating the movie-going experience by providing UltraAVX auditoriums, D-BOX seating, VIP auditoriums and XSCAPE Entertainment Centres in select theatres and by providing alternative programming which appeals to specific demographic groups. In addition, the advent of digital technology has allowed for more niche programming.

In the event that consumer preferences change, Cineplex may need to incur further capital expenditures to redevelop or upgrade existing locations. Cineplex continues to improve the quality of its theatre assets through ongoing theatre upgrades and retrofits, including seating upgrades. 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. In response to this risk, Cineplex monitors commentary on social media in order to respond quickly to potential social media misinformation.

Cineplex developed its Cineplex Store in response to the risk created by new in-home and on-the-go entertainment offerings. Cineplex's offerings through the Cineplex Store of VoD and DTO movies are delivered online via third party technology platforms. Technological issues relating to online delivery of content could negatively impact customer satisfaction. Cineplex monitors performance metrics for electronic delivery in order to proactively manage any potential customer satisfaction issues.

Film Entertainment and Content Risk

Cineplex's ability to operate successfully depends upon the availability, diversity and appeal of filmed content, 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.

Cineplex box office revenues depend upon movie production and our relationships with film distributors, including a number of major Hollywood and Canadian distributors. In 2015, seven major film distributors accounted for approximately 90% 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. In addition, a change in the type and breadth of movies offered by studios may adversely affect the demographic base of moviegoers. To that end, Cineplex continues to work on diversification of its revenue sources to mitigate the risk of declining quality or volume of content.

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

Exhibition Industry Risk

Cineplex operates in each of its local markets with other forms of entertainment, as well as in some of its markets with national and regional film exhibition circuits and independent film exhibitors. In respect of other film exhibitors, Cineplex primarily competes with respect to film licensing, attracting guests and acquiring and developing new theatre sites and acquiring existing theatres. Movie-goers are generally not brand conscious and usually choose a theatre based on its location, the films showing, showtimes available and the theatre's amenities. As a result, the building of new theatres, renovations or upgrades to existing theatres, or the addition of screens to existing theatres by competitors in areas in which Cineplex operates theatres may result in reduced attendance levels at Cineplex's theatres.

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

In response to risks to exhibition attendance, Cineplex continues to pursue other revenue opportunities including media in the form of in-theatre and out of home advertising, amusement gaming and leisure, promotions and alternative uses of its theatres during non-peak hours. Amusement gaming and leisure includes the operations of CSI, in-theatre gaming locations, XSCAPE Entertainment Centres, eSports gaming online through WGN and in-theatre at select Cineplex locations, and The Rec Room, Cineplex's planned social entertainment destination launching in 2016. Cineplex's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams.

Technology Risk

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

To mitigate these risks, Cineplex continues to enhance the out of home experience through the addition of new technologies and experiences including 3D, VIP, UltraAVX and digital projection in order to further differentiate the theatrical product from the home product. Cineplex has also diversified its offerings to customers by operating the Cineplex Store which sells VoD and DTO movies in order to participate in the in-home and on-the-go entertainment markets.

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

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.

General Economic Conditions

Entertainment operations compete for guests' entertainment dollars, and as such can be sensitive to economic conditions and any changes in the economy may either adversely influence these revenues in times of an economic downturn or positively influence these revenue streams should economic conditions improve. Historical data shows that movie attendance has not been negatively affected by economic downturns over the past 25 years. Further, Cineplex continues to innovate and pursue cost savings in order to deliver an affordable out of home entertainment experience.

Amusement Gaming and Leisure Risk

Cineplex's ability to procure new amusement offerings and games can have an impact on revenues from its amusement gaming and leisure businesses. Cineplex's *The Rec Room* is a new and unproven concept in the Canadian marketplace, and as such there is a risk that consumers may not react as favourably to the concept as Cineplex's projections indicate. As part of Cineplex's vertical integration, CSI is the sole supplier of games and amusement offerings for Cineplex's theatres, *The Rec Room* and *Playdium* locations, mitigating supplier risk.

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 13,000 people, of whom approximately 89% 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 7% 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 potential operating locations by Cineplex is dependent on the ability of Cineplex to identify, acquire and develop suitable sites for these locations in both new and existing markets. The cost to develop a new building is substantial and its success is not assured. While Cineplex is careful in selecting sites, the significant time lag from identifying a new site to opening can result in a change in local market circumstances and could negatively impact the locations' chance of success. In addition, the building of new operating locations may draw audiences away from existing sites operated by Cineplex. Cineplex considers the overall return for the theatres in a geographic area when making the decision to build new locations.

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

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

Integration Risk

While Cineplex has successfully integrated businesses acquired in the past, there can be no assurances that all acquisitions, including those completed in 2015, 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 entered into the Revolving Facility. Cineplex hedges interest rates on the Term Facility, thereby minimizing the impact of significant fluctuations in the market rates. Cineplex's

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

Sourcing Risk

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

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

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

In order to minimize 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 sources of revenues are 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 and amusement gaming and leisure locations which would significantly impact business results. Cineplex operates in ten provinces which mitigates the risk to a specific location or locations. Cineplex has procedures to manage such events should they occur. These procedures identify risks, prioritize key services, plan for large staff absences and clarify communication and public relations processes. However, should there be a 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.

Cineplex is presently involved in various judicial, administrative, regulatory and litigation proceedings concerning matters arising in the ordinary course of business operations, including but not limited to, personal injury claims, landlord-tenant disputes, commercial disputes, tax disputes, employment disputes and other

contractual matters. Many of these proceedings seek an indeterminate amount of damages. In situations where management believes that a loss arising from a proceeding is probable and can reasonably be estimated, Cineplex records the amount of the probable loss. As additional information becomes available, any potential liability related to these proceedings is assessed and the estimates are revised, if necessary.

To mitigate these risks, Cineplex employs in-house counsel and uses third party tax and legal experts to assist in structuring significant transactions and contracts. Cineplex also has systems and controls that ensure the timely production of financial information in order to meet contractual and regulatory requirements and has implemented disclosure controls and internal controls over financial reporting which are tested for effectiveness on an ongoing basis. 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 and thus does not have substantial environmental risk. Cineplex operates multiple locations in major urban markets and does not anticipate any dramatic changes to operations due to climate change. Should legislation change to require more stringent management of carbon emissions or more stringent reporting of environmental impacts, Cineplex anticipates this will result in minimal cost increases or changes to operating procedures.

Information Management Risk

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

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

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

Cineplex recognizes that security breaches and other disruptions could compromise this information and expose Cineplex to liability, which would cause its business and reputation to suffer. Despite security measures, Cineplex's information technology and infrastructure may be vulnerable to unforeseen attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise Cineplex's networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disrupt Cineplex's operations and the services provided to customers, damage Cineplex's reputation and cause a loss of confidence in Cineplex's products and services, which could adversely affect Cineplex's business, financial condition, results of operations and cash flows. In response to this risk, Cineplex has employees whose role it is to monitor information technology and processes to ensure risk is minimized.

15. CONTROLS AND PROCEDURES

15.1 DISCLOSURE CONTROLS AND PROCEDURES

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

Management has evaluated the design and operation of Cineplex's disclosure controls and procedures as of December 31, 2015 and has concluded that such disclosure controls and procedures are effective.

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

Management has evaluated the design and operation of Cineplex's internal controls over financial reporting as of December 31, 2015, and has concluded that such controls over financial reporting are effective. There are no material weaknesses that have been identified by management in this regard.

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

16. OUTLOOK

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

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

Cineplex reported record attendance, box office revenues and BPP during 2015 due to the success of several blockbuster releases throughout the year driving strong consumer demand. Box office revenues are and will remain highly dependent on the marketability, quality and appeal of the film product released by major motion picture studios. Looking forward to 2016, there is a strong slate of films scheduled for release including *Deadpool, Batman v Superman: Dawn of Justice, Captain America: Civil War, Alice Through the Looking Glass, Finding Dory, Star Trek: Beyond, Suicide Squad, Doctor Strange, Fantastic Beasts and Where to Find*

Them and *Rogue One: A Star Wars Story*. In addition to this strong slate of releases, the late 2015 release *Star Wars: The Force Awakens* continued to perform well in the first weeks of 2016.

Cineplex continues to focus on providing guests with a variety of premium viewing options through which to enjoy the theatre experience. These premium-priced offerings, which include UltraAVX, VIP Cinemas, IMAX and 3D, generate higher revenues per patron and expand the customer base. Cineplex believes that 3D, UltraAVX, IMAX and VIP formats provide an enhanced guest experience and will continue to charge a ticket price premium for films and events presented in these formats.

In the next few years, Cineplex plans to open two to three new theatres per year while also expanding its premium offerings across the circuit. Cineplex is also focused on providing guests with a variety of premium viewing options through which to enjoy the theatre experience, and will continue to expand premium viewing options throughout its circuit in 2016 and beyond. VIP Cinemas and other premium viewing options are a key component to Cineplex's theatre exhibition strategy, and have been well received by audiences.

Food Service

Cineplex reported record food service revenues and CPP in 2015. Cineplex has reported CPP growth in each year since its formation in 2003. 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, Poptopia* and *YoYo's* (in which Cineplex is a joint venture partner) across the circuit; as well as leveraging digital menu board technologies which provide guests with more interactive messaging during visits to the food service locations.

Alternative Programming

During 2015, Cineplex offered a wide variety of alternative programming, including the popular Metropolitan Opera live in HD series, ethnic film programming, In the Gallery presentations, sports programming and various concert performances by popular recording artists. Cineplex also partnered with HBO Canada to present television programming on the big screen and partnered with content producers to be the national distributor for select films in Canada.

Digital Commerce

As at-home and on-the-go content distribution and consumption continues to grow and evolve, Cineplex believes it is well positioned to take advantage of this market with its digital commerce platform, the Cineplex Store, which offers enhanced device integration as well as download capabilities, supporting thousands of movies that can be rented, purchased or viewed on multiple devices. The Cineplex Store supports the widest range of devices in Canada on which to watch content, and when 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 its digital delivery platform with an expanded device ecosystem for DTO and VoD sales.

MEDIA

Cineplex 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 will continue to leverage its new media opportunities within Cineplex's theatres, including digital poster cases, the Interactive Media Zone in select theatres, and

Timeplay, a third-party app that allows Cineplex to sell media integrated into real-time content with the big screen.

Cineplex Digital Media

Cineplex continues to enhance its media offerings outside of the theatre setting through its Cineplex Digital Media business, which is poised for growth in 2016 and beyond with recent announcements of new clients that will have hardware installations and recurring revenues beginning in 2016 including A&W and Dairy Queen. Cineplex Digital Media will continue to explore opportunities within the United States, in order to better service its current base of US customers and to expand its presence there. 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.

AMUSEMENT GAMING AND LEISURE

Cineplex Starburst Inc.

The acquisition of CSI in 2015 has allowed Cineplex to complete the vertical integration of its gaming business. CSI now supplies and services all of the games in Cineplex's circuit, while also supplying equipment to third party arcades, amusement centers, bowling alleys, amusement parks and theatre circuits, in addition to owning and operating *Playdium*. During 2015, CSI acquired an 80% interest in BSL. The new company, formed with Brady Distribution Company, created one of North America's largest distributors of amusement games and vending machines.

Cineplex will further leverage its vertical integration in 2016 as CSI sources and maintains the amusement gaming equipment for *The Rec Room* locations.

The Rec Room

During 2015, Cineplex announced its plans for *The Rec Room*, a social entertainment destination featuring a wide range of entertainment options including an attractions area featuring simulation, redemption and recreational gaming, an auditorium-style live entertainment venue and a theatre-sized high definition screen for watching a wide range of entertainment programming. This entertainment will be complemented with an upscale casual dining environment, featuring an open kitchen and contemporary menu, as well as a centre bar with a wide range of digital monitors and a large screen above the bar for watching the big game or other major events. The first *The Rec Room* location is scheduled to open in 2016.

eSports

During 2015, Cineplex acquired an 80% interest in the operational assets of WGN, a leading online gaming platform that facilitates tournaments, leagues and gaming ladders for the competitive gaming community. This acquisition resulted in the creation of a new company focused on eSports by creating a community that connects live online gaming with unique in-theatre tournament experiences to be held in Cineplex theatres across the country.

Beginning in 2016, Cineplex and WGN will invite gamers to compete in a number of online tournaments across the most popular gaming titles, leading to regional qualifiers at Cineplex locations, ending with a National Championship live finals at a Cineplex flagship location. The first of these tournaments was announced subsequent to the period end along with the signing of a comprehensive partnership between Cineplex, WGN and Sony Computer Entertainment Canada. This first national tournament will feature the game *Call of Duty: Black Ops III* in a one-vs-one tournament, with online qualifiers hosted by WGN and the regional and national final events hosted at Cineplex theatres across Canada.

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 7.3 million members at December 31, 2015. Cineplex continues to integrate SCENE elements into various film and other promotional 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 database and additional partnership agreements.

As SCENE looks to continue to grow its membership and reach, it has entered into strategic marketing partnerships with sports and active lifestyle retailer SportChek and its exclusive restaurant partner CARA. These partnerships extend the benefits of SCENE by enabling members to earn and redeem points for products available at more than 180 SportChek locations and at more than 800 CARA restaurants across Canada.

Over the nine years since the launch of the SCENE program, the way that Cineplex's guests see movies has changed with the introduction of more 3D screens, UltraAVX auditoriums and VIP auditoriums. As a result of these changes, in 2015 SCENE changed to allow members to earn and redeem SCENE points based on the movie experience they choose, with premium movies earning 50% more points and VIP movies earning 100% more points. Redeeming for premium movies requires 50% more points and redeeming for VIP movies requires 100% more points.

In 2015, Cineplex and Scotiabank announced the extension of the SCENE loyalty program for an additional 10 years, until October 31, 2025.

FINANCIAL OUTLOOK

Effective with the May 2015 dividend, the Board announced a monthly dividend increase to $0.1300 per Share. On an annual basis, this represents a total annual dividend of $1.56, a 4% increase from the previous annual rate of $1.50. During 2015, Cineplex generated adjusted free cash flow per Share of $2.49, compared to $2.31 in the prior year. Cineplex declared dividends per Share of $1.54 and $1.48, respectively, in each year. The payout ratios for these periods were approximately 61.8% and 64.0%, respectively. The acquisition of AMC Ventures Inc. and its subsequent wind-up into Cineplex resulted in non-capital losses of $147.0 million being made available to offset taxable income earned by Cineplex beginning in 2013, positively impacting adjusted free cash flow per Share and the payout ratios for both 2014 and 2013. None of the acquired losses are available to be used to reduce taxable income in 2015.

Under Cineplex's Credit Facilities, which mature in October 2018, Cineplex has a $150.0 million Term Facility and a $250.0 million Revolving Facility which is available to finance acquisitions, new construction, media growth projects, working capital and dividends. As at December 31, 2015, Cineplex had $170.3 million available on the Revolving Facility. As defined under the Credit Facilities, as at December 31, 2015, Cineplex reported a leverage ratio of 0.97x 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 change in fair value of financial instrument, loss (gain) on disposal of assets, gain on acquisition of business, the equity income of CDCP, the non-controlling interests' share of EBITDA of WGN and BSL, 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 dollars):

	Year ended December 31,		
	2015	**2014**	**2013**
Net income	**$ 134,249**	**$ 76,271**	**$ 83,557**
Depreciation and amortization	89,339	77,450	70,890
Interest expense	22,443	21,948	10,743
Interest income	(186)	(330)	(307)
Current income tax expense	37,026	10,625	3,608
Deferred income tax recovery (expense)	(107)	10,519	29,369
EBITDA	**$ 282,764**	**$ 196,483**	**$ 197,860**
Change in fair value of financial instrument	(29,076)	—	—
Loss on disposal of assets	3,236	3,393	4,372
Gain on acquisition of business	(7,447)	—	—
CDCP equity income (i)	(1,672)	(1,388)	(2,336)
Non-controlling interest EBITDA of WGN and BSL	165	—	—
Depreciation and amortization - joint ventures (ii)	1,563	2,115	2,139
Joint venture taxes and interest (ii)	269	399	406
Adjusted EBITDA	**$ 249,802**	**$ 201,002**	**$ 202,441**

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

	Year ended December 31		
	2015	**2014**	**2013**
Cash provided by operating activities	$ 230,594	$ 180,258	$ 224,648
Less: Total capital expenditures net of proceeds on sale of assets	(95,871)	(101,863)	(58,837)
Standardized free cash flow	134,723	78,395	165,811
Add/(Less):			
Changes in operating assets and liabilities (i)	(42,545)	(8,409)	(37,302)
Changes in operating assets and liabilities of joint ventures (i)	1,304	(252)	(1,164)
Tenant inducements (ii)	(1,568)	(4,215)	(5,417)
Principal component of finance lease obligations	(2,670)	(2,438)	(2,277)
Growth capital expenditures and other (iii)	62,252	76,889	31,011
Share of income of joint ventures, net of non-cash depreciation (iv)	3,716	4,080	3,855
Non-controlling interests of WGN and BSL	165	—	—
Net cash received from (invested in) CDCP (iv)	1,843	1,456	(50)
Adjusted free cash flow	**$ 157,220**	**$ 145,506**	**$ 154,467**
Average number of Shares outstanding	63,100,085	62,973,074	62,843,248
Adjusted free cash flow per Share	**$ 2.492**	**$ 2.311**	**$ 2.458**
Dividends declared	**$ 1.540**	**$ 1.480**	**$ 1.410**

(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 dollars):

	Year ended December 31,		
	2015	2014	2013
Net income	$ 134,249	$ 76,271	$ 83,557
Adjust for:			
Depreciation and amortization	89,339	77,450	70,890
Change in fair value of financial instrument	(29,076)	—	—
Loss (gain) on disposal of assets	3,236	3,393	4,372
Gain on acquisition of business	(7,447)	—	—
Non-cash interest (i)	7,285	6,640	1,336
Share of income of CDCP (ii)	(1,672)	(1,388)	(2,336)
Non-controlling interests of WGN and BSL	165	—	—
Non-cash depreciation of joint ventures	1,563	2,115	2,139
Deferred income tax expense	(107)	10,519	29,369
Joint venture deferred income tax	269	497	202
Maintenance capital expenditures	(33,619)	(24,974)	(27,826)
Principal component of finance lease obligations	(2,670)	(2,438)	(2,277)
Net cash received from (invested in) CDCP (ii)	1,843	1,456	(50)
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(7,832)	(5,750)	(6,735)
Non-cash Share-based compensation	1,694	1,715	1,826
Adjusted free cash flow	**$ 157,220**	**$ 145,506**	**$ 154,467**

(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.

Earnings per Share Metrics

The three months and year ended December 31, 2015 include the gain on business acquisition relating to CSI of $7.4 million and the change in fair value of financial instrument relating to the adjustment to the contingent consideration from the 2013 acquisition of CDN of $29.1 million. Cineplex has presented basic and diluted earnings per share net of these two items to provide a more comparable earnings per share metric between the current periods and prior year periods. In the non-GAAP measure, earnings is defined as net income excluding both the gain on acquisition and the change in fair value of financial instrument.

Per Patron Revenue Metrics

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

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

BPP: Calculated as total box office revenues divided by total paid attendance for the period.
BPP excluding premium priced product: Calculated as total box office revenues for the period, less box office revenues from 3D, UltraAVX, VIP and IMAX product; divided by total paid attendance for the period, less paid attendance for 3D, UltraAVX, VIP and IMAX product.
CPP: Calculated as total food service revenues divided by total paid attendance for the period.
Premium priced product: Defined as 3D, UltraAVX, IMAX and VIP film product.
Concession margin per patron: Calculated as total food service revenues less total food service cost, divided by attendance for the period.

Same Store Analysis

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

Same store metrics are calculated by removing the results for all theatres that have been opened, acquired, closed or otherwise disposed of during the periods. For the three months ended December 31, 2015, the impact of the four locations that have been opened or acquired and the two locations that have been closed or otherwise disposed of have been excluded, resulting in 158 theatres being included in the same store metrics. For the year ended December 31, 2015, the impact of the six locations that have been opened or acquired and the three locations that have been closed or otherwise disposed of have been excluded, resulting in 156 theatres being included in the same store metrics.

Cost of sales percentages

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

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

Management's Report to Shareholders

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

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

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

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

Ellis Jacob
Chief Executive Officer

Gord Nelson
Chief Financial Officer

Toronto, Ontario

February 8, 2016

February 8, 2016

Independent Auditor's Report

To the Shareholders of
Cineplex Inc.

We have audited the accompanying consolidated financial statements of Cineplex Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cineplex Inc. and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Cineplex Inc.

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	December 31, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents (note 6)	$ 35,713	$ 34,367
Trade and other receivables (note 7)	121,398	101,462
Inventories (note 8)	19,691	7,978
Prepaid expenses and other current assets	10,025	8,102
	186,827	151,909
Non-current assets		
Property, equipment and leaseholds (note 9)	533,192	495,532
Deferred income taxes (note 10)	6,517	6,971
Interests in joint ventures (note 11)	35,288	46,457
Intangible assets (note 12)	132,140	109,746
Goodwill (note 13)	807,953	798,801
	$ 1,701,917	$ 1,609,416

Business acquisitions (note 3)

Commitments guarantees and contingencies (note 27)

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

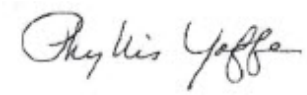
Cineplex Inc.

Consolidated Balance Sheets…*continued*

(expressed in thousands of Canadian dollars)

	December 31, 2015	December 31, 2014
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 14)	$ 209,657	$ 159,152
Share-based compensation (note 15)	9,742	6,160
Dividends payable (note 16)	8,238	7,877
Income taxes payable (note 10)	30,464	9,735
Deferred revenue	159,568	149,644
Current debt (note 17)	3,737	—
Finance lease obligations (note 18)	2,957	2,670
Fair value of interest rate swap agreements (note 4)	1,414	692
	425,777	335,930
Non-current liabilities		
Share-based compensation (note 15)	18,907	15,504
Long-term debt (note 17)	222,340	229,754
Fair value of interest rate swap agreements (note 4)	4,188	2,117
Finance lease obligations (note 18)	12,052	15,008
Post-employment benefit obligations (note 19)	7,296	6,977
Other liabilities (note 20)	131,874	173,550
Deferred income taxes (note 10)	6,283	—
Convertible debentures (note 21)	100,703	98,727
	503,643	541,637
Total liabilities	929,420	877,567
Equity		
Share capital (note 22)	858,305	854,073
Deficit	(86,296)	(123,771)
Hedging reserves and other	(4,979)	(3,405)
Contributed surplus	(491)	4,952
Cumulative translation adjustment (note 3)	934	—
Total equity attributable to owners of Cineplex	767,473	731,849
Non-controlling interests (note 3)	5,024	—
Total equity	772,497	731,849
	$ 1,701,917	$ 1,609,416

Approved by the Board of Directors



Director

Director

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

Cineplex Inc.

Consolidated Statements of Operations
For the years ended December 31, 2015 and 2014

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

	2015	2014
Revenues		
Box office	$ 711,107	$ 672,678
Food service	418,445	375,039
Media	153,646	134,189
Other	87,745	52,810
	1,370,943	1,234,716
Expenses		
Film cost	379,103	349,564
Cost of food service	90,530	81,455
Depreciation and amortization	89,339	77,450
Loss on disposal of assets	3,236	3,393
Gain on acquisition of business (note 3 a)	(7,447)	—
Other costs (note 23)	655,389	606,677
Share of income of joint ventures (note 11)	(3,556)	(2,856)
Interest expense	22,443	21,948
Interest income	(186)	(330)
Change in fair value of financial instrument (note 4)	(29,076)	—
	1,199,775	1,137,301
Income before income taxes	171,168	97,415
Provision for (recovery of) income taxes		
Current (note 10)	37,026	10,625
Deferred (note 10)	(107)	10,519
	36,919	21,144
Net income	$ 134,249	$ 76,271
Attributable to:		
Owners of Cineplex	$ 134,697	$ 76,271
Non-controlling interests	(448)	—
Net income	$ 134,249	$ 76,271
Basic net income per share attributable to owners of Cineplex (note 24)	$ 2.13	$ 1.21
Diluted net income per share attributable to owners of Cineplex (note 24)	$ 2.12	$ 1.20

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

Cineplex Inc.

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2015 and 2014

(expressed in thousands of Canadian dollars)

	2015	2014
Net income	$ 134,249	$ 76,271
Other comprehensive income (loss)		
Items that will be reclassified subsequently to net income:		
(Loss) on hedging instruments	(2,163)	(2,296)
Associated deferred income taxes recovery	589	606
Foreign currency translation adjustment	1,168	—
Items that will not be reclassified to net income:		
Actuarial (losses) gains of post-employment benefit obligations (note 19)	(24)	664
Associated deferred income taxes recovery (expense)	6	(176)
Other comprehensive (loss)	(424)	(1,202)
Comprehensive income	$ 133,825	$ 75,069
Attributable to:		
Owners of Cineplex	$ 134,039	$ 75,069
Non-controlling interests	(214)	—
Comprehensive income	$ 133,825	$ 75,069

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

Cineplex Inc.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2015 and 2014

(expressed in thousands of Canadian dollars)

	Share capital (note 22)	Contributed surplus	Hedging reserves and other	Cumulative translation adjustment	Deficit	Non-controlling interests	Total
Balance - January 1, 2015	$854,073	$ 4,952	$ (3,405)	$ —	$(123,771)	$ —	$ 731,849
Net income	—	—	—	—	134,697	(448)	134,249
Other comprehensive (loss) (page 4)	—	—	(1,574)	934	(18)	234	(424)
Total comprehensive income	**—**	**—**	**(1,574)**	**934**	**134,679**	**(214)**	**133,825**
Dividends declared	—	—	—	—	(97,204)	—	(97,204)
Share option expense	—	1,694	—	—	—	—	1,694
Issuance of shares on exercise of options	4,232	(2,198)	—	—	—	—	2,034
CSI non-controlling interests recognized on acquisition	—	—	—	—	—	299	299
WGN purchase obligation	—	(4,939)	—	—	—	—	(4,939)
WGN non-controlling interests recognized on acquisition	—	—	—	—	—	4,939	4,939
Balance - December 31, 2015	$858,305	$ (491)	$ (4,979)	$ 934	$ (86,296)	$ 5,024	$ 772,497
Balance - January 1, 2014	$853,411	$ 3,899	$ (1,715)	$ —	$(107,323)	$ —	$ 748,272
Net income	—	—	—	—	76,271	—	76,271
Other comprehensive (loss) (page 4)	—	—	(1,690)	—	488	—	(1,202)
Total comprehensive income	**—**	**—**	**(1,690)**	**—**	**76,759**	**—**	**75,069**
Dividends declared	—	—	—	—	(93,207)	—	(93,207)
Share option expense	—	1,715	—	—	—	—	1,715
Issuance of shares on exercise of options	662	(662)	—	—	—	—	—
Balance - December 31, 2014	$854,073	$ 4,952	$ (3,405)	$ —	$(123,771)	$ —	$ 731,849

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

Cineplex Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014

(expressed in thousands of Canadian dollars)

	2015	2014
Cash provided by (used in)		
Operating activities		
Net income	$ 134,249	$ 76,271
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	89,339	77,450
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(7,832)	(5,750)
Accretion of debt issuance costs and other non-cash interest	4,947	4,845
Loss on disposal of assets	3,236	3,393
Gain on acquisition of business	(7,447)	—
Deferred income taxes	(107)	10,519
Interest rate swap agreements - non-cash interest	362	(63)
Non-cash share-based compensation	1,694	1,715
Change in fair value of financial instrument (note 4)	(29,076)	—
Accretion of convertible debentures	1,976	1,858
Net change in interests in joint ventures	(4,860)	(2,604)
Tenant inducements	1,568	4,215
Changes in operating assets and liabilities (note 26)	42,545	8,409
Net cash provided by operating activities	230,594	180,258
Investing activities		
Proceeds from sale of assets	108	4,333
Purchases of property, equipment and leaseholds	(95,979)	(106,196)
Acquisition of businesses, net of cash acquired (note 3)	(30,343)	(2,605)
Intangible assets additions	(694)	(3,700)
Net cash received from CDCP	1,843	1,456
Net cash used in investing activities	(125,065)	(106,712)
Financing activities		
Dividends paid	(96,843)	(92,881)
(Repayments) borrowings under credit facilities, net	(6,932)	12,000
Options exercised for cash	2,034	—
Payments under finance leases	(2,670)	(2,438)
Net cash used in financing activities	(104,411)	(83,319)
Effect of exchange rate differences on cash	228	—
Increase (decrease) in cash and cash equivalents	1,346	(9,773)
Cash and cash equivalents - Beginning of year	34,367	44,140
Cash and cash equivalents - End of year	$ 35,713	$ 34,367
Supplemental information		
Cash paid for interest	$ 14,702	$ 14,945
Cash paid for income taxes	$ 16,458	$ 2,970

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

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

1. General information

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

The Board of Directors approved these consolidated financial statements on February 8, 2016.

2. Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

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

Basis of preparation and measurement

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

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

Reportable operating segments

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

Consolidation

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

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

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

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

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

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

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

Investments in joint ventures

Investments in joint arrangements are classified as either joint operations and proportionately consolidated or as joint ventures and equity-accounted, depending on the contractual rights and obligations each investor.

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

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

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

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

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

Foreign currency translation

Functional and presentation currency

Cineplex determines its subsidiaries' functional currency by reviewing the currency of the primary economic environment in which each entity operates (the "functional currency"). The functional currency of WGN and two subsidiaries of CSI is the United States dollar. The functional currency of all other entities of the Cineplex group is the Canadian dollar.

The consolidated financial statements are presented in Canadian dollars.

Transactions and balances

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

The assets and liabilities of operations with a functional currency other than the Canadian dollar are translated to the Canadian dollar at exchange rates at the reporting date, with any difference in exchange rate recognized in the consolidated statements of operations. Exchange rate differences affecting equity components of operations with a functional currency other than the Canadian dollar are recognized in the consolidated statement of changes in equity in the cumulative translation adjustment balance.

Cash and cash equivalents

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

Financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

Inventories

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

Impairment of non-financial assets

Property, equipment and leaseholds and intangible assets subject to amortization are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows relating to the relevant intangible asset ("cash-generating units" or "CGUs"). Cineplex considers each theatre a CGU. The Media segment is considered a CGU, with CDN considered separately until the earn-out payment is finalized in 2016 (note 20). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

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

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

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

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

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

Property, equipment and leaseholds

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

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

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

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

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

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

Goodwill

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

Identifiable intangible assets

Intangible assets include trademarks, trade names, leases, software and customer relationships acquired by Cineplex. As Cineplex intends to use certain of the trademarks and trade names of the Partnership and GEI for the foreseeable future, the useful lives of those trademarks and trade names are indefinite and no amortization is recorded. Other trade names are expected to be substantially

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

discontinued and are amortized over their expected useful lives (note 12). Management tests indefinite-lived intangible assets for impairment at least annually, and considers at least annually or whenever events or circumstances indicate that the life of an indefinite-lived intangible asset may be finite. The advertising contracts have limited lives and are amortized over their useful lives, estimated to be between five to nine years. The estimated fair value of lease contract assets is amortized on a straight-line basis over the remaining term of the lease into amortization expense.

The major categories of intangible assets are amortized on a straight-line basis as follows:

Internally generated software	5 years
Customer relationships	5 - 7 years
Trade names	not amortized

Disposal of long-lived assets and discontinued operations

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

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

Leases

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

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

Borrowing costs

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

Employee benefits

Cineplex is the sponsor of a number of employee benefit plans. These plans include a defined benefit pension plan, additional unfunded defined benefit obligations for former Famous Players employees, and a group registered retirement savings plan.

i. Post-employment benefit obligations

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

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

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

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

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

ii. Share-based compensation - options

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

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

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

iii. Share-based compensation - other plans

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

Provisions

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

Income taxes

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

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

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

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

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

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

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

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

Dividends

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

Income per share

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

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

Revenues

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

Gift cards and vouchers

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

Multiple component arrangements

Cineplex routinely sells combinations of box office, concession and online products for a single price. In the ordinary course of operations, Cineplex offers equipment sales, design and support services for media installations, and sales of advertising services across multiple media (theatre lobby and

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

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

Film rental costs

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

Consideration received from vendors

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

Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgments

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

a) Goodwill
Recoverable amount

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

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

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

Cineplex's over-the-counter derivatives include interest rate swaps used to economically hedge exposure to variable cash flows associated with interest payments on Cineplex's borrowings. Management estimates the fair values of these derivatives as the present value of expected future cash flows to be received or paid, based on available market data, which includes market yields and counterparty credit spreads. The carrying value of the interest rate swaps liability was $5,602 at December 31, 2015. If interest rates changed plus or minus 1% from existing estimates throughout the contract period, the carrying value would change to a liability of $1,576 or $9,736, primarily affecting OCI.

c) Revenue recognition
Gift cards

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

d) Income taxes

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

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

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

f) Contingent consideration for CDN

Cineplex recognized the fair value of contingent consideration relating to its acquisition of CDN at the date the transaction closed (note 4), and Cineplex is required to revalue the contingent consideration at each subsequent reporting date until its settlement. The sale and purchase agreement sets out a process by which the final consideration will be determined and will be settled in early 2016. Cineplex has measured the liability as at December 31, 2015 based on a weighted average probability of reasonably possible outcomes. Cineplex has adjusted the deferred consideration to the best estimate of the expected value, being $10,000. The sale and purchase agreement includes a maximum contingent consideration payment of $39,500. Final settlement of the consideration payable to the vendors may be materially different from the amount accrued as at December 31, 2015.

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

g) Share-based compensation

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

Accounting standards adopted in the current year

There were no changes to the accounting standards in the current year.

Accounting standards issued but not yet applied

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

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instrument: Recognition and Measurement ("IAS 39"), except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss are generally recorded in OCI.

IFRS 9 was amended in November 2013, to (i) include guidance on hedge accounting, and (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9). IFRS 9 will be effective January 1, 2018.

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, 2018, 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.

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

IAS 1, Presentation of Financial Statements, was amended in December 2014 to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Amendment is effective for years beginning on or after January 1, 2016. Cineplex is analyzing the new standard to determine its impact, if any, on Cineplex's balance sheet and statement of operations.

On January 13, 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. As Cineplex has significant contractual obligations in the form of operating leases (note 25) under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard, and material changes to the timing of recognition of expenses associated with the lease arrangements. Cineplex is analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations.

3. Business acquisitions and formations

a) Cineplex Starburst Inc.

On October 1, 2015, Cineplex acquired the 50% of the issued and outstanding equity of Cineplex Starburst Inc. ("CSI") that Cineplex did not already own, for $21,422 cash, resulting in Cineplex owning 100% of the issued and outstanding equity of CSI. Cineplex began consolidating CSI's financial results from the acquisition date. Immaterial transaction costs were expensed as incurred.

Cineplex previously equity-accounted for its interest in CSI. At the acquisition date, Cineplex recognized 100% of identifiable net assets of CSI. Cineplex's existing interest was remeasured at fair value at the acquisition date, resulting in a gain on equity interest of $7,447 recognized in the statement of operations.

Cineplex recognized $6,618 of goodwill relating primarily to its pre-existing gaming arrangements with CSI. The goodwill is not deductible for tax purposes.

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

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

Assets acquired and liabilities assumed		
Net working capital, including cash of $6,710	$	13,180
Equipment		20,995
Intangible assets - customer relationships		11,414
Goodwill		6,618
Debt		(2,669)
Deferred income taxes		(6,395)
Non-controlling interest		(299)
Net assets		42,844
Less: Cash from acquisition		(6,710)
Less: 50% interest held previously		(21,422)
	$	14,712
Consideration given - cash paid	$	21,422
Less: Cash from acquisition		(6,710)
	$	14,712

CSI has arrangements with customers to operate CSI's gaming equipment on a revenue share basis. The fair value of customer relationships recognized reflect annual renewal rates of 90%-95% for existing customers. They will be amortized on straight-line bases over five or seven years.

The equipment will be amortized on a straight-line basis over six years.

As at December 31, 2015, the fair value assigned to the assets and liabilities have been determined on a provisional basis, pending finalization of the post-acquisition review of the fair value of the customer relationships and equipment acquired, and liabilities assumed. The non-controlling interests in a subsidiary of CSI have been valued at the acquisition date fair value. Any variations may be material.

From the date of acquisition through December 31, 2015, the acquired business had total revenues of $21,183, and net income of $1,210, including amortization of $1,409 relating to the assets acquired.

If the transaction had occurred at the beginning of the year, consolidated revenues would have been $1,420,904 and consolidated net income would have been $133,588, including incremental depreciation and amortization of $4,206.

b) WorldGaming Network LP

On September 17, 2015, Cineplex acquired an 80% interest in the operating assets of WG Limited through Cineplex's subsidiary, WorldGaming Network LP ("WGN"). WGN is a leading online gaming platform that facilitates tournaments, leagues and gaming ladders for the competitive gaming community. Intertaintech Corporation, an affiliate of WorldGaming Limited owns the other 20% of WGN.

The total cash consideration paid was $19,757. Transaction costs of $359 associated with the transaction were expensed as incurred.

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

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

Assets acquired and liabilities assumed		
Net working capital, including cash of $7,285	$	5,998
Intangible assets, including software		18,621
Equipment		77
Non-controlling interests		(4,939)
Net assets		19,757
Less: Cash from acquisition		(7,285)
	$	12,472
Consideration given - cash paid	$	19,757
Less: Cash from acquisition		(7,285)
	$	12,472

During the fourth quarter, the fair values were finalized based on the post-acquisition review of the fair value of the software and equipment acquired, and liabilities assumed, resulting in $133 lower value of software and $133 increased working capital. The non-controlling interests were valued at the acquisition date fair value.

WGN's functional currency is the United States dollar, resulting in a cumulative translation adjustment at each balance sheet date. The cumulative translation adjustment is presented in equity.

Since the acquisition, WGN did not have material revenues or income. Cineplex's reported revenues and income would not have been materially different if the acquisition had occurred at January 1, 2015.

For the thirty-six month period beginning one year after the acquisition, Intertaintech Corporation has the right, but not the obligation to require Cineplex to acquire their entire 20% interest in WGN at fair value. Cineplex has recognized an initial liability of USD $3,750, ($4,939 based on the exchange rate on the transaction date), equivalent to the initial fair value of the non-controlling interests, reducing contributed surplus by $4,939. Fluctuations in value due to exchange rates or changes in the underlying value of the option are presented in the statement of operations. The $5,190 balance based on the exchange rate as at December 31, 2015 is included in accounts payable and accrued liabilities.

Cineplex has the right, but not the obligation to acquire Intertaintech Corporation's entire 20% interest in WGN at fair value at any time beginning two years after the acquisition.

c) Quebec theatres

On January 1, 2015, Cineplex acquired the 50% of common shares it did not already own of a corporation that operates a theatre in St. Jean, Quebec. The investment was equity-accounted prior to the acquisition. The acquisition and consolidation resulted in the recognition of an immaterial gain. The $1,676 of goodwill recognized is not deductible for tax purposes.

The total cash consideration paid was $900. All transactions costs associated with the acquisition were expensed as incurred.

On April 30, 2015, Cineplex acquired a theatre in Quebec City, Quebec for approximately $2,675, net of cash acquired. All transactions costs associated with the acquisition were expensed as incurred. Approximately $644 of the $858 goodwill recognized is deductible for income taxes.

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

d) YoYo's Yogurt Cafe

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

e) Ontario Theatre

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

4. Financial instruments

Fair value of financial instruments

The carrying value and fair value of Cineplex's financial instruments at December 31, 2015 and 2014 are as follows:

		2015		2014	
	Input level	Carrying value	Fair value	Carrying value	Fair value
Current debt	2	$ 3,737	$ 3,737	$ —	$ —
Long-term debt	2	222,340	224,000	229,754	232,000
Convertible debentures	1	100,703	114,133	98,727	113,165
Other liabilities - equipment liabilities	2	11,353	11,353	11,563	11,563
Interest rate swap agreements, net	2	5,602	5,602	2,809	2,809
Deferred consideration - AMC	2	3,134	3,134	3,061	3,061
Deferred consideration - EK3	3	10,000	10,000	34,486	34,486
Obligation to acquire WGN	3	5,190	5,190	—	—

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

The face value of current and long-term debt reflects fair value, as the debt bears floating interest at market rates.

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

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

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

Effective August 24, 2011, Cineplex entered into three interest rate swap agreements. Under these interest rate swap agreements, Cineplex pays a fixed rate of 1.715% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly. Those interest rate swap agreements have a term of five years that commenced in August 2011 and an aggregate notional principal amount of $150,000, the principal balance of the Term Facility.

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

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

The deferred consideration for AMC (an undiscounted amount of $3,134 based on estimated non-capital losses arising from the 2012 acquisition of AMC Ventures Inc.) is recorded at fair value and included in other liabilities.

The deferred consideration for EK3 (an initial undiscounted amount of $39,500 arising from the 2013 acquisition) is recorded in accounts payable and accrued liabilities, as it will be paid in early 2016 (2014 - included in other liabilities). Cineplex has measured the liability at December 31, 2015 based on a weighted average probability of reasonably possible outcomes. Cineplex has adjusted the deferred consideration to the best estimate of the expected value, being $10,000.

The change in fair value during the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
	AMC	**EK3**	**AMC**	**EK3**
Fair value at beginning of year	$ 3,061	$ 34,486	$ 2,929	$ 30,577
Change in fair value	—	(29,076)	—	—
Payments	—	—	—	(139)
Accretion	73	4,590	132	4,048
Fair value at end of year	$ 3,134	$ 10,000	$ 3,061	$ 34,486

For the thirty-six month period beginning one year after the acquisition, Intertaintech Corporation has the right, but not the obligation to require Cineplex to acquire their entire 20% interest in WGN at fair value. Cineplex has recognized an initial liability of USD $3,750, ($4,939 based on the exchange rate on the transaction

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

date), equivalent to the initial fair value of the non-controlling interests. Fluctuations in value due to exchange rates or changes in the underlying value of the option are presented in the statement of operations. The $5,190 balance based on the exchange rate as at December 31, 2015 is included in accounts payable and accrued liabilities.

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

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

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

Credit risk

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

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

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

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

The following schedule reflects the balance and age of trade receivables at December 31, 2015 and 2014:

	2015	2014
Trade receivables carrying value	$ 102,840	$ 81,905
Percentage past due	24%	26%
Percentage outstanding more than 120 days	1%	—%

The following schedule reflects the changes in the allowance for trade receivables during the years ended December 31, 2015 and 2014:

	2015	2014
Allowance for trade receivables - Beginning of year	$ 232	$ 177
Additional allowance recorded	8	180
Amounts written off	(123)	(125)
Allowance for trade receivables - End of year	$ 117	$ 232

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

Liquidity risk

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

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

					2015
					Payments due by period
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	$199,657	$199,657	$ —	$ —	$ —
Dividends payable	8,238	8,238	—	—	—
Interest rate swap agreements	6,437	1,499	4,938	—	—
Current debt	3,737	3,737	—	—	—
Long-term debt	224,000	—	224,000	—	—
Convertible debentures	107,500	—	107,500	—	—
Equipment obligations	12,322	2,077	4,154	3,954	2,137
Finance lease obligations	17,658	3,955	7,910	5,793	—
Deferred consideration - AMC	3,134	—	3,134	—	—
Deferred consideration - EK3	10,000	10,000	—	—	—
Total contractual obligations	$592,683	$229,163	$351,636	$ 9,747	$ 2,137

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

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

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

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

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

Currency risk

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

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

Interest rate risk

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

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

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

Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swap agreements. The interest rate swap agreements are recognized in the consolidated balance sheets at their estimated fair value. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI until the hedged interest payment is recorded, while the ineffective portion is recognized in the consolidated statements of operations as interest expense when incurred. During the year ended December 31, 2015, Cineplex recorded non-cash interest expense of $362 (2014 - $63 recovery) relating to the cash flow hedge. Cineplex expects to reclassify $2,568 from hedging reserves and other to the consolidated statement of operations in 2016 (2015 - $1,117), excluding the impact of income taxes.

The following table shows Cineplex's exposure to interest rate risk and the pre-tax effects on net income and OCI for the years ended December 31, 2015 and 2014 of a 1% change in interest rates management believes is reasonably possible:

						2015
		Pre-tax effects on net income and OCI - increase (decrease)				
		1% decrease in interest rates		**1% increase in interest rates**		
	Carrying value of financial liability	**Net income**	**OCI**	**Net income**	**OCI**	
Long-term debt	$ 222,340	$ 2,925	$ —	$ (2,925)	$ —	
Current debt	$ 3,737	$ 8	$ —	$ (8)	$ —	
Interest rate swap agreements - net	5,602	(1,500)	(2,634)	1,500	2,526	
		$ 1,433	$ (2,634)	$ (1,433)	$ 2,526	

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

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

5. Capital disclosures

Cineplex's objectives when managing capital are to:

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

Cineplex defines its capital as follows:

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

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

Cineplex is subject to certain covenants on its credit facilities agreement, which defines certain non-GAAP terms and measures. The total leverage ratio may not exceed 3.50 to 1 unless an acquisition is undertaken, in which case, the ratio allowance increases to 4.00 to 1 for a 12-month period before reverting automatically to 3.50 to 1. The total leverage ratio is determined by dividing total debt at the period-end (as defined in the credit facilities agreement) by the adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") (as defined in the credit facilities agreement) for the past four quarters. Cineplex also must maintain a fixed charge coverage ratio of greater than 1.25 to 1. The fixed charge coverage ratio (as defined in the credit facilities agreement) is computed by dividing the sum of adjusted EBITDA (as defined in the credit facilities agreement) and rent expense for the past four quarters by fixed charges for the same period. Fixed charges include interest expense, scheduled debt repayments, maintenance capital expenditures, rent expense and income taxes paid in the year. Management reviews the covenants on a quarterly basis in conjunction with filing requirements under its credit facilities agreement but also maintains a rolling projection to assess future growth capital commitments. Cineplex has complied with all covenant requirements during the years ended December 31, 2015 and 2014. Management also monitors the annualized payout ratio, calculated as dividends declared divided by adjusted free cash flow. All of these ratios are managed with certain target ranges determined by management to allow for flexibility in considering growth opportunities.

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

Objectives and strategies are reviewed periodically by management. During 2015 and 2014, there was no material change to Cineplex's capital composition, objectives or strategies.

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

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2015	2014
Cash at bank and on hand, net of outstanding cheques	$ 35,713	$ 34,367

7. Trade and other receivables

Trade and other receivables comprise the following:

	2015	2014
Trade receivables	$ 102,840	$ 81,905
Other receivables	18,558	19,557
	$ 121,398	$ 101,462

8 Inventories

Inventories comprise the following:

	2015	2014
Food service inventories	$ 6,885	$ 5,285
Other inventories, including work-in-progress	12,806	2,693
	$ 19,691	$ 7,978

The cost of inventories recognized as an expense was $89,915 (2014 - $80,746). Included in other inventories at December 31, 2015 is CSI inventory of $9,448.

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

9. Property, equipment and leaseholds

Property, equipment and leaseholds consist of:

	Land	Buildings and leasehold improvements	Buildings and leasehold improvements under finance lease	Equipment	Equipment under finance lease	Construction-in-progress	Total
At January 1, 2014							
Cost	$ 22,286	$ 530,529	$ 26,102	$ 437,481	$ 222	$ 9,613	$ 1,026,233
Accumulated depreciation	—	(254,105)	(13,070)	(299,852)	(94)	—	(567,121)
Net book value	$ 22,286	$ 276,424	$ 13,032	$ 137,629	$ 128	$ 9,613	$ 459,112
Year ended December 31, 2014							
Opening net book value	$ 22,286	$ 276,424	$ 13,032	$ 137,629	$ 128	$ 9,613	$ 459,112
Additions, net	1,583	32,171	—	62,426	—	18,556	114,736
Business acquisitions (note 3)	—	—	—	150	—	—	150
Disposals	(4,607)	(1,901)	—	(1,657)	(44)	(313)	(8,522)
Depreciation for the year	—	(33,659)	(2,038)	(34,163)	(84)	—	(69,944)
Closing net book value	$ 19,262	$ 273,035	$ 10,994	$ 164,385	$ —	$ 27,856	$ 495,532
At January 1, 2015							
Cost	$ 19,262	$ 558,800	$ 26,102	$ 489,087	$ 108	$ 27,856	$ 1,121,215
Accumulated depreciation	—	(285,765)	(15,108)	(324,702)	(108)	—	(625,683)
Net book value	$ 19,262	$ 273,035	$ 10,994	$ 164,385	$ —	$ 27,856	$ 495,532
Year ended December 31, 2015							
Opening net book value	$ 19,262	$ 273,035	$ 10,994	$ 164,385	$ —	$ 27,856	$ 495,532
Additions, net	—	39,668	—	64,536	—	(6,104)	98,100
Business acquisitions (note 3)	—	—	—	22,956	—	—	22,956
Disposals	—	(642)	—	(2,074)	—	(600)	(3,316)
Depreciation for the year	—	(34,701)	(2,038)	(43,341)	—	—	(80,080)
Closing net book value	$ 19,262	$ 277,360	$ 8,956	$ 206,462	$ —	$ 21,152	$ 533,192
At December 31, 2015							
Cost	$ 19,262	$ 595,090	$ 26,102	$ 564,652	$ —	$ 21,152	$ 1,226,258
Accumulated depreciation	—	(317,730)	(17,146)	(358,190)	—	—	(693,066)
Net book value	$ 19,262	$ 277,360	$ 8,956	$ 206,462	$ —	$ 21,152	$ 533,192

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

10. Deferred income taxes

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

	2015	2014
Deferred income tax assets		
Property, equipment and leaseholds and deferred tenant inducements - difference between net carrying value and undepreciated capital cost	$ 26,025	$ 25,936
Accounting provisions not currently deductible	13,993	11,736
Rent averaging liabilities	10,064	9,813
Deferred revenue	27	105
Interest rate swap agreements	1,514	797
Income tax credits available	616	1,751
Operating losses available for carry-forward	9,571	9,409
Total gross deferred income tax assets	61,810	59,547
Future deferred tax liabilities		
Intangible assets	(22,787)	(17,368)
Goodwill	(36,409)	(32,206)
Other	(2,380)	(3,002)
Total gross deferred income tax liabilities	(61,576)	(52,576)
Net deferred income tax asset	$ 234	$ 6,971

With the exception of operating losses used to reduce taxable income, which cannot be estimated, the net deferred income taxes are expected to be recognized after 2016.

The provision for income taxes included in the consolidated statements of operations differs from the statutory income tax rate for the years ended December 31, 2015 and 2014 as follows:

	2015	2014
Income before income taxes	$ 171,168	$ 97,415
Combined Canadian federal and provincial statutory income tax rates for the current year	26.65%	26.33%
Income taxes payable at statutory rate	45,616	25,649
Adjustments relating to prior periods	520	(4,244)
Other permanent differences	(9,217)	(261)
Provision for income taxes	$ 36,919	$ 21,144

Adjustments relating to prior periods include differences between the prior year provision and the income tax returns as filed, and in 2014, the recognition of deferred income tax assets associated with finance lease obligations. Other permanent differences in 2015 includes the $7,749 impact of the adjustment to the contingent consideration relating to the acquisition of CDN (note 4).

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

At December 31, 2015, subsidiaries of Cineplex had recognized deferred tax assets associated with operating (non-capital) losses available for carry-forward. Cineplex believes the circumstances under which the losses occurred are unlikely to recur given the existing business organization and projected operating results. Those losses expire as follows:

2023	$	297
2024	$	2,799
2026	$	5,113
2027	$	5,402
2028	$	8,822
2029	$	5,122
2030	$	2,184
2032	$	254
2034	$	1,947
2035	$	2,770
	$	34,710

At December 31, 2015, Cineplex had not recognized deferred income tax assets associated with $15,379 (2014 - $15,337) of losses available for carry-forward from its joint venture SCENE, as under the current organizational structure the joint venture is not expected to generate sufficient taxable income to recover those losses in the foreseeable future.

Cineplex's purchase of AMC Ventures Inc. in 2012 resulted in the acquisition of $147,034 of non-capital losses available to offset taxable income. As a result of use of the non-capital losses acquired in this transaction, Cineplex's cash income taxes in 2013 and 2014 were substantially reduced. As a result of reducing taxable income through losses, Cineplex is subject to minimum tax in certain jurisdictions which may be credited against income taxes payable on taxable income earned in periods after the losses have been fully used. In 2015, $1,090 (2014 - $537) of those credits have been utilized to reduce provincial income taxes payable. Minimum income tax credits totalling $266 through December 31, 2015 (2014 - $1,325) have been recorded as deferred income tax assets and a reduction of deferred income tax expense.

11. Interests in joint ventures

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

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

Cineplex Starburst Inc., ("CSI"), supplies and services all of the games in Cineplex's circuit. CSI also supplies equipment to third party sites, in addition to owning and operating Playdium, a family entertainment centre in Mississauga, Ontario. Cineplex acquired the 50% of CSI it did not already own on October 1, 2015.

Other joint ventures include 50% interest in a theatre operation (2014 - two theatre operations), and a 50% interest in YoYo's.

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

Each of the joint ventures is headquartered in Canada.

The net interest in joint ventures is summarized as follows as at December 31, 2015 and 2014:

	CDCP	CSI	Other	2015
Ownership percentage	78.2%	50%	50%	
Voting percentage	50%	50%	50%	
Interest at beginning of year	$ 33,333	$ 12,347	$ 777	$ 46,457
Investments	700	—	—	700
Dividends or distributions	(2,543)	(154)	—	(2,697)
Net change in receivable or payable	1,400	—	(105)	1,295
Share of net income	1,672	1,782	102	3,556
Share of OCI	122	—	—	122
Acquisition of interest (note 3)	—	(13,975)	(170)	(14,145)
Net interest in joint ventures	$ 34,684	$ —	$ 604	$ 35,288

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

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

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

	CDCP	CSI	Other	2015
Assets				
Cash and cash equivalents	$ 2,410	$ —	$ 103	$ 2,513
Trade and other receivables	7,594	—	678	8,272
Inventories	—	—	148	148
Prepaid expenses and other current assets	47	—	95	142
	10,051	—	1,024	11,075
Equipment	65,568	—	512	66,080
Total assets	$ 75,619	$ —	$ 1,536	$ 77,155
Liabilities				
Accounts payable and accrued liabilities	$ 3,154	$ —	$ —	$ 3,154
Deferred revenue	156	—	—	156
Current portion of long-term debt	4,596	—	—	4,596
Fair value of interest rate contracts	76	—	—	76
	7,982	—	—	7,982
Long-term debt	27,518	—	2,334	29,852
Total liabilities	35,500	—	2,334	37,834
Equity	40,119	—	(798)	39,321
Total liabilities and equity	$ 75,619	$ —	$ 1,536	$ 77,155

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

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

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

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

	CDCP	CSI	Other	2015
Revenues	$ 23,962	$ 66,515	$ 4,111	$ 94,588
Depreciation and amortization	13,625	3,013	114	16,752
Interest expense	2,092	33	99	2,224
Income taxes	—	1,264	—	1,264
Other expenses	6,107	58,641	3,694	68,442
Total expenses	21,824	62,951	3,907	88,682
Net income	$ 2,138	$ 3,564	$ 204	$ 5,906
Other comprehensive income	156	—	—	156
Comprehensive income	$ 2,294	$ 3,564	$ 204	$ 6,062

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

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

SCENE

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

		2015		2014
Assets				
Cash and cash equivalents	$	2,800	$	223
Trade and other receivables		10,203		7,274
Inventories		—		2
Prepaid expenses		—		69
		13,003		7,568
Equipment		288		478
Total assets	$	13,291	$	8,046
Liabilities				
Accounts payable and accrued liabilities	$	11,368	$	6,254
Deferred revenue		33,907		33,488
Total liabilities		45,275		39,742
Deficiency		(31,984)		(31,696)
	$	13,291	$	8,046

The summarized results of operations of SCENE are as follows:

		2015		2014
Revenues	$	58,050	$	41,899
Expenses		69,539		53,760
Net loss	$	(11,489)	$	(11,861)

Cineplex and the other partner of SCENE contribute capital as required to fund SCENE's operations.

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

12. Intangible assets

Intangible assets consist of the following:

	Customer relationships	Fair value of leases - assets	Other	Trademarks and trade names	Total
At January 1, 2014					
Cost	$ 12,300	$ 27,153	$ 19,495	$ 76,385	$ 135,333
Accumulated amortization	(586)	(6,112)	(2,134)	(12,900)	(21,732)
Net book value	$ 11,714	$ 21,041	$ 17,361	$ 63,485	$ 113,601
Year ended December 31, 2014					
Opening net book value	$ 11,714	$ 21,041	$ 17,361	$ 63,485	$ 113,601
Additions	—	—	3,700	—	3,700
Disposals	—	(49)	—	—	(49)
Amortization	(1,757)	(2,523)	(3,226)	—	(7,506)
Closing net book value	$ 9,957	$ 18,469	$ 17,835	$ 63,485	$ 109,746
At January 1, 2015					
Cost	$ 12,300	$ 27,004	$ 23,195	$ 63,485	$ 125,984
Accumulated amortization	(2,343)	(8,535)	(5,360)	—	(16,238)
Net book value	$ 9,957	$ 18,469	$ 17,835	$ 63,485	$ 109,746
Year ended December 31, 2015					
Opening net book value	$ 9,957	$ 18,469	$ 17,835	$ 63,485	$ 109,746
Additions	—	—	580	114	694
Business acquisitions (note 3)	11,414	—	18,621	—	30,035
Disposals	—	(12)	—	—	(12)
Foreign exchange rate changes	—	—	936		936
Amortization for the year	(2,291)	(2,492)	(4,476)	—	(9,259)
Closing net book value	$ 19,080	$ 15,965	$ 33,496	$ 63,599	$ 132,140
At December 31, 2015					
Cost	$ 23,714	$ 26,973	$ 43,404	$ 63,599	$ 157,690
Accumulated amortization	(4,634)	(11,008)	(9,908)	—	(25,550)
Net book value	$ 19,080	$ 15,965	$ 33,496	$ 63,599	$ 132,140

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

13. Goodwill

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

		2015		2014
Balance - Beginning of year	$	798,801	$	797,476
Goodwill acquired (note 3)		9,152		1,325
Balance - End of year	$	807,953	$	798,801

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

For the purpose of impairment testing, goodwill has been allocated to the following CGUs or groups of CGUs:

		2015		2014
Exhibition	$	601,568	$	691,943
Media		206,385		106,858
	$	807,953	$	798,801

In 2014, goodwill was allocated between the Exhibition and Media segments without imputing an implied access fee, as the Exhibition reporting segment does not charge an access fee to the Media reporting segment. Management believes that a more representative allocation of goodwill between the segments would incorporate such a fee and has revised the allocation of goodwill between the two segments in 2015 to reflect an implied access fee. The revised allocation would have not affected the impairment analysis in 2014.

Revenue growth rates and operating margins are based on Cineplex's internal budget. Cineplex projects revenue, operating margins and cash flows for a period of five years, and applies a perpetual long-term growth rate thereafter. In arriving at its forecasts, Cineplex considers past experience, economic trends such as inflation, as well as industry and market trends. The projections also take into account the expected impact of new product and service initiatives. Discount rates applied to the groups of CGUs represent Cineplex's assessment of the risks specific to each group of CGUs regarding the time value of money and individual risks of the underlying assets. Cineplex used discount rates between 7.0% and 12.7% (2014 - between 7.5% and 14.5%), and perpetual growth rates between 1% and 3% (2014 - between 1% and 3%), which are consistent with the observed long-term average growth rates in the exhibition and digital media industries.

Cineplex concluded that there were no impairments of its individual CGUs, and the reasonable range of recoverable amounts for the individual CGUs were greater than their carrying values. For three CGUs in the Exhibition group of CGUs, if the discount rate were to increase by 0.5%-2.0%, assuming a constant cash flow margin, the carrying amount of the CGUs would exceed the reasonable range for the recoverable amount, representing less than 2% of the Exhibition goodwill. For all other CGUs, no reasonably possible change in assumption would cause the recoverable amount to fall below the carrying value.

The determination of fair value less costs of disposal is sensitive to the growth rates, discount rates, and long-term growth rates used. The risk premiums expected by market participants related to uncertainties about the

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

industry and assumptions relating to future cash flows may differ, depending on economic conditions and other events. Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future assessments of the recoverable amount for groups of CGUs.

14. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of:

		2015		2014
Accounts payable - trade	$	95,642	$	80,333
Film payables and accruals		51,478		33,348
Accrued salaries and benefits		18,477		19,631
Sales taxes payable		11,402		7,813
Accrued occupancy costs		3,003		3,378
Deferred consideration - EK3 business acquisition		10,000		—
WGN put option		5,190		—
Other payables and accrued liabilities		14,465		14,649
	$	209,657	$	159,152

15. Share-based compensation

Option plan

Cineplex has an incentive share option plan (the "Plan") for certain employees. The aggregate number of shares that may be issued under the Plan is limited to 5,250,000. All of the options must be exercised over specified periods not to exceed ten years from the date granted. As at December 31, 2015, 2,811,085 options are available for grant under the plan.

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

Shares options have been granted as follows:

Grant date	Number of options granted	Exercise price	Number of employees granted options	Vesting period	Expiry
February 18, 2009	1,250,000	14.00	21	One third on each successive anniversary of the grant date	February 17, 2014
February 15, 2011	529,774	23.12	41	One third on each successive anniversary of the grant date	February 14, 2021
February 15, 2011	500,000	23.12	1	One fourth on each successive anniversary of the grant date	February 14, 2021
February 14, 2012	474,000	27.33	42	One third on each successive anniversary of the grant date	February 13, 2022
February 12, 2013	385,834	33.49	42	One third on each successive anniversary of the grant date	February 11, 2023
September 3, 2013	20,000	39.12	1	One third on each successive anniversary of the grant date	September 2, 2023
February 14, 2014	440,519	40.45	54	One third on each successive anniversary of the grant date	February 14, 2024
February 14, 2014	100,000	40.45	1	One fourth on each successive anniversary of the grant date	February 14, 2024
February 18, 2015	446,004	49.14	59	One fourth on each successive anniversary of the grant date	February 14, 2025

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

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

Cineplex recorded $1,694 of employee benefits expense with respect to the options during the year ended December 31, 2015 (2014 - $1,715). At December 31, 2015, $4,448 associated with the options is reflected in contributed surplus on the consolidated balance sheets (2014 - $4,952). The intrinsic value of vested share options at December 31, 2015 is $10,213 (2014 - $13,291), based on the market price of $47.55 per share (2014 - $44.83).

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

A summary of option activities in 2015 and 2014 is as follows:

		2015		2014	
	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	7.65	1,776,173	$ 31.37	1,459,772	$ 27.23
Granted		446,004	49.14	540,519	40.45
Cancelled		—	—	(18,964)	36.06
Exercised		(671,656)	26.47	(205,154)	25.39
Options outstanding, December 31	7.73	1,550,521	$ 38.60	1,776,173	$ 31.37

At December 31, 2015 and 2014, options are vested and exercisable as follows:

	2015	2014
Options vested and exercisable at $40.45	138,028	—
Options vested and exercisable at $39.12	13,334	6,667
Options vested and exercisable at $33.49	126,175	105,668
Options vested and exercisable at $27.33	193,774	192,529
Options vested and exercisable at $23.12	140,369	400,052
	611,680	704,916

The fair values of options granted in 2015 and 2014 were determined using the Black-Scholes valuation model using the following significant inputs:

	2015	2014
Number of options granted	446,004	540,519
Share price	$ 49.14	$ 40.45
Exercise price	$ 49.14	$ 40.45
Expected option life (years)	4.0	3.0 - 4.0
Volatility	16%	18%
Dividend yield	3.05%	3.54%
Annual risk-free rate	1.24%	1.42% - 1.66%
Fair value of options granted	$ 4.39	$3.56 - $3.96

Long-term incentive plan

The LTIP award for three-year service periods consists of a “phantom” stock plan, awarding 114,335 share equivalents in 2015 (2014 - 135,602), which, subject to certain performance and market conditions, may decrease approximately 67% or increase by 100% subject to certain performance and market conditions. The

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

base share equivalents attract compounding notional dividends at the same rate as outstanding common shares, which are notionally reinvested as additional base share equivalents. The awards will be settled in cash at the end of service periods, within 30 days of the approval of the consolidated financial statements by the Board of Directors.

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the year of change. Forfeitures are estimated at $nil. For the year ended December 31, 2015, Cineplex recognized $11,284 (2014 - $4,839) of compensation costs under the LTIP.

Deferred equity units

Members of the Board of Directors and certain officers of Cineplex may elect to defer a portion of their compensation in the form of deferred equity units. For the year ended December 31, 2015, Cineplex recognized $866 (2014 - $596) of compensation costs associated with the deferred equity units. At December 31, 2015, $11,028 (2014 - $9,077) was included in share-based compensation liability.

16. Dividends payable

Cineplex has declared the following dividends during the years:

	2015		2014	
Record date	**Amount**	**Amount per share**	**Amount**	**Amount per share**
January	$ 7,877	$ 0.1250	$ 7,552	$ 0.1200
February	7,881	0.1250	7,554	0.1200
March	7,883	0.1250	7,556	0.1200
April	7,883	0.1250	7,556	0.1200
May	8,199	0.1300	7,871	0.1250
June	8,201	0.1300	7,873	0.1250
July	8,201	0.1300	7,873	0.1250
August	8,201	0.1300	7,873	0.1250
September	8,202	0.1300	7,874	0.1250
October	8,202	0.1300	7,874	0.1250
November	8,236	0.1300	7,874	0.1250
December	8,238	0.1300	7,877	0.1250

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

In January 2016, Cineplex declared a dividend of $8,238, or $0.1300 per share, payable in February 2016.

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

17. Current and long-term debt

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

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

The Revolving Facility commitment of $350,000 was permanently reduced by $100,000 to $250,000 in 2013 pursuant to the terms of the Credit Facilities. There are provisions to increase the Revolving Facility commitment amount by an additional $150,000 with the consent of the lenders.

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

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

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

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

Cineplex.

Long-term debt consists of:		2015		2014
Term Facility	$	150,000	$	150,000
Revolving Facility		74,000		82,000
Deferred financing fees		(1,660)		(2,246)
	$	222,340	$	229,754
Letters of credit reserved against Revolving Facility	$	5,723	$	5,420
Revolving Facility available		170,277		162,580

At December 31, 2015, Cineplex was subject to a margin of 0.40% (2014 - 0.55%) on the prime rate and 1.40% (2014 - 1.55%) on the bankers' acceptance rate, plus a 0.25% (2014 - 0.25%) per annum fee for letters of credit issued on the Revolving Facility. The average interest rate on borrowings under the Credit Facilities

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

was 3.02% for the year ended December 31, 2015 (2014 - 3.2%). Cineplex pays a commitment fee on the daily unadvanced portion of the Revolving Facility, which will vary based on certain financial ratios and was 0.28% at December 31, 2015 (2014 - 0.31%).

Current debt of a subsidiary of CSI consists of a revolving facility with a United States bank, denominated in US dollars. The facility has a limit of $3,000 US dollars, of which $2,700 had been drawn at December 31, 2015. The facility matures in June 2016.

18. Finance lease obligations

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

2016	$	3,955
2017	$	3,955
2018	$	3,955
2019	$	3,955
2020	$	1,838
Thereafter	$	—
		17,658
Less: Amount representing interest (average rate of 7.3%)		2,649
		15,009
Less: Current portion		2,957
	$	12,052

Interest expense related to finance lease obligations was $1,202 for the year ended December 31, 2015 (2014 - $1,384).

19. Post-employment benefit obligations

Cineplex sponsors a defined benefit supplementary executive retirement plan ("DB SERP"). The DB SERP has a defined benefit obligation of $5,904 at December 31, 2015, which is substantially unfunded. Annual benefits payable are between $375 and $500, depending on the retirement date of the sole beneficiary. The DB SERP does not have a material effect on the operations or cash flows of Cineplex.

Cineplex also sponsors the Retirement Plan for Salaried Employees of Famous Players Limited Partnership, a defined benefit pension plan, and the Famous Players Retirement Excess Plan (collectively known as the "Famous Players Plans"). Effective October 23, 2005, Cineplex elected to freeze future accrual of defined benefits under the Famous Players Plans. The Famous Players Plans do not have a material effect on the operations, cash flows or financial position of Cineplex.

Cineplex also provides a group registered retirement plan for the benefit of full-time employees.

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

The net post-retirement benefit obligation for each of plans is as follows:

	2015	2014
DB SERP obligation, net of assets	$ 5,524	$ 5,151
Famous Players Plans obligations	1,772	1,826
Net post-retirement benefit obligation	$ 7,296	$ 6,977

20. Other liabilities

Other liabilities consist of the following:

	2015	2014
Deferred tenant inducements	$ 49,728	$ 54,193
Excess of straight-line amortization over lease payments	36,915	34,963
Fair value of leases - liabilities	26,179	30,548
Asset retirement obligations	2,097	2,042
Deferred gain on sale of density rights	1,531	1,331
Licensing obligations - non-current	9,561	9,989
Deferred consideration - AMC business acquisition	3,134	3,061
Deferred consideration - EK3 business acquisition	—	34,486
Other, including provisions	2,729	2,937
	$ 131,874	$ 173,550

21. Convertible debentures

Convertible debentures consist of the following at December 31, 2015 and 2014:

	2015	2014
Face value of debentures outstanding	$ 107,500	$ 107,500
Unaccreted deferred financing fees and discount	(6,797)	(8,773)
	$ 100,703	$ 98,727

The $107,500 convertible unsecured subordinated debentures, mature 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 30 in each year. The debentures will not be redeemable by Cineplex prior to December 31, 2016. After that date, at the holder's option, the debentures may be converted into shares at any time prior to the close of business five days before the earlier of the Maturity Date, the date fixed for redemption by Cineplex, or if called for repurchase in the event of a change in control, the payment date, at a conversion price of $56 per share.

The unaccreted deferred financing fees and discount include gross fees of $4,454 and the initial discount of $6,450, net of $1,976 accretion recognized in 2015 (2014 - $1,857).

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

22. Share capital

Cineplex is authorized to issue an unlimited number of common shares, and 10,000,000 preferred shares of which none are outstanding. Share capital at December 31, 2015 and 2014 and transactions during the years are as follows:

				2015
				Amount
	Common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance - December 31, 2014	63,015,023	$ 849,602	$ 4,471	$ 854,073
Issuance of shares on exercise of options	355,036	4,232	—	4,232
Balance - December 31, 2015	63,370,059	$ 853,834	$ 4,471	$ 858,305

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

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

23. Other costs

	2015	2014
Employee salaries and benefits	$ 233,693	$ 205,674
Rent	138,835	136,576
Realty and occupancy taxes and maintenance fees	66,596	66,173
Utilities	29,308	28,480
Purchased services	50,736	49,016
Other inventories consumed	23,359	19,416
Venue revenue share	3,059	—
Repairs and maintenance	23,665	22,154
Office and operating supplies	14,513	13,944
Licences and franchise fees	12,845	12,525
Insurance	2,637	2,490
Advertising and promotion	28,131	24,515
Professional and consulting fees	6,109	5,427
Telecommunications and data	5,091	4,946
Bad debts	862	562
Equipment rental	3,139	2,976
Other costs	12,811	11,803
	$ 655,389	$ 606,677

24. Net income per share

Basic

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

	2015	2014
Net income attributable to owners of Cineplex	$ 134,697	$ 76,271
Weighted average number of shares outstanding	63,100,085	62,973,074
Basic EPS	$ 2.13	$ 1.21

(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.

	2015	2014
Net income attributable to shareholders of Cineplex	$ 134,697	$ 76,271
Weighted average number of shares outstanding	63,100,085	62,973,074
Adjustments for stock options	315,287	433,984
Weighted average number of shares for diluted EPS	63,415,372	63,407,058
Diluted EPS	$ 2.12	$ 1.20

25. Leases

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

Cineplex's minimum rental commitments at December 31, 2015 under the above-mentioned operating leases are set forth as follows:

2016	$ 150,891
2017	$ 149,900
2018	$ 139,449
2019	$ 127,666
2020	$ 109,760
Thereafter	$ 552,523
	$ 1,230,189

Minimum rent expense relating to operating leases on a straight-line basis in 2015 was $147,532 (2014 - $143,626). In addition to the minimum rent expense, in 2015 Cineplex incurred percentage rent charges of $1,912 (2014 - $1,738).

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

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

2016	$	259
2017	$	250
2018	$	275
2019	$	279
2020	$	246
Thereafter	$	322
	$	1,631

26. Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	2015	2014
Trade and other receivables	$ (15,386)	$ 186
Inventories	(3,680)	(730)
Prepaid expenses and other current assets	(325)	(50)
Accounts payable and accrued liabilities	28,978	(5,483)
Income taxes payable	19,518	7,654
Deferred revenue	9,790	13,272
Post-employment benefit obligations	294	455
Share-based compensation	5,470	(7,744)
Other liabilities	(2,114)	849
	$ 42,545	$ 8,409
Non-cash investing activities:		
Property, equipment and leasehold purchases financed through accounts payable and accrued liabilities	$ 20,353	$ 19,718

27. Commitments, guarantees and contingencies

Commitments

As of December 31, 2015, Cineplex has aggregate capital commitments as follows:

Capital commitments for operating locations to be completed or renovated during 2016 - 2020	$ 103,586
Letters of credit	$ 5,723

See note 4 for the contingent obligation to to acquire the equity of WGN that Cineplex does not own, and note 25 for theatre lease commitments.

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

Guarantees

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

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

Cineplex has assessed the fair value of the lease guarantees and determined that the fair value of these guarantees at December 31, 2015 is nominal. As such, no additional amounts have been provided in the consolidated financial statements for these guarantees. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, Cineplex could face a substantial financial burden, which could be mitigated by Cineplex operating any theatres under default.

Other

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

28. Segment information

Cineplex has two reportable segments, Exhibition and Media. The reportable segments are business units offering differing products and services, and managed separately due to their distinct natures. These two reportable segments have been determined by Cineplex's chief operating decision makers.

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. Also included in the Exhibition segment are theatre rentals and digital commerce rental and sales, and associated costs.

Media
The Media reporting segment is comprised of the aggregation of two operating segments, Cineplex Media and Cineplex Digital Media. Cineplex Media consists of all in-theatre advertising revenues and costs, including pre-show, showtime, magazine and lobby advertising. Cineplex Digital Media is comprised of revenues and costs associated with the design, installation and operations of digital signage networks, along with advertising on certain networks. Aggregation of these operating segments is based on the segments having similar economic characteristics. There are substantially no inter-segment transactions. The Exhibition reporting segment does

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

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.

	Year ended December 31, 2015				Year ended December 31, 2014		
	Exhibition	Media	Other	Consolidated	Exhibition	Media	Consolidated
Revenues	$ 1,217,297	$ 153,646	$ —	$ 1,370,943	$ 1,100,527	$ 134,189	$ 1,234,716
EBITDA (i)	148,426	97,815	36,523	282,764	121,672	74,811	196,483
Depreciation and amortization	80,331	9,008	—	89,339	70,652	6,798	77,450
Interest expense				22,443			21,948
Interest income				(186)			(330)
Income taxes expense				36,919			21,144
Net income				$ 134,249			$ 76,271

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

Other EBITDA includes the $29,076 change in fair value of financial instrument and $7,447 gain on acquisition of business.

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.

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

29. Barter transactions

Cineplex occasionally enters into barter arrangements with other parties to exchange goods or services. During the year ended December 31, 2015, Cineplex provided advertising and media services to third parties and recognized advertising revenues of $5,326 (2014 - $5,806). Cineplex received sponsorship and advertising services in exchange, recording marketing expenses of $5,573 (2014 - $5,619). The exchanges were measured at the estimated fair value of the services provided by Cineplex, by reference to similar services provided by Cineplex for monetary consideration to arm's-length third parties other than those with whom the transactions were entered into.

30. Related party transactions

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

Joint ventures

Cineplex leased digital projection systems from CDCP in the amount of $1,617 for the year ended December 31, 2015 (2014 - $1,732).

Cineplex performs certain management and film booking services for the joint ventures in which it is a joint venturer. During the year ended December 31, 2015, Cineplex earned revenue of $275 for these services (2014 - $371).

Compensation of key management

Compensation recognized in employee benefits for key management included:

		2015		2014
Salaries and short-term employee benefits	$	4,781	$	4,388
Post-employment benefits		656		1,415
Share-based payments		8,068		4,207
	$	13,505	$	10,010

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Cineplex Inc.
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RioCan Real Estate Investment Trust
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Robert Steacy (3)(4)
Corporate Director
Toronto, ON

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

INVESTOR RELATIONS

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

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416 682 3860
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Email: inquiries@canstockta.com

www.canstockta.com

ANNUAL MEETING

Wednesday, May 11, 2016
10:30AM Eastern Daylight Time
Cineplex Cinemas Yonge-Dundas and VIP
10 Dundas Street East
Toronto, ON

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

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