CINEPLEX

100 Years of Movie Moments

Delivering a premium ENTERTAINMENT EXPERIENCE

THIRD QUARTER 2012

As of September 30, 2012, Cineplex Inc. owns, operates or has an interest in 133 theatres with 1,438 screens. The company operates theatres with the following top tier brands: Cineplex Odeon, Galaxy, Famous Players (including Colossus, Coliseum and Silvercity), Scotiabank Theatres and Cinema City.

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Letter to shareholders:

I am pleased to report our third quarter results for 2012. Total revenues for the third quarter increased 1.7% to $281.4 million compared to a year ago, and our merchandising and media businesses, delivered strong results.

The third quarter started strong with the majority of the films performing well early in the quarter including: *Ted, The Amazing Spiderman, The Dark Knight Rises* and *Ice Age: Continental Drift*. With the exception of *The Bourne Legacy*, films in the latter part of the quarter generated softer than expected results.

Box office revenues decreased 0.2% to $162.1 million; concession revenues increased 4.6% to $85.9 million and other revenues increased 3.9% to $33.3 million. Adjusted EBITDA of $54.6 million decreased 5.0% compared to the same period in 2011. Net income increased 100.9% to $51.7 million from $25.7 million in the prior year. On a year-to-date basis, total revenues were up 4.8% and Adjusted EBITDA was up 7.4%.

In July, we completed the acquisition of four AMC theatres – three in the Greater Toronto Area and one in Montreal. Currently we have begun implementing our merchandising and marketing programs and over the next several months, we will implement numerous changes to improve the theatres through the addition of premium entertainment offerings.

We are also pleased to report that during the quarter we completed our digital projection conversion including the four theatres we acquired from AMC. As of September 30, 2012, we owned and operated 133 theatres with 1,438 screens, of which approximately 36% of the screens are 3D enabled.

Our SCENE loyalty program continues to grow as membership increased by approximately 300,000 members during the quarter reaching a new milestone of 4.1 million members as of September 30, 2012.

We are pleased with the progress in our key initiatives and are encouraged by the industry box office results for October and the quality of the film product for the balance of the quarter.

In conclusion, it has been another busy and productive quarter. I extend a special thanks to all of our employees and management across the country who continue to work hard every day to deliver an exceptional entertainment experience. On behalf of all of my colleagues, I wish you a safe and happy holiday season.

On behalf of the Board of Directors,

Ellis Jacob
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 8, 2012

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

Unless otherwise specified, all information in this MD&A is as of September 30, 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS CONTENTS

Non-GAAP Measures

Cineplex reports on certain non-GAAP measures that are used by management to evaluate performance of the Partnership and Cineplex. In addition, non-GAAP measures are used in measuring compliance with debt covenants. Because non-GAAP measures do not have standardized meanings, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled to their nearest GAAP measure. The definition, calculation and reconciliation of non-GAAP measures are provided in Section 18, Non-GAAP measures.

Forward Looking Statements

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

1. OVERVIEW OF CINEPLEX

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

Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets, with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. The business of Cineplex is carried on through the Partnership and its subsidiaries. As of September 30, 2012, Cineplex owned, leased or had a joint venture interest in 1,438 screens in 133 theatres.

Cineplex Entertainment
Locations and screens at September 30, 2012

Province	Locations	Screens	Digital Screens	Digtal 3D Screens	UltraAVX	IMAX Screens	VIP Screens
Ontario	64	700	690	262	14	9	10
Quebec	22	256	251	81	7	2	—
British Columbia	20	198	198	80	7	3	5
Alberta	16	183	183	71	7	2	3
Saskatchewan	6	51	51	18	1	—	—
Manitoba	5	50	38	12	—	1	—
TOTALS	**133**	**1,438**	**1,411**	**524**	**36**	**17**	**18**
Percentage of screens			98%	36%	3%	1%	1%

Cineplex Entertainment - Locations and screens last eight quarters								
	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Theatres	133	130	130	130	130	129	131	131
Screens	1,438	1,359	1,352	1,352	1,351	1,344	1,360	1,362
Digital Screens	1,411	1,320	1,110	891	671	483	466	415
3D Digital Screens	524	492	412	396	386	382	380	366
UltraAVX Screens	36	36	25	23	23	22	17	11
IMAX Screens	17	14	14	14	11	10	9	9
VIP Screens	18	18	15	15	10	10	10	10
Percentage of 3D Digital Screens	36%	36%	30%	29%	29%	28%	28%	27%

1.1 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of Canadian dollars, except per Share amounts)	Third Quarter			Year to Date		
	2012	2011	Change (ii)	2012	2011	Change (ii)
Total revenues	$ 281,368	$ 276,708	1.7%	$ 793,176	$ 756,507	4.8%
Attendance	18,348	18,542	-1.0%	52,621	50,989	3.2%
Other revenues	33,311	32,072	3.9%	82,481	89,417	-7.8%
Net income	51,712	25,737	100.9%	87,780	38,329	129.0%
Adjusted EBITDA (i)	54,575	57,441	-5.0%	142,977	133,072	7.4%
Adjusted EBITDA margin (i)	19.4%	20.8%	-1.4%	18.0%	17.6%	0.4%
Adjusted free cash flow per Share (i)	$ 0.5737	$ 0.7133	-19.6%	$ 1.5378	$ 1.6100	-4.5%
Earnings per Share - basic	$ 0.84	$ 0.44	90.9%	$ 1.45	$ 0.67	116.4%
Earnings per Share - diluted	$ 0.83	$ 0.44	88.6%	$ 1.45	$ 0.66	119.7%

(i) See Section 18, Non-GAAP measures.
(ii) Throughout this MD&A, changes in percentage amounts are calculated as 2012 value less 2011 value.

Total revenues for the third quarter of 2012 increased 1.7% compared to the prior year period due to higher concession and media revenues as well as the acquisition of the four theatres from AMC Entertainment Inc. ("AMC") (See Section 1.3, Business acquisition). Concession revenues increased 4.6% despite a 1.0% decrease in attendance as concession revenues per patron ("CPP") increased from $4.43 in the third quarter of 2011 to $4.68 in the same period in the current year, a quarterly record for Cineplex. Media revenues increased 3.6% compared to the prior year period. Box office revenues decreased 0.2% due to the decrease in attendance, partially offset by a 0.8% increase in box office revenue per patron ("BPP") which increased from $8.77 in the prior year period to $8.84 in the third quarter of 2012. Adjusted EBITDA decreased $2.9 million to $54.6 million and adjusted free cash flow per common share of Cineplex ("Share") was $0.5737, a $0.1396 decrease from $0.7133 in the prior year period.

Total revenues for the nine months ended September 30, 2012 increased 4.8% compared to the prior year period due to a 3.2% increase in attendance resulting in higher box office and concession revenues as well as the acquisition of the four theatres from AMC. The attendance increase was primarily due to the success of film product released in the first half of 2012 more than offsetting the lower attendance and box office revenues in the third quarter. Box office and concession revenues increased 5.4% and 8.7%, respectively, compared to the 2011 period. Other revenues decreased 7.8% compared to the prior year period, primarily due to a 13.9% decrease in media revenues. Adjusted EBITDA increased 7.4%, from $133.1 million to $143.0 million and adjusted free cash flow per Share decreased 4.5%, from $1.6100 in the 2011 period to $1.5378 in the same period in 2012.

1.2 KEY DEVELOPMENTS IN THE THIRD QUARTER OF 2012

The following describes certain key business initiatives undertaken during the third quarter of 2012 in each of Cineplex's core business areas:

THEATRE EXHIBITION

- Completed the acquisition of AMC Ventures Inc., which owns four theatres located in Toronto, Mississauga and Oakville, Ontario and Montreal, Quebec.
- BPP increased 0.8% from $8.77 in the third quarter of 2011 to $8.84 in the current year period, which is a third quarter BPP record for Cineplex.
- As of September 30, 2012, Cineplex has completed the planned conversion of its theatre circuit to digital projection.

MERCHANDISING

- Reported record quarterly concession revenues of $85.9 million, a 4.6% increase in concession revenues compared to the prior year period.
- Reported record quarterly CPP of $4.68, up $0.25 or 5.6% over the third quarter of 2011, exceeding the previous quarterly record of $4.66 recorded in the second quarter of 2012.
- Continued the roll-out of digital menu boards at concession stands throughout the circuit, providing a flexible platform to communicate pricing, promotions and merchandising programs.
- Began implementing Cineplex's merchandising strategies at the four theatres acquired from AMC during the period. Cineplex believes its merchandising expertise will positively impact concession revenues at these locations.

MEDIA

- Media revenues increased 3.6% compared to the prior year period due primarily to growth in the Cineplex digital media ("CDM") business.
- Recruited a new Senior Vice President, Sales, responsible for overseeing sales across all channels and platforms, starting October 1, 2012.

ALTERNATIVE PROGRAMMING

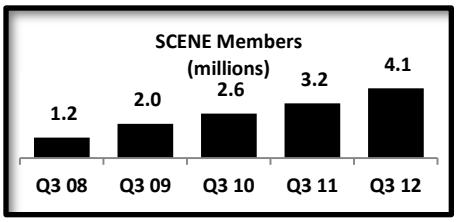
- The Wimbledon tennis finals were screened live in 3D at select theatres across Canada during the quarter.
- Other alternative programming during the third quarter of 2012 included ethnic films, live events such as World Wrestling Entertainment, concerts, and performances from the National Theatre Live from London.

INTERACTIVE

- Cineplex.com registered a 36% increase in page views and a 19% increase in visits during the third quarter of 2012 compared to the prior year period, registering 104 million page views and 17 million visits during the quarter.
- As of September 30, 2012, the Cineplex app had been downloaded 4.1 million times and recorded 84.8 million app sessions.
- Launched Cineplex online store ("Cineplex Store") playback functionality on Apple iOS devices.
- Added theatre ticketing and SCENE to Apple Passbook, and were Canadian launch partners with the Google TV app.
- Added e-gift cards to the Cineplex Store.
- Launched the Cineplex Store app on LG set-top boxes.

LOYALTY

- Membership in the SCENE loyalty program increased by 0.3 million members during the third quarter of 2012 to 4.1 million.
- SCENE became the first Canadian loyalty program to win prestigious COLLOQUY Loyalty Awards, winning



the award for "Innovation in Loyalty Marketing" with its SCENEtourage initiative, as well as the award for "Loyalty Innovation in Other Industries" for the mobile SCENE card.

1.3 BUSINESS ACQUISITION

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

The total consideration is dependent on the amount of non-capital losses available for use at the time of closing. The estimated additional consideration payable by Cineplex is based on the excess of non-capital losses greater than $68.7 million. A portion of the consideration payable by Cineplex in relation to the non-capital losses will be paid upon initial determination, which will occur subsequent to quarter-end, and a portion will be paid later on final determination of the losses under the terms of the security purchase agreement. The estimated non-capital losses of $146.3 million are available to offset taxable income earned by Cineplex beginning in 2013. The non-capital losses included in the purchase price allocation have been valued at 26.17%, Cineplex's effective tax rate. The recognition of the non-capital losses as deferred income tax assets is the primary reason Cineplex recognized a gain on the acquisition. As a result of these losses, Cineplex's cash income taxes payable in 2013 will be substantially reduced. The undiscounted amount of deferred consideration is $3.1 million (fair value $2.7 million).

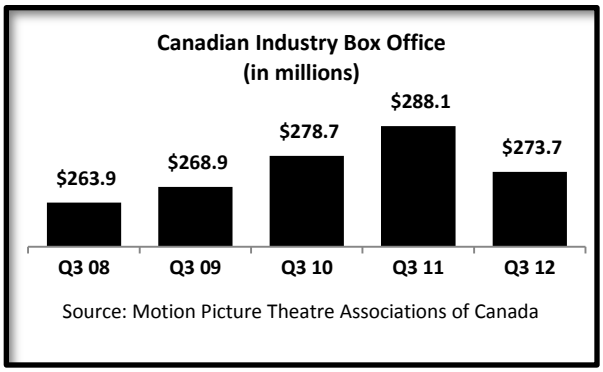
All transaction costs associated with the transaction were expensed as incurred. Recognized amounts of identifiable assets acquired and liabilities assumed are as follows (expressed in thousands of Canadian dollars):

Assets acquired and liabilities assumed		
Net working capital, including cash of $4,605	$	6,107
Equipment, including leaseholds		4,613
Deferred income taxes - non-capital losses		38,295
Deferred income taxes		5,074
Other liabilities - fair value of leases		(21,281)
Net assets	$	32,808
Consideration given		
Cash paid on closing	$	17
Payable to AMC - non-capital tax losses	$	7,379
Payable to AMC - working capital		1,590
	$	8,986
Gain recognized on acquisition	$	23,822

The acquired theatres had total revenues of $8.6 million and a loss before taxes of $1.2 million included in the consolidated financial statements since the acquisition date. It is impracticable to determine the amount of revenues and income that would have been reported for the nine months ended September 30, 2012 as if the acquisition had occurred at January 1, 2012 because the financial statements of the acquired theatres for the period prior to the acquisition are not available to Cineplex. As at September 30, 2012, the fair value of the assets and liabilities assigned to the acquisition have been determined on a provisional basis, pending finalization of the post-acquisition review of the fair value of the assets and liabilities acquired. Any variations may be material.

2. INDUSTRY OVERVIEW

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and creation of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary channel for new motion picture releases. A detailed discussion of the motion picture exhibition industry in Canada can be found in Cineplex's MD&A for the year ended December 31, 2011.



3. BUSINESS STRATEGY

Cineplex's mission statement is "Passionately delivering an exceptional entertainment experience." All of its efforts are focused towards this mission and it is Cineplex's goal to consistently provide guests with an exceptional entertainment experience at a fair value. Cineplex's business strategy is to continue to enhance its position as a leading exhibitor in the Canadian market by focusing on providing customers with an exceptional entertainment experience at a fair value in its theatres, through its media vehicles, in-home or on-the-go.

Key elements of this strategy include going beyond movies to reach customers in new ways and maximizing revenue per patron. With this in mind, Cineplex has implemented new in-theatre initiatives to improve the overall entertainment experience, including enhanced in-theatre services, alternative pricing strategies, continued development of the SCENE loyalty program and initiatives in merchandising such as optimizing product offerings and improving service execution. The ultimate goal of these in-theatre customer service initiatives is to maximize revenue per patron and increase the frequency of movie-going at Cineplex's theatres. Cineplex is also committed to diversifying its revenue streams outside of the traditional theatre exhibition model with further expansion of the digital pre-show and in-theatre and digital out-of-home advertising sales through Cineplex's media business, and providing in-the-home and on-the-go entertainment options through the Cineplex Store which sells DVDs, Blu-ray discs, download-to-own ("DTO") and video-on-demand ("VoD") movies online.

Cineplex's key strategic areas of focus include the following:

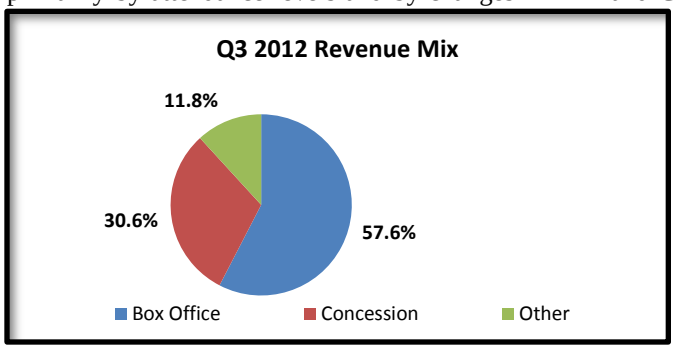
- Continue to enhance and expand its existing exhibition infrastructure and service offerings to attract new customers, increase the frequency of existing customers and maximize its revenue per patron.
- Capitalize on its core media strengths and infrastructure to provide continued growth of its media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

A detailed discussion of Cineplex's business strategy can be found in Cineplex's MD&A for the year ended December 31, 2011. That strategy has not changed materially during the nine months ended September 30, 2012.

4. OVERVIEW OF OPERATIONS

Revenues

Cineplex generates revenues primarily from box office and concession sales. These revenues are affected primarily by attendance levels and by changes in BPP and CPP. Box office revenue represented 57.6% of revenue in the third quarter of 2012 and continues to represent the largest component of revenue. As discussed earlier, 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. As a result of Cineplex's focus on diversifying the business beyond the traditional movie exhibition model, over the past five years the revenue mix has shifted from box office revenue to concession and other revenue sources. These revenue sources typically provide a higher incremental contribution margin than traditional exhibition revenues.



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

CPP is impacted by concession product mix, concession prices, film genre, the 10% SCENE discount and the issuance of SCENE points on the purchase of certain concession combos. Film product targeted to families and teenagers tends to result in a higher CPP and more adult oriented product tends to result in a lower CPP. As a result, CPP tends to fluctuate from quarter to quarter based on the genre of film product playing. The 10% SCENE discount offer and SCENE points issued on concession purchases both decrease concession revenue on individual purchases however Cineplex believes the program drives incremental attendance and purchase incidence, increasing overall revenues. Although pricing has an impact on CPP, Cineplex focuses on growing CPP by optimizing the product offerings and improving operational excellence to increase purchase incidence and transaction value. Cineplex has continued to grow BPP and CPP over the past five years.

In addition, Cineplex generates other revenues from in-theatre and digital out-of-home advertising sales, website advertising, promotional activities, the Cineplex Store, game rooms including XSCAPE entertainment centres, screenings, private parties, corporate events, breakage on gift card sales and management fees.

Cost of Sales and Expenses

Film cost represents the film rental fees paid to distributors on films exhibited in Cineplex's theatres. Film costs are calculated as a percentage of box office revenue and are dependent on various factors including the performance of the film. Film costs are accrued on the related box office receipts at either mutually agreed-upon terms established prior to the opening of the film, or estimated terms where a mutually agreed

settlement is reached upon conclusion of the film's run, depending upon the film licensing arrangement. Although the film cost percentage is relatively stable when reviewed on an annual basis, there can be significant variances throughout the quarters based on the actual results versus the expected results for specific films playing during each quarter.

Concession cost represents the cost of concession items sold and varies with changes in concession revenue as well as the quantity and mix of concession offerings sold. Generally, during periods where the concession sales mix is dominated by core concession products (soft drinks, popcorn and candy), the concession cost percentage tends to be lower than during periods with higher proportional sales through retail branded outlets ("RBO"). The 10% discount offered to members of the SCENE loyalty program affects the concession cost percentage, as concession revenues relating to these sales are reduced by 10% while the corresponding cost remains constant.

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

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

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

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

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

Other operating expenses consist of fixed and variable expenses, including marketing and advertising, media, loyalty, interactive, gaming, theatre salaries and wages, supplies and services, utilities and maintenance. 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.

General and administrative expenses are primarily costs associated with managing Cineplex's business, including film buying, marketing and promotions, operations and concession management, accounting and financial reporting, legal, treasury, construction and design, real estate development, information systems and administration. Included in these costs are payroll (including the Long-Term Incentive Plan ("LTIP") and Share option plan costs) and occupancy costs related to Cineplex's corporate offices, professional fees (such as public accountant and legal fees) and travel and related costs. Cineplex maintains general and administrative staffing and associated costs at a level that it deems appropriate to manage and support the size and nature of its theatre portfolio and its business activities.

Accounting for Joint Ventures

The financial statements incorporate the operating results of joint ventures in which Cineplex has an interest using the equity accounting method as required by GAAP. Through equity accounting, results of operations for entities held through joint ventures by Cineplex are reported as a single item in the statements of operations, 'Share of loss (income) of joint ventures'. Theatre attendance for theatres held in joint ventures is not reported in Cineplex's consolidated attendance as the line-by-line results of the joint ventures are not included in the relevant lines in the statement of operations.

Cineplex's joint ventures in 2012 include its 50% share of one theatre in Quebec and one IMAX screen in Ontario, its 50% interest in SCENE LP, its 78.2% interest in the Canadian Digital Cinema Partnership

("CDCP") (formed in June 2011) and its 50% interest in Cineplex Starburst Inc. ("CSI") (formed January 31, 2012). For the 2011 period, Cineplex's joint ventures included one theatre in Quebec, one IMAX screen in Ontario, its interest in SCENE LP and its 78.2% interest in CDCP (beginning in June).

As Cineplex shares joint and equal voting control of CDCP with its partner, Cineplex accounts for its investment in CDCP under the equity method of accounting. The balance sheet of CDCP at September 30, 2012 is summarized in the following schedule (expressed in thousands of Canadian dollars):

Assets		
Cash and cash equivalents	$	778
Accounts receivable		5,397
Commodity taxes receivable		487
Prepaid expenses and other current assets		576
		7,238
Equipment		100,899
	$	108,137
Liabilities		
Accounts payable and accrued expenses	$	8,197
Deferred revenue		145
Fair value of interest rate swap agreements		130
		8,472
Bank debt		64,454
Fair value of interest rate swap agreements		109
Total liabilities		73,035
Partners' equity		35,102
	$	108,137

CDCP's bank debt is non-recourse to Cineplex and is secured solely by the assets of CDCP.

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

The following table presents summarized financial data for Cineplex for the three and nine months ended September 30, 2012 and 2011 (expressed in thousands of Canadian dollars except Shares outstanding, per Share data, and per patron data, unless otherwise noted):

	Three months ended September 30, 2012	Three months ended September 30, 2011	Variance (%)	Nine months ended September 30, 2012	Nine months ended September 30, 2011	Variance (%)
Box office revenues	$ 162,133	$ 162,522	-0.2%	$ 467,772	$ 443,613	5.4 %
Concession revenues	85,924	82,114	4.6 %	242,923	223,477	8.7 %
Other revenues	33,311	32,072	3.9 %	82,481	89,417	-7.8%
Total revenues	281,368	276,708	1.7 %	793,176	756,507	4.8 %
Film cost	83,632	85,320	-2.0%	243,804	230,647	5.7 %
Cost of concessions	17,831	16,817	6.0 %	50,321	46,722	7.7 %
Depreciation and amortization	14,014	16,613	-15.6%	45,124	51,303	-12.0%
Loss on disposal of assets	114	487	-76.6%	786	4	NM
Other costs (a)	124,648	118,728	5.0 %	355,615	349,507	1.7 %
Costs of operations	240,239	237,965	1.0 %	695,650	678,183	2.6 %
Net income	$ 51,712	$ 25,737	100.9 %	$ 87,780	$ 38,329	129.0 %
Adjusted EBITDA (i)	$ 54,575	$ 57,441	-5.0%	$ 142,977	$ 133,072	7.4 %
(a) Other costs include:						
Theatre occupancy expenses	45,871	41,040	11.8 %	128,761	123,855	4.0 %
Other operating expenses	65,631	65,620	— %	184,917	182,193	1.5 %
General and administrative expenses	13,146	12,068	8.9 %	41,937	43,459	-3.5%
Total other costs	$ 124,648	$ 118,728	5.0 %	$ 355,615	$ 349,507	1.7 %
Basic net income per Share	$ 0.84	$ 0.44	90.9 %	$ 1.45	$ 0.67	116.4 %
Diluted net income per Share	$ 0.83	$ 0.44	88.6 %	$ 1.45	$ 0.66	119.7 %
Total assets	$ 1,240,709	$ 1,229,569	0.9 %	$ 1,240,709	$ 1,229,569	0.9 %
Total long-term financial liabilities (ii)	$ 170,000	$ 315,240	-46.1%	$ 170,000	$ 315,240	-46.1%
Shares outstanding at period end	62,063,233	58,456,022	6.2 %	62,063,233	58,456,022	6.2 %
Cash dividends declared per Share	$ 0.3375	$ 0.3225	4.7 %	$ 0.9925	$ 0.9575	3.7 %
Adjusted free cash flow per Share	$ 0.5737	$ 0.7133	-19.6%	$ 1.5378	$ 1.6100	-4.5%
Box office revenue per patron	$ 8.84	$ 8.77	0.8 %	$ 8.89	$ 8.70	2.2 %
Concession revenue per patron	$ 4.68	$ 4.43	5.6 %	$ 4.62	$ 4.38	5.5 %
Film cost as a percentage of box office revenue	51.6%	52.5%	-0.9%	52.1%	52.0%	0.1 %
Attendance (in thousands of patrons)	18,348	18,542	-1.0%	52,621	50,989	3.2 %
Theatre locations (at period end)	133	130	2.3 %	133	130	2.3 %
Theatre screens (at period end)	1,438	1,351	6.4 %	1,438	1,351	6.4 %

(i) See Section 18, Non-GAAP measures, for the definitions of adjusted EBITDA and adjusted free cash flow per Share.

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

5.2 OPERATING RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

Total revenues

Total revenues for the three months ended September 30, 2012 increased $4.7 million (1.7%) to $281.4 million as compared to the prior year period. Total revenues for the nine months ended September 30, 2012 increased $36.7 million (4.8%) to $793.2 million as compared to the prior year period. Revenues for the current year periods were positively impacted by the acquisition of the four theatres from AMC during the third quarter of 2012. A discussion of the factors affecting the changes in box office, concession and other revenues for the periods is provided on the following pages.

Box office revenues

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

Box office revenues	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Box office revenues	$ 162,133	$ 162,522	-0.2%	$ 467,772	$ 443,613	5.4%
Attendance	18,348	18,542	-1.0%	52,621	50,989	3.2%
Box office revenue per patron	$ 8.84	$ 8.77	0.8%	$ 8.89	$ 8.70	2.2%
Canadian industry revenues (i)			-5.4%			2.8%
Same store box office revenues	$ 154,302	$ 161,362	-4.4%	$ 457,036	$ 440,684	3.7%
Same store attendance	17,556	18,417	-4.7%	51,545	50,631	1.8%
% Total box from 3D, UltraAVX, VIP & IMAX	31.4%	35.7%	-4.3%	31.6%	29.1%	2.5%

(i) The Motion Picture Theatre Associations of Canada ("MPTAC") reported that the Canadian exhibition industry reported a box office revenue decrease of 5.0% for the period from June 29, 2012 to September 27, 2012 as compared to the period from July 1, 2011 to September 29, 2011. On a basis consistent with Cineplex's calendar reporting period (July 1 to September 30), the Canadian industry box office revenue decrease is estimated to be 5.4%. MPTAC reported that the Canadian exhibition industry reported a box office revenue increase of 2.4% for the period from December 30, 2011 to September 27, 2012 as compared to the period from December 31, 2010 to September 29, 2011. On a basis consistent with Cineplex's calendar reporting period (January 1 to September 30), the Canadian industry box office revenue is estimated to be an increase of 2.8%.

Box office continuity	Third Quarter		Year to Date	
	Box Office	Attendance	Box Office	Attendance
2011 as reported	$ 162,522	18,542	$ 443,613	50,989
Same store attendance change	(7,545)	(861)	7,955	914
Impact of same store BPP change	485	—	8,397	—
New and acquired theatres	7,057	711	9,346	918
Disposed and closed theatres	(386)	(44)	(1,539)	(200)
2012 as reported	$ 162,133	18,348	$ 467,772	$ 52,621

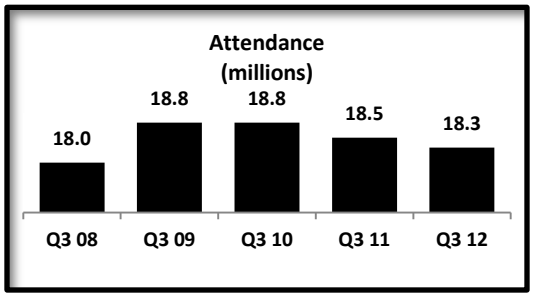
Third Quarter

	Third Quarter 2012 Top Cineplex Films	IMAX	3D	% Box		Third Quarter 2011 Top Cineplex Films	IMAX	3D	% Box
1	The Dark Knight Rises	✔		17.5%	1	Harry Potter and the Deathly Hollows 2	✔	✔	14.8%
2	The Amazing Spider-Man	✔	✔	10.7%	2	Transformers Dark of the Moon	✔	✔	9.6%
3	Ted			6.7%	3	The Smurfs		✔	6.0%
4	Ice Age: Continental Drift	✔	✔	6.0%	4	Captain America: The First Avenger		✔	5.6%
5	The Bourne Legacy			4.9%	5	Rise of the Planet of the Apes			5.6%

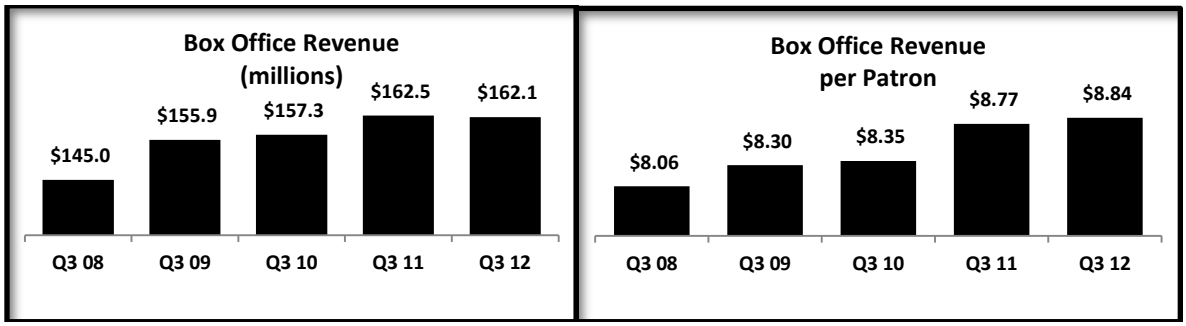
Box office revenues decreased $0.4 million, or 0.2%, to $162.1 million during the third quarter of 2012, compared to $162.5 million recorded in the same period in 2011. The decrease was due to a 1.0% decrease in attendance. The top five films during the quarter outperformed the top five films from the prior year period ($74.3 million compared to $67.6 million), but the remainder of the film slate underperformed compared to

the prior year period. The decrease was mitigated by the acquisition of the four theatres from AMC during the quarter which are not included in the prior period results.

The decrease in box office revenues due to the attendance decline was partially offset by a 0.8% increase in BPP, from $8.77 in the third quarter of 2011 to $8.84 in the current year period. This BPP increase was due to the films during the period catering to more mature audiences than the product in the prior year period, as well as the contribution from the four theatres acquired from AMC which are located in major metropolitan areas and have higher ticket prices than those in smaller markets. Premium-priced product (3D, UltraAVX, IMAX and VIP) accounted for 31.4% of box office revenues in the current quarter, down from 35.7% in the prior year period as only two of the top five releases during the period were screened in 3D, compared to all four of the top releases in the prior year period shown in 3D.



Cineplex's investment in premium-priced formats over the last four years has positioned it to take advantage of the price premiums offered on these formats, which has contributed to Cineplex's BPP growth in the current period compared to the prior year period. This investment in premium-priced offerings contributed to Cineplex outperforming the Canadian industry during the third quarter.



Year to Date

	Year to Date 2012 Top Cineplex Films	IMAX	3D	% Box		Year to Date 2011 Top Cineplex Films	IMAX	3D	% Box
1	Marvel's The Avengers	✓	✓	7.7%	1	Harry Potter and the Deathly Hallows 2	✓	✓	5.7%
2	The Dark Knight Rises	✓		6.1%	2	Transformers: Dark of the Moon	✓	✓	4.3%
3	The Hunger Games	✓		5.2%	3	Pirates of the Caribbean: On Stranger Tides	✓	✓	3.1%
4	The Amazing Spider-Man	✓	✓	3.7%	4	The Hangover 2			2.7%
5	Dr. Seuss' The Lorax	✓	✓	2.7%	5	Bridesmaids			2.6%

Box office revenues for the first nine months of 2012 were $467.8 million or 5.4% higher than the prior year period. The strong performance of the three major blockbusters released in 2012 (*Marvel's The Avengers*, *The Dark Knight Rises* and *The Hunger Games*) were the main contributors to the $24.2 million increase in box office revenue during the period. Attendance during the 2012 period also benefited from the first week of January 2012 being a school holiday week in most markets, whereas the same week in 2011 was not. The acquisition of the four theatres from AMC during the third quarter of 2012 also contributed to the box office revenue increase in the current year period.

Cineplex's BPP for the first nine months of 2012 increased $0.19, or 2.2%, from $8.70 in 2011 to $8.89 in the same period in 2012. This increase was primarily due to the increase in revenues from premium-priced product. Premium-priced offerings accounted for 31.6% of Cineplex's box office revenues in the 2012 period, compared to 29.1% in the prior year period. The top five films in the 2012 period were screened in IMAX and three in 3D (2011 - three in IMAX and three in 3D).

Concession revenues

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

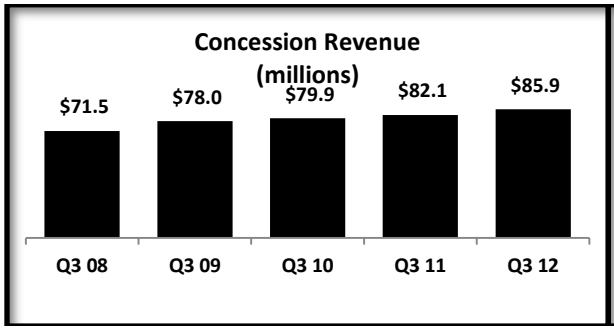
Concession revenues	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Concession revenues	$ 85,924	$ 82,114	4.6%	$ 242,923	$ 223,477	8.7%
Attendance	18,348	18,542	(1.0)%	52,621	50,989	3.2%
Concession revenue per patron	$ 4.68	$ 4.43	5.6%	$ 4.62	$ 4.38	5.5%
Same store concession revenues	$ 82,317	$ 81,607	0.9%	$ 237,620	$ 222,312	6.9%
Same store attendance	17,556	18,417	-4.7%	51,545	50,631	1.8%

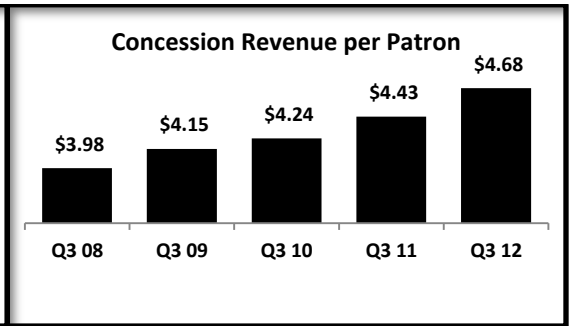
Concession revenue continuity	Third Quarter		Year to Date	
	Concession	Attendance	Concession	Attendance
2011 as reported	$ 82,114	18,542	$ 223,477	50,989
Same store attendance change	(3,815)	(861)	4,013	914
Impact of same store CPP change	4,526	—	11,295	—
New and acquired theatres	3,212	711	4,682	918
Disposed and closed theatres	(113)	(44)	(544)	(200)
2012 as reported	$ 85,924	18,348	242,923	52,621

Third Quarter

Concession revenues increased 4.6% as compared to the prior year quarter despite the 1.0% decrease in attendance. CPP increased from $4.43 in the third quarter of 2011 to $4.68 in the same period in 2012, a 5.6% increase and a quarterly record for Cineplex, $0.02 higher than the previous record set in the second quarter of 2012. Cineplex believes a focus on revised concession offerings, its RBO program and improved product promotion through the expansion of a digital menu board program have all contributed to the higher CPP in the current period compared to the prior year period.

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





Year to Date

Concession revenues increased 8.7% as compared to the prior year period, due to the 3.2% increase in attendance and the 5.5% increase in CPP. CPP increased from $4.38 in the first nine months of 2011 to $4.62 in the same period in 2012. This represents the highest CPP Cineplex has recorded through the first nine months of a given year.

Other revenues

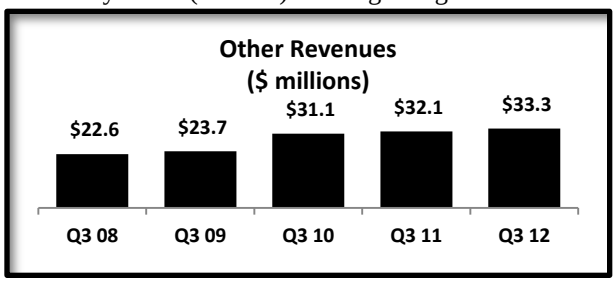
The following table highlights the movement in media, games and other revenues for the quarter and the year to date (in thousands of Canadian dollars):

Other revenues	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Media	$ 22,996	$ 22,190	3.6%	$ 53,890	$ 62,575	-13.9%
Games	1,644	2,492	-34.0%	5,018	5,456	-8.0%
Other	8,671	7,390	17.3%	23,573	21,386	10.2%
Total	$ 33,311	$ 32,072	3.9%	$ 82,481	$ 89,417	-7.8%

Third Quarter

Other revenues increased 3.9% to $33.3 million in the third quarter of 2012. This increase was due to higher media revenues, which during the third quarter of 2012 were $23.0 million, up $0.8 million, or 3.6%, when compared to the prior year period. This increase was primarily due to higher revenues in Cineplex's Digital Media business ($0.7 million). Also during the third quarter of 2012, showtime and pre-show advertising returned to prior year levels.

The games revenue decrease is due to the formation of CSI on January 31, 2012, with the acquisition by New Way Sales ("NWS") of the gaming business of Starburst Coin Machines Inc. With the creation of the CSI joint venture, revenues from CSI are included in the 'Share of loss (income) of joint ventures' line in the Statements of Operations. The Games revenues for the third quarter of 2011 include the results of NWS ($1.2 million). The addition of two new XSCAPE entertainment centres since the third quarter of 2011 partially offset the decrease in games revenue due to the creation of CSI and related movement of CSI results to the joint ventures line in the Statements of Operations. Other revenues also increased due primarily to additional revenue arising from enhanced guest service initiatives ($1.1 million).



Year to Date

Other revenues decreased 7.8% from $89.4 million in the first nine months of 2011 to $82.5 million during the same period in 2012. Media revenues for the first nine months of 2012 decreased $8.7 million, or 13.9%, from the prior year period. Declines in Cineplex's media business were due in part to the challenging media environment prevalent during the first half of 2012, partially mitigated by the stronger CDM revenues in the third quarter. Cineplex enjoys strong relationships with a number of national advertisers and during the first half of the year the reduction in campaigns from three major categories of these advertisers contributed to the decrease in media revenues.

The decrease in games revenue was due to the impact of NWS and the formation of CSI. The results of NWS are included in the comparative period for May to September 2011 (following its acquisition in May 2011) and for January 2012 (prior to the formation of CSI described above - $0.4 million for the 2012 period and $1.6 million for the 2011 period). This decrease was partially offset by the impact of the new XSCAPE entertainment centres added in the fourth quarter of 2011 as well as the higher attendance in the current year period bringing more games traffic through the theatres. The increase in the other category is primarily due to higher auditorium rental and screening revenues as well as additional revenue arising from enhanced guest service initiatives.

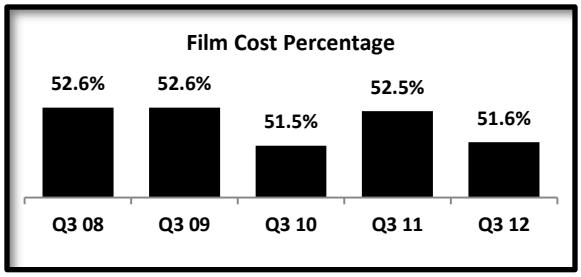
Film cost

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

Film cost	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Film cost	$ 83,632	$ 85,320	-2.0%	$ 243,804	$ 230,647	5.7%
Film cost percentage	51.6%	52.5%	-0.9%	52.1%	52.0%	0.1%

Third Quarter

Film cost varies primarily with box office revenue, and can vary from quarter to quarter based on the relative strength of the titles exhibited during the period. The decrease in the third quarter of 2012 compared to the prior year period was due to the decrease in box office revenue and the 0.9% decrease in film cost percentage. The decrease in film cost percentage is primarily due to the settlement rate on certain strong performing titles during the third quarter of 2012 being lower than the average film settlement rate in the 2011 period.



Year to Date

The year to date increase in film cost was due to the 5.4% increase in box office revenues and the 0.1% increase in film cost percentage during the period. The increase in the film cost percentage as compared to the prior year period is primarily due to the settlement rate on certain strong performing titles during the 2012 period being higher than the average settlement rate in the 2011 period.

Cost of concessions

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

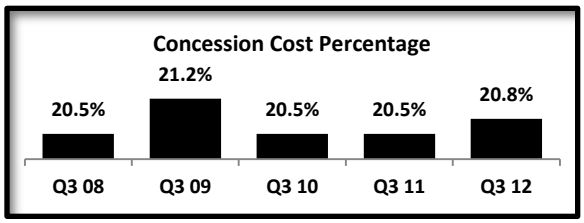
Cost of concessions	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Concession cost	$ 17,831	$ 16,817	6.0%	$ 50,321	$ 46,722	7.7%
Concession cost percentage	20.8%	20.5%	0.3%	20.7%	20.9%	-0.2%
Concession margin per patron	$ 3.71	$ 3.52	5.4%	$ 3.66	$ 3.47	5.5%

Third Quarter

Cost of concessions varies primarily with theatre attendance as well as the quantity and mix of concession offerings sold. The increase in concession cost as compared to the prior year period was due to the 4.6% increase in concession revenues and the 0.3% increase in the concession cost percentage during the period. The concession margin per patron increased from $3.52 in the third quarter of 2011 to $3.71 in the same period in 2012, reflecting the impact of the higher CPP during the period.

Year to Date

The increase in concession cost during the period was due to the 8.7% increase in concession revenues partially offset by the 0.2% decrease in the concession cost percentage. Despite the 10% discount offered to SCENE members, which contributes to a higher concession cost percentage, Cineplex believes the SCENE program drives incremental attendance and purchase incidence which increases concession revenues and CPP.



Depreciation and amortization

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

Amortization expenses	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Amortization of property, equipment and leaseholds	$ 13,784	$ 14,372	-4.1%	$ 42,727	$ 44,574	-4.1%
Amortization of intangible assets and other	230	2,241	-89.7%	2,397	6,729	-64.4%
Amortization expenses as reported	$ 14,014	$ 16,613	-15.6%	$ 45,124	$ 51,303	-12.0%

The quarterly and year to date decrease in amortization of property, equipment and leaseholds of $0.6 million and $1.8 million respectively is due in part to the transfer of digital projection equipment to CDCP in June 2011 resulting in lower asset values to depreciate, as well as certain assets becoming fully amortized in the third quarter of 2012. The declining 35 millimeter projector base due to the circuit's conversion to digital also contributed to the decrease in amortization of property, equipment and leaseholds. The decrease in amortization of intangible assets and other relates to certain intangible assets that became fully amortized during the first quarter of 2012.

Loss on disposal of assets

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

Loss on disposal of assets	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Loss on disposal of assets	$ 114	$ 487	-76.6%	$ 786	$ 4	NM

Third Quarter

For the third quarter of 2012, Cineplex recorded a loss of $0.1 million on the disposal of assets (2011 - $0.5 million).

Year to Date

For the nine months ended September 30, 2012, disposal of assets resulted in a loss of $0.8 million on the disposal of assets. For the nine months ended September 30, 2011, disposal of assets resulted in a loss of $4.0 thousand, comprised of losses recorded on assets that were sold or otherwise disposed of, offset by a gain on the sale of the theatre during the second quarter of 2011 ($1.4 million) and a nominal gain recorded on the transfer of digital projection assets to CDCP.

Gain on acquisition of business

Gain on acquisition of business	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Gain on acquisition of business	$ (23,822)	$ —	NM	$ (23,822)	$ —	NM

The gain on acquisition represents the gain recorded on the acquisition of AMC Ventures Inc. during the third quarter of 2012 (see Section 1.3, Business acquisition).

Other costs

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

Other costs	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Theatre occupancy expenses	$ 45,871	$ 41,040	11.8%	$ 128,761	$ 123,855	4.0%
Other operating expenses	65,631	65,620	—%	184,917	182,193	1.5%
General and administrative expenses	13,146	12,068	8.9%	41,937	43,459	-3.5%
Total other costs	$ 124,648	$ 118,728	5.0%	$ 355,615	$ 349,507	1.7%

Theatre occupancy expenses

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

Theatre occupancy expenses	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Rent	$ 30,379	$ 27,707	9.6%	$ 85,650	$ 83,247	2.9%
Other occupancy	15,617	13,636	14.5%	44,285	42,091	5.2%
One-time items (i)	(125)	(303)	-58.7%	(1,174)	(1,483)	-20.8%
Total	$ 45,871	$ 41,040	11.8%	$ 128,761	$ 123,855	4.0%

(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	Third Quarter Occupancy	Year to Date Occupancy
2011 as reported	$ 41,040	$ 123,855
Impact of new and acquired theatres	4,359	4,974
Impact of disposed theatres	(620)	(1,265)
Same store rent change	319	305
One-time items	178	309
Other	595	583
2012 as reported	$ 45,871	$ 128,761

Third Quarter

Theatre occupancy expenses increased $4.8 million during the third quarter of 2012 compared to the prior year period. This increase was primarily due to the four theatres acquired from AMC on July 12 ($4.3 million). The increase in the Other category primarily relates to higher real estate taxes in the current quarter compared to the prior year period.

Year to Date

The increase in theatre occupancy expenses of $4.9 million for the first nine months of 2012 compared to the prior year period was primarily due to the four theatres acquired from AMC on July 12 ($4.3 million). The increase in the Other category primarily relates to higher real estate taxes in the current year period compared to the prior year.

Other operating expenses

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

Other operating expenses	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Other operating expenses	$ 65,631	$ 65,620	—%	$ 184,917	$ 182,193	1.5%

Other operating continuity	Third Quarter Other Operating	Year to Date Other Operating
2011 as reported	$ 65,620	$ 182,193
Impact of new and acquired theatres	2,362	3,257
Impact of disposed theatres	(1,176)	(1,603)
Same store payroll change	219	1,545
Marketing change	322	1,118
Media	(34)	(2,290)
New Way Sales	(926)	(1,013)
Theatre refurbishment payment	(1,014)	(1,014)
Other	258	2,724
2012 as reported	$ 65,631	$ 184,917

Third Quarter

Other operating expenses during the third quarter of 2012 were in line with the prior year period. The impact of new and acquired net of disposed theatres was a $1.2 million increase to the category primarily due to the four theatres acquired from AMC. Other increases included higher marketing costs ($0.3 million) and higher same-store payroll costs ($0.2 million). These increases were partially offset by the impact of NWS ($0.9 million) as expenses for NWS are included in other operating expenses in 2011 but not in 2012 due to the creation of CSI, and a $1.0 million termination payment paid to a landlord in the prior year period to refurbish theatre space for a disposed theatre.

The major movement in the Other category include the following:

- Higher credit card service fees due in part to an increase in pre-sales for *The Dark Knight Rises* ($0.2 million).
- Higher utility costs due to the higher temperatures across Canada during the current year period ($0.5 million).
- Higher digital projector rental costs due to the roll-out of digital projectors by CDCP that commenced in June 2011 ($0.2 million).
- Lower 3D royalty costs due to less 3D content in the current year period ($0.8 million).

Total theatre payroll costs accounted for 45.3% of total operating expenses during the third quarter of 2012 as compared to 43.1% for the same period one year earlier due in part to minimum wage increases.

Year to Date

For the nine months ended September 30, 2012, other operating expenses increased $2.7 million, due in part to the higher business volumes in the 2012 period compared to the prior year. The impact of new and acquired net of disposed theatres was a $1.7 million increase to the category primarily due to the four theatres acquired from AMC. Cost increases included higher same-store payroll expenses related to the increased

business volumes ($1.5 million), higher marketing costs ($1.1 million) and the $2.7 million increase in the Other category. These cost increases were partially offset by lower media expenses due to the lower media sales during the period ($2.3 million) and the impact of NWS which was contributed into CSI in January 2012 ($1.0 million) as well as a $1.0 million termination payment paid to a landlord in the prior year period to refurbish theatre space for a disposed theatre.

The major movement in the Other category include the following:

- Higher credit card service fees due in part to an increase in pre-sales for highly anticipated releases ($1.0 million).
- Higher utility costs due to the higher temperatures across Canada during the current year period ($1.2 million).
- Higher digital projector rental costs due to the roll-out of digital projectors by CDCP that commenced in June 2011 ($0.7 million).
- Higher theatre operating costs including cleaning relating to the higher business volumes during the period.
- Lower 3D royalty costs due to less 3D content in the current year period ($1.3 million).

Total theatre payroll accounted for 45.5% of total other operating expenses in the first nine months of 2012, compared to 44.6% in the prior year period due in part to minimum wage increases.

General and administrative expenses

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

G&A expenses	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
G&A excluding LTIP and option plan expense	$ 11,163	$ 9,589	16.4%	$ 34,033	$ 30,053	13.2%
LTIP (i)	1,550	1,626	-4.7%	6,266	6,039	3.8%
Option plan	433	853	-49.2%	1,638	7,367	-77.8%
G&A expenses as reported	$ 13,146	$ 12,068	8.9%	$ 41,937	$ 43,459	-3.5%

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

Third Quarter

G&A expenses increased $1.1 million during the third quarter of 2012 compared to the prior year period, due to a $0.6 million increase in professional fees in part relating to the acquisition of the theatres from AMC and a $1.0 million increase in payroll related and general cost increases. These increases were partially offset by lower expenses under the option plan ($0.4 million) and lower LTIP expenses ($0.1 million).

Effective January 1, 2012, the Board of Directors of Cineplex invoked Cineplex's right to substitute a cashless exercise for any requested exercise of options for cash, in accordance with the terms of the option plan. As a result of the change in administrative policy, the options may only be equity-settled, and are considered equity, not liabilities. The expense amount for options is determined at the time of their issuance, recognized over the vesting period of the options. Existing options at the time of the change in administrative policy have their remaining expense determined at the time of the change in administrative policy, recognized over the remaining vesting periods.

Year to Date

G&A expenses for the first nine months of 2012 decreased $1.5 million compared to the prior year period, due to the $5.7 million decrease in the option plan expense. This decrease was partially offset by higher professional fees ($1.4 million) relating to the creation of CSI, an internal corporate reorganization effected on January 1, 2012 and the theatres acquired from AMC, higher payroll related and general cost increases ($2.6 million), and higher LTIP costs ($0.2 million).

Share of loss (income) of joint ventures

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

Share of loss (income) of joint ventures	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Share of CDCP	$ (462)	$ 65	NM	(1,388)	$ 2,218	NM
Share of CSI	(264)	—	NM	(762)	—	NM
Share of SCENE	1,855	(1,494)	NM	3,050	(3,342)	NM
Share of other joint ventures	(105)	(57)	84.2%	(111)	32	NM
Total loss (income) of joint ventures	$ 1,024	$ (1,486)	NM	789	(1,092)	NM

Third Quarter

The movement from income of $1.5 million in the third quarter of 2011 to a loss of $1.0 million in the current period is primarily due to the activities of SCENE, CDCP and CSI:

- SCENE's results in the third quarter of 2011 include income relating to an adjustment to SCENE's outstanding points balance due to certain members having their points expired during the third quarter of 2011 due to inactivity in the program. When compared to the current year period the result is a negative variance of $3.3 million year over year.
- CDCP generated income of $0.5 million in the third quarter of 2012, which when compared to the modest loss in the prior year period, results in a $0.5 million positive variance period over period.
- The results of CSI, formed January 31, 2012 and therefore not included in the prior year comparative, contributed a $0.3 million positive variance year over year.

Year to Date

The movement from income of $1.1 million in the first nine months of 2011 to a loss of $0.8 million in the current period is primarily due to the activities of SCENE, CDCP and CSI:

- SCENE's results in the 2011 period include income relating to a change in accounting estimate for breakage resulting in a program-to-date adjustment to its outstanding points liability as well as the adjustment to SCENE's outstanding points balance due to certain members having their points expired due to inactivity in the program. When compared to the current year period the result is a negative variance of $6.4 million year over year.
- CDCP in the 2011 period includes $2.2 million of start-up costs, which when compared to the income of $1.4 million generated in the current year period, results in a positive variance of $3.6 million year over year.
- The results of CSI, formed January 31, 2012 and therefore not included in the prior year comparative, contributed a $0.8 million positive variance year over year.

Interest expense

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

Interest expense	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Long-term debt interest expense	$ 1,617	$ 2,690	-39.9%	$ 4,882	$ 9,126	-46.5%
Convertible debenture interest expense	250	1,267	-80.3%	1,750	4,153	-57.9%
Financing lease interest expense	433	551	-21.4%	1,365	1,685	-19.0%
Sub-total - cash interest expense	$ 2,300	$ 4,508	-49.0%	$ 7,997	$ 14,964	-46.6%
Deferred financing fee accretion and other non-cash interest	140	237	-40.9%	419	701	-40.2%
Convertible debenture accretion	43	251	-82.9%	299	1078	-72.3%
Interest rate swap - non-cash	16	1,279	-98.7%	1,780	1,143	55.7%
Sub-total - non-cash interest expense	199	1,767	-88.7%	2,498	2,922	-14.5%
Total interest expense	$ 2,499	$ 6,275	-60.2%	$ 10,495	$ 17,886	-41.3%

Interest expense decreased $3.8 million for the quarter and $7.4 million for the year to date period compared to the prior year. Cash interest decreased $2.2 million and $7.0 million, respectively, primarily due to the impact of Cineplex's fourth amended and restated credit agreement which was entered in the third quarter of 2011 and is subject to lower interest rates than its predecessor agreement (see section 7.4, Credit facilities, for more details). Convertible debenture interest was also lower due to a smaller principal balance of debentures outstanding as compared to the prior year period.

Cineplex had a lower balance drawn on its credit facilities during the period ended September 30, 2012, compared to an outstanding balance of $235.0 million during the period ended September 30, 2011. See Section 9, Shares outstanding, for more information on Cineplex's convertible debentures.

Interest income

The decrease in interest income during the third quarter of 2012 and the first nine months of 2012 compared to the prior year periods is due to the lower average cash balance in 2012 as $65.0 million was used to pay down a portion of Cineplex's revolving credit facility during the fourth quarter of 2011 (in thousands of Canadian dollars):

Interest income	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Interest income	$ 44	$ 381	-88.5%	$ 147	$ 804	-81.7%

Income taxes

For the three and nine months ended September 30, 2012, Cineplex recorded current income tax expense of $9.1 million and $22.6 million, respectively (2011 – $6.0 million and $12.0 million, respectively). For the three and nine months ended September 30, 2012, Cineplex recorded deferred income tax expense (recovery) of $0.7 million and $(0.2) million, respectively (2011 – $2.6 million and $12.0 million, respectively) (in thousands of Canadian dollars):

Income taxes	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Current income tax expense	$ 9,053	$ 5,973	51.6%	$ 22,641	$ 12,011	88.5%
Deferred income tax expense (recovery)	$ 707	$ 2,625	NM	$ (210)	$ 11,994	NM

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

The deferred income tax expense for the nine months ended September 30, 2011 includes the 2011 impact of the Fund's conversion to a corporation on January 1, 2011. This resulted in Cineplex reducing its net deferred tax assets at December 31, 2010 by $7.8 million, of which $6.0 million was recorded as deferred income tax expense and $1.8 million in other comprehensive loss in the Statements of Operations in the first quarter of 2011. At September 30, 2012, Cineplex's blended federal and provincial statutory tax rate was 26.2% (2011 - 27.8%).

The acquisition of AMC Ventures Inc. and subsequent wind-up into Cineplex resulted in non-capital losses of $146.3 million being made available to offset taxable income earned by Cineplex beginning in 2013. These losses have been valued using Cineplex's effective tax rate and are included in the purchase price allocation (see Section 1.3, Business acquisition). As a result of these losses, Cineplex's cash income taxes in 2013 will be substantially reduced.

Net income

For the three months ended September 30, 2012, Cineplex reported net income of $51.7 million (2011 – $25.7 million). For the nine months ended September 30, 2012, Cineplex reported net income of $87.8 million (2011 - $38.3 million). Net income for the three and nine months ended September 30, 2012 included a gain on the acquisition of AMC of $23.8 million (in thousands of Canadian dollars):

Net income	**Third Quarter**			**Year to Date**		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
Net income	$ 51,712	$ 25,737	100.9%	$ 87,780	$ 38,329	129.0%

5.3 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (see Section 18, Non-GAAP measures)

The following table represents EBITDA and adjusted EBITDA for the three and nine months ended September 30, 2012 as compared to the three and nine months ended September 30, 2011 (expressed in thousands of Canadian dollars, except adjusted EBITDA margin):

EBITDA	**Third Quarter**			**Year to Date**		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
EBITDA	$ 77,941	$ 56,842	37.1%	$ 165,683	$ 130,719	26.7%
Adjusted EBITDA	$ 54,575	$ 57,441	-5.0%	$ 142,977	$ 133,072	7.4%
Adjusted EBITDA margin	19.4%	20.8%	-1.4%	18.0%	17.6%	0.4%

Adjusted EBITDA for the third quarter of 2012 decreased $2.9 million, or 5.0%, as compared to the prior year period. The decrease over the prior year period was primarily due to the lower exhibition revenues recorded in the period, as well as the impact of the four theatres acquired from AMC in the third quarter of 2012, which had a $0.8 million, or 1.5%, negative impact on adjusted EBITDA in the quarter. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 19.4%, down 1.4% from 20.8% in the prior year period. Excluding the impact of the theatres acquired from AMC, adjusted EBITDA margin was 20.3%.

Adjusted EBITDA for the nine months ended September 30, 2012 increased $9.9 million, or 7.4%, as compared to the prior year period. The increase is primarily due to the higher exhibition and concession revenues due to the higher theatre attendance. The impact of the four theatres acquired from AMC in the third quarter of 2012 had a $0.8 million, or 0.6%, negative impact on adjusted EBITDA in the year-to-date period. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 18.0%, compared to 17.6% in the prior year period.

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

6. BALANCE SHEETS

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

	September 30, 2012	December 31, 2011	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 1,076	$ 48,992	$ (47,916)	-97.8%
Trade and other receivables	36,042	67,185	(31,143)	-46.4%
Inventories	4,065	4,118	(53)	-1.3%
Prepaid expenses and other current assets	9,853	3,727	6,126	164.4%
	51,036	124,022	(72,986)	-58.8%
Non-current assets				
Property, equipment and leaseholds	404,009	389,532	14,477	3.7%
Deferred income taxes	53,961	12,052	41,909	347.7%
Interests in joint ventures	40,793	26,163	14,630	55.9%
Intangible assets	81,981	84,379	(2,398)	-2.8%
Goodwill	608,929	608,929	—	—%
	$ 1,240,709	$ 1,245,077	$ (4,368)	-0.4%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$ 76,970	$ 112,285	$ (35,315)	-31.5%
Share-based compensation	—	1,331	(1,331)	-100.0%
Dividends payable	6,982	6,285	697	11.1%
Income taxes payable	10,221	17,485	(7,264)	-41.5%
Deferred revenue	53,287	83,907	(30,620)	-36.5%
Finance lease obligations	2,182	2,411	(229)	-9.5%
Fair value of interest rate swap agreements	543	565	(22)	-3.9%
Convertible debentures	14,557	76,864	(62,307)	-81.1%
	164,742	301,133	(136,391)	-45.3%
Non-current liabilities				
Share-based compensation	10,316	9,466	850	9.0%
Long-term debt	167,936	167,531	405	0.2%
Fair value of interest rate swap agreements	555	1,199	(644)	-53.7%
Finance lease obligations	21,119	26,474	(5,355)	-20.2%
Post-employment benefit obligations	5,914	5,688	226	4.0%
Other liabilities	140,348	103,727	36,621	35.3%
Deficiency interest in joint venture	8,082	8,250	(168)	-2.0%
	519,012	623,468	(104,456)	-16.8%
Equity	721,697	621,609	100,088	16.1%
	$ 1,240,709	$ 1,245,077	$ (4,368)	-0.4%

Trade and other receivables. The decrease in trade and other receivables is primarily due to the collection of receivables from the sale of gift cards and coupons and media sales from the 2011 holiday period. December represents the highest volume month for media sales as well as gift card and coupon sales and is one of the strongest months for media sales during the year.

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

Property, equipment and leaseholds. The increase in property, equipment and leaseholds is due to growth and other capital expenditures ($41.5 million) and maintenance capital expenditures ($15.4 million) as well as assets acquired from AMC ($4.6 million). These increases are partially offset by amortization expenses ($42.7 million) and asset dispositions ($4.2 million), including $2.5 million relating to NWS that was contributed into CSI during the period.

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

Interests in joint ventures. The increase in interests in joint ventures is primarily due to the formation of CSI during the first quarter of 201l2.

Intangible assets. The decrease in intangible assets is due to amortization.

Accounts payable and accrued expenses. The decrease in accounts payable and accrued expenses primarily relates to business volumes during the last weeks of September being lower than the last weeks of December.

Share or Unit-based compensation. The decrease is primarily due to the change in the administrative policy with respect to the option plan effective January 1, 2012, resulting in the obligation relating to the option plan being reclassed to equity.

Income taxes payable. The decrease in income taxes payable represents the amount paid by Cineplex during the first quarter of 2012 for taxes due based on its 2011 operations, offset by current tax expense relating to the first nine months of 2012.

Deferred revenue. Deferred revenue decreased primarily due to redemptions of gift cards and coupons sold during the 2011 holiday season exceeding the sale of gift cards and coupons during the first nine months of 2012.

Convertible debentures. The decrease in the convertible debentures balance is primarily due to debenture conversions during the first nine months of 2012 ($63.2 million) partially offset by accretion expense ($0.3 million). The convertible debentures are recorded as current liabilities on the balance sheets as the maturity date of the debentures is December 31, 2012. See Section 9, Shares outstanding, for more information on the convertible debentures.

Finance lease obligations. The reduction in the finance lease obligation liability is primarily due to Cineplex entering into an agreement with the lessor of certain theatre equipment that was recorded as finance lease obligations in 2011 to purchase new equipment in 2012, replacing the leased equipment. The leased equipment was acquired by Cineplex for no additional consideration, and the remaining lease payments terminated, resulting in a reduction of finance lease obligations of approximately $4.0 million.

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

Deficiency interest in joint venture. The decrease in the deficiency interest in joint venture is primarily due to the timing of certain payments from SCENE to Cineplex that were accrued and unpaid at September 30, 2012.

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 OPERATING ACTIVITIES

Cash flow is generated primarily from the sale of admission tickets, concession sales, media sales and services and other revenues. Generally, this provides Cineplex with positive working capital, since cash revenues are normally collected in advance of the payment of certain expenses. Box office revenues are directly related to the success and appeal of the film product produced and distributed by the studios. The following table highlights the movements in cash from operating activities for the three and nine months ended September 30, 2012 and 2011 (in thousands of Canadian dollars):

Cash flows provided by operating activities	**Third Quarter**			**Year to Date**		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
Net income	$ 51,712	$ 25,737	$ 25,975	$ 87,780	$ 38,329	$ 49,451
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts (i)	12,718	15,776	(3,058)	41,942	49,060	(7,118)
Loss on disposal of assets	114	487	(373)	786	4	782
Gain on business acquisition	(23,822)	—	(23,822)	(23,822)	—	(23,822)
Deferred income taxes	707	2,625	(1,918)	(210)	11,994	(12,204)
Interest rate swap agreements - non-cash interest	16	1,279	(1,263)	1,780	1,143	637
Non-cash Share-based compensation	433	37	396	1,675	293	1,382
Accretion of convertible debentures	43	251	(208)	299	1,078	(779)
Net change in interests in joint ventures	1,187	578	609	4,827	(2,860)	7,687
Tenant inducements	727	1,535	(808)	5,972	5,585	387
Changes in operating assets and liabilities	(2,178)	(181)	(1,997)	(54,845)	(21,101)	(33,744)
Net cash provided by operating activities	**$ 41,657**	**$ 48,124**	**$ (6,467)**	**$ 66,184**	**$ 83,525**	**$ (17,341)**

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

Third Quarter

Cash provided by operating activities decreased $6.5 million in the third quarter of 2012 compared to the prior year period primarily due to the $4.9 million increase in net income adjusted for the gain on business acquisition compared to the prior quarter's net income, as well as the changes in operating assets and liabilities ($2.0 million).

Year to Date

Cash provided by operating activities decreased $17.3 million decrease during the first nine months of 2012 compared to the prior year period. The $49.5 million increase in net income was more than offset by the changes in operating assets and liabilities ($33.7 million) due to the timing of cash payments to settle accounts payable ($13.6 million change) and the payment of Cineplex's 2011 corporate income taxes during the first nine months of 2012 ($19.1 million change in income taxes payable compared to the prior year period).

7.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the three and nine months ended September 30, 2012 and 2011 (in thousands of Canadian dollars):

Cash flows used in investing activities	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Proceeds from sale of assets	$ 4	$ 82	$ (78)	$ 1,133	$ 1,822	$ (689)
Purchases of property, equipment and leaseholds	(15,878)	(12,224)	(3,654)	(49,477)	(40,803)	(8,674)
Acquisition of businesses, net of cash acquired	4,588	—	4,588	(2,811)	(3,280)	469
Additional equity funding of CDCP	(4)	(210)	206	(248)	(378)	130
Net cash used in investing activities	**$ (11,290)**	**$ (12,352)**	**$ 1,062**	**$ (51,403)**	**$ (42,639)**	**$ (8,764)**

The increase in cash used in investing activities during the third quarter of 2012 compared to the prior year period is due to higher purchases of property, equipment and leaseholds in the third quarter of 2012, offset by the cash acquired on the acquisition of AMC Ventures Inc.

For the year to date period, the increase in cash used in investing activities is due to higher purchases of property, equipment and leaseholds ($8.7 million).

Capital expenditures during the nine months ended September 30, 2011 periods included $3.8 million in for digital projectors that were subsequently transferred into CDCP. Components of capital expenditures include:

Capital expenditures	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Gross capital expenditures	$ 15,878	$ 12,224	$ 3,654	$ 49,477	$ 40,803	$ 8,674
Less: tenant inducements	(727)	(1,535)	808	(5,972)	(5,585)	(387)
Net capital expenditures	$ 15,151	$ 10,689	$ 4,462	$ 43,505	$ 35,218	$ 8,287
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 10,724	$ 8,522	$ 2,202	$ 14,224	$ 13,148	$ 1,076
Premium formats (ii)	690	972	(282)	7,678	8,983	(1,305)
Maintenance capital expenditures	6,141	3,976	2,165	15,358	9,050	6,308
Digital projection	—	—	—	—	3,782	(3,782)
Other (iii)	(2,404)	(2,781)	377	6,245	255	5,990
	$ 15,151	$ 10,689	$ 4,462	$ 43,505	$ 35,218	$ 8,287

(i) Growth and acquisition capital expenditures include expenditures on the construction of new theatre buildings and other Board approved growth projects with the exception of premium formats discussed below, as well as improvements to the four theatres acquired from AMC in the third quarter of 2012.
(ii) Premium formats include capital expenditures for IMAX, UltraAVX and 3D.
(iii) Primary component of Other is the impact of the timing of cash payments relating to the purchases of property, equipment and leaseholds. Year to date 2012 also includes $4.8 million relating to the purchase of an office property in the second quarter of 2012.

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

7.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the three and nine months ended September 30, 2012 and 2011 (in thousands of Canadian dollars):

Cash flows used in financing activities	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Dividends paid	$ (20,908)	$ (18,804)	$ (2,104)	$ (59,839)	$ (49,201)	$ (10,638)
Repayments under credit facility, net	(20,000)	—	(20,000)	—	—	—
Payments under finance leases	(520)	(566)	46	(1,573)	(1,666)	93
Proceeds from issuance of Shares	—	—	—	501	—	501
Acquisition of LTIP Shares	—	—	—	—	(9,793)	9,793
Deferred financing fees	—	(1,915)	1,915	—	(1,915)	1,915
Purchase of Shares for cancellation	—	(375)	375	(1,786)	(375)	(1,411)
Net cash used in financing activities	**$ (41,428)**	**$ (21,660)**	**$ (19,768)**	**$ (62,697)**	**$ (62,950)**	**$ 253**

The $19.8 million movement in cash used in financing activities for the third quarter of 2012 compared to the prior year period was primarily due to the $20.0 million in repayments under the revolving credit facility during the quarter, as well as $2.1 million in higher dividend payments. During May 2012, Cineplex increased its dividend rate from $0.1075 per Share per month to $0.1125 per Share per month effective for the May distribution paid in June 2012. This is being paid on a higher base of Shares outstanding due to debenture conversions which also contributed to this increase. The impact of these increases in 2012 over 2011 was partially offset by cash spent in the prior year period for deferred financing fees relating to the new credit facility ($1.9 million) and cash spent to purchase shares under Cineplex's normal course issuer bid ("NCIB", see Section 9, Shares outstanding) ($0.4 million).

The $0.3 million decrease in cash used in financing activities for the first nine months of 2012 compared to the prior year period was due to the 2012 period including higher dividend payments ($10.6 million) that were more than offset by funding for the acquisition of LTIP Shares in 2011 ($9.8 million) and the deferred financing fees discussed above ($1.9 million). The first nine months of 2012 included nine dividend payments whereas the prior year period included eight due to the December 2010 distribution being paid in December 2010 prior to the wind-up of the Fund.

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

7.4 CREDIT FACILITIES

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

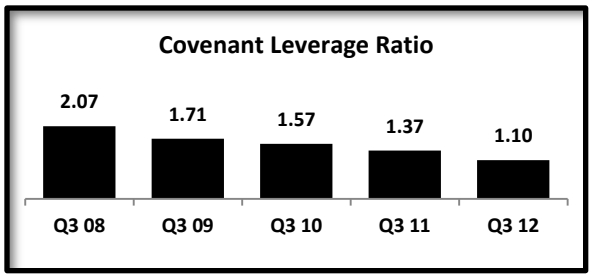
		Available	Drawn	Reserved	Remaining
(i)	a five-year senior secured revolving credit facility ("Revolving Facility")	$ 200.0	$ 20.0	$ 2.9	$ 177.1
(ii)	a five-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at September 30, 2012 of $2.9 million reserved against the Revolving Facility.					

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

The Fourth Amended Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. The facilities mature in September 2016 and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity.

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

One of the key financial covenants in the Fourth Amended Credit Facilities is the leverage covenant. As at September 30, 2012, Cineplex's leverage ratio as calculated in accordance with the Fourth Amended Credit Facility definition was 1.10x, as compared to a covenant of 3.50x. The definition of debt in the credit facility includes long-term debt (excluding any convertible debentures), financing leases and letters of credit but does not include a reduction for cash on hand. For the purposes of the credit facility definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres or acquisitions.



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

Cineplex believes that the Fourth Amended Credit Facilities, in place until 2016, and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for capital expenditures, investments in working capital and dividend payments. However, Cineplex's needs may change and in such event Cineplex's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

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

Effective August 24, 2011, Cineplex entered into three interest rate swap agreements. Under these agreements, Cineplex pays a fixed rate of 1.715% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. These interest rate swap agreements have a term of five years that commence in August 2011 and have an aggregate notional principal amount of $150.0 million. Based on the leverage ratio covenant at September 30, 2012, Cineplex's effective cost of borrowing on the $150.0 million Term Facility is 3.215% (September 30, 2011 – 3.215%).

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable under the Term Facility. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Under the provisions of IAS 39, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income. The new interest rate swap agreements are considered an extension of the former agreements, and the $6.4 million previously recognized in other comprehensive loss at the time of the settlement of the former interest rate swap agreements was recognized

in interest expense over the course of the remaining term of the former agreements (through the third quarter of 2012).

7.5 FUTURE OBLIGATIONS

At September 30, 2012, Cineplex had aggregate gross capital commitments of $107.5 million ($82.1 million net of tenant inducements) related to the completion of construction of eleven theatre properties to include an aggregate of 110 screens (including 26 VIP screens) over the next three years. In addition, Cineplex has gross commitments over the next three years of $22.5 million for other theatre projects, including the addition of seven VIP screens at two theatres and the conversion of existing auditoriums to VIP and UltraAVX at selected theatres.

At September 30, 2012, Cineplex had $14.6 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2012 (September 30, 2011 - $80.2 million). At September 30, 2012, the convertible debentures were recorded on the Cineplex's balance sheet at $14.6 million. The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*. On redemption or at the December 31, 2012 maturity date, Cineplex may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to regulatory approval, elect to satisfy its obligation to pay the applicable redemption price or the principal amount of the convertible debentures by issuing and delivering Shares at 95% of the then current market price. During the three and nine months ended September 30, 2012, debentures with a face value of $4.5 million and $63.2 million, respectively, were converted at the option of the holders for Shares (see Section 9, Shares outstanding, for details).

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

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

8. ADJUSTED FREE CASH FLOW AND DIVIDENDS (see Section 18, Non-GAAP measures)

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

Effective for the May 2012 dividend, the Board approved a dividend increase to $0.1125 per Share.

8.1 ADJUSTED FREE CASH FLOW

Cineplex distributes cash to its shareholders on a monthly basis. The following table illustrates adjusted free cash flow per Share, dividends paid per Share, and the payout ratio of dividends relative to adjusted free cash flow for the third quarter of 2012 and the first nine months of 2012 compared to the third quarter of 2011 and the first nine months of 2011:

Adjusted free cash flow	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Adjusted free cash flow per Share	$ 0.5737	$ 0.7133	-19.6%	$ 1.5378	$ 1.6100	-4.5%
Dividends declared per Share	$ 0.3375	$ 0.3225	4.7%	$ 0.9925	$ 0.9575	3.7%
Payout ratio	58.8%	45.2%	13.6%	64.5%	59.5%	5.0%

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

	Third Quarter			Year to Date		
	2012	2011	Change	2012	2011	Change
Cash flows from operations	$ 41,657	$ 48,124	-13.4%	$ 66,184	$ 83,525	-20.8%
Net income	$ 51,712	$ 25,737	100.9%	$ 87,780	$ 38,329	129.0%
Standardized free cash flow	$ 25,783	$ 35,982	-28.3%	$ 17,840	$ 44,544	-59.9%
Adjusted free cash flow	$ 35,569	$ 41,603	-14.5%	$ 93,352	$ 93,156	0.2%
Cash dividends declared	$ 20,935	$ 18,836	10.4%	$ 60,536	$ 55,485	9.1%
Average number of Shares outstanding	61,996,063	58,323,720	6.3%	60,705,608	57,857,376	4.9%

8.2 DIVIDENDS

Subject to the discretion of the Board, dividends are typically declared on a monthly basis to common shareholders of record on the last business day of each month. For the third quarter of 2012 and the first nine months of 2012, Cineplex declared dividends of $0.3375 and $0.9925 per Share, respectively. For the third quarter of 2011 and the first nine months of 2011, Cineplex declared dividends totaling $0.3225 and $0.9575 per Share, respectively.

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

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

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

9. SHARES OUTSTANDING

Cineplex had the following Shares outstanding for the period ended September 30, 2012 (expressed in thousands of Canadian dollars, except for numbers of Shares):

	2012							
	Shares			Amount				
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust	Common shares, net	Common shares	Equity component of convertible debentures	LTIP common shares	LTIP obligation	Total
Opening balance - December 31, 2011	58,465,254	(443,916)	58,021,338	$ 751,042	$ 15,182	$ (9,735)	$ 8,312	$ 764,801
Debenture conversions during the period	3,369,419	—	3,369,419	74,938	(12,332)	—	—	62,606
LTIP expense obligation	—	—	—	—	—	—	1,400	1,400
Issuance of shares on option exercises	299,960	—	299,960	5,849	—	—	—	5,849
Settlement of LTIP obligation through transfer of common shares to LTIP participants	—	304,189	304,189	478	—	6,471	(6,949)	—
Shares repurchased and cancelled under the normal course issuer bid	(71,400)	—	(71,400)	(936)	—	—	—	(936)
Closing balance - September 30, 2012	62,063,233	(139,727)	61,923,506	$ 831,371	$ 2,850	$ (3,264)	$ 2,763	$ 833,720

During the three and nine months ended September 30, 2012, convertible debentures issued by Cineplex with a principal amount of $4.5 million and $63.2 million, respectively, were converted into 237,537 and 3,369,419 Shares, respectively. The convertible debentures bear interest at a rate of 6% per annum, pay interest semi-annually and are convertible at the option of the holder into Shares at $18.75 per Share. During the three and nine months ended September 30, 2011, convertible debentures issued by Cineplex with a principal amount of $5.9 million and $19.5 million, respectively, were converted into 314,451 and 1,040,088 Shares, respectively.

During 2011, Cineplex filed for a NCIB with the Toronto Stock Exchange allowing Cineplex to purchase up to 5,600,000 Shares through August 17, 2012. At the time of the filing, the Board had concluded that the market price of the Shares, from time to time, may not reflect the inherent value of Cineplex and purchases of Shares pursuant to the NCIB may represent an appropriate and desirable use of funds. Cineplex cancelled all Shares purchased through the NCIB. During the nine months ended September 30, 2012, 71,400 Shares were purchased and cancelled by Cineplex for $1.8 million. Throughout the term of the NCIB, which expired on August 17, 2012, 208,800 Shares were purchased and cancelled by Cineplex for $5.2 million.

Officers and key employees of the Partnership are eligible to participate in the LTIP. For the three-year service period beginning January 1, 2012, 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
2011 LTIP award	137,302
2012 LTIP award	227,649

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

Cineplex has an option plan for certain employees of the Partnership. 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 five years from the date granted (ten years for options granted after December 31, 2010). Share options have been granted as follows:

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

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

Effective January 1, 2012, the Board invoked Cineplex's right to substitute a cashless exercise for any requested exercise of options for cash, in accordance with the terms of the option plan. As a result of the change in administrative policy, the options may only be equity-settled, and are considered equity, not liabilities. The expense amount for options is determined at the time of their issuance, recognized over the vesting period of the options. Existing options at the time of the change in administrative policy had their remaining expense determined at the time of the change in administrative policy, recognized over the remaining vesting periods. The amount reclassified to contributed surplus from current and non-current Share-based compensation was $6.9 million at January 1, 2012.

A summary of option activities for the nine months ended September 30, 2012 and 2011 is as follows:

	2012			2011	
	Weighted average remaining contractual life (years)	Number of underlying Shares	Weighted average exercise price	Number of underlying Shares	Weighted average exercise price
Options outstanding - January 1	6.65	1,587,538	$ 19.88	1,520,944	$ 15.15
Granted		474,000	27.33	1,029,774	23.12
Cancelled		—	—	—	—
Exercised		(598,492)	14.83	(846,938)	16.12
Options outstanding – end of period	8.61	1,463,046	$ 24.36	1,703,780	$ 19.51

10. SEASONALITY AND QUARTERLY RESULTS

Historically, Cineplex's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures have traditionally been released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter, in attendance levels, theatre staffing levels and reported results. More recently, the seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. To meet working capital requirements during the traditionally lower-revenue quarters, Cineplex has available for its use the Revolving Facility. As at September 30, 2012, there was $20.0 million drawn on the Revolving Facility.

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

	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues								
Box office revenues	$ 162,133	$ 156,226	$ 149,413	$ 133,735	$ 162,522	$ 151,135	$ 129,956	$ 138,097
Concession revenues	85,924	79,962	77,037	68,161	82,114	76,209	65,154	68,292
Other revenues	33,311	27,434	21,736	39,792	32,072	31,063	26,282	34,159
	281,368	263,622	248,186	241,688	276,708	258,407	221,392	240,548
Expenses								
Film cost	83,632	83,465	76,707	68,757	85,320	79,783	65,544	71,254
Cost of concessions	17,831	16,720	15,770	14,015	16,817	16,257	13,648	14,101
Depreciation and amortization	14,014	14,656	16,454	16,812	16,613	17,318	17,372	19,012
Loss (gain) on disposal of assets	114	727	(55)	731	487	(1,020)	537	990
Other costs	124,648	115,821	115,146	116,918	118,728	117,303	113,476	117,233
	240,239	231,389	224,022	217,233	237,965	229,641	210,577	222,590
Income from operations	41,129	32,233	24,164	24,455	38,743	28,766	10,815	17,958
Adjusted EBITDA (i)	54,575	47,263	41,139	40,102	57,441	44,393	31,238	36,718
Net income (loss)	$ 51,712	$ 20,960	15,108	10,931	25,737	13,440	(848)	4,395
Basic earnings (loss) per Share/Unit	$ 0.84	$ 0.34	$ 0.26	$ 0.19	$ 0.44	$ 0.23	$ (0.01)	$ 0.08
Diluted earnings (loss) per Share/Unit (ii)	$ 0.83	$ 0.34	$ 0.26	$ 0.19	$ 0.44	$ 0.23	$ (0.01)	$ 0.08
Cash provided by operating activities	41,657	23,145	1,382	92,752	48,124	27,548	7,853	59,723
Cash used in investing activities	(11,290)	(19,691)	(20.422)	(19,612)	(12,352)	(17,873)	(12,414)	(24,877)
Cash used in financing activities	(41,428)	(576)	(20.693)	(87,427)	(21,660)	(18,882)	(22,408)	(24,536)
Net change in cash	$ (11,061)	$ 2,878	$ (39,733)	$ (14,287)	$ 14,112	$ (9,207)	$ (26,969)	$ 10,310
Box office revenue per patron	$ 8.84	$ 9.11	$ 8.72	$ 8.87	$ 8.77	$ 8.80	$ 8.51	$ 8.79
Concession revenue per patron	$ 4.68	$ 4.66	$ 4.50	$ 4.52	$ 4.43	$ 4.44	$ 4.27	$ 4.34
Attendance (in thousands of patrons)	18,348	17,146	17,127	15,070	18,542	17,175	15,272	15,718
Theatre locations (at period end)	133	130	130	130	130	129	131	131
Theatre screens (at period end)	1,438	1,359	1,352	1,352	1,351	1,344	1,360	1,362

(i) See Section 18, Non-GAAP measures for a description of adjusted EBITDA.
(ii) Excludes the conversion of the convertible debentures as such conversion would be anti-dilutive for all quarters with the exception of the second quarter of 2010 and the third quarter of 2011 where conversion was dilutive.

Summary of adjusted free cash flow (prior to 2011 - distributable cash) by quarter

Management calculates adjusted free cash flow per Share as follows (see section 18, Non-GAAP measures, for a discussion of adjusted free cash flow) (expressed in thousands of Canadian dollars except per Share/Unit data and number of Shares/Units outstanding):

	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash provided by operating activities	$ 41,657	$ 23,145	$ 1,382	$ 92,752	$ 48,124	$ 27,548	$ 7,853	$ 59,715
Less: Total capital expenditures	(15,874)	(19,691)	(12,779)	(19,685)	(12,142)	(14,425)	(12,414)	(18,457)
Standardized free cash flow/standardized distributable cash	25,783	3,454	(11,397)	73,067	35,982	13,123	(4,561)	41,258
Add/(Less):								
Changes in operating assets and liabilities	2,178	16,218	36,449	(59,395)	181	3,041	17,879	(26,349)
Changes in operating assets and liabilities of joint ventures	(163)	(933)	(2,942)	377	(2,064)	3,837	(5)	(475)
Tenant inducements	(727)	(1,948)	(3,297)	(1,565)	(1,535)	(1,195)	(2,855)	(262)
Principal component of financing lease obligations	(520)	(512)	(541)	(576)	(566)	(555)	(545)	(520)
Growth capital expenditures and other	9,733	13,593	9,660	10,838	8,166	11,675	10,090	14,379
Share of (loss) income of joint ventures, net of non-cash depreciation	(711)	(353)	576	(1,896)	1,598	(671)	2,514	(1,220)
Cash invested in CDCP	(4)	—	(244)	22	(159)	(219)	-	-
Adjusted free cash flow/distributable cash	$ 35,569	$ 29,519	$ 28,264	$ 20,872	$ 41,603	$ 29,036	$ 22,517	$ 26,811
Less: exchangeable interests share	—	—	—	—	—	—	—	(80)
Adjusted free cash flow/distributable cash available to Shareholders/Unitholders	$ 35,569	$ 29,519	$ 28,264	$ 20,872	$ 41,603	$ 29,036	$ 22,517	$ 26,731
Average number of Shares/Units outstanding	61,996,063	61,289,181	58,847,728	58,461,523	58,323,720	57,770,425	57,468,588	57,182,396
Adjusted free cash flow/distributable cash per Share/Unit (i)	$ 0.5737	$ 0.4816	$ 0.4803	$ 0.3570	$ 0.7133	$ 0.5026	$ 0.3918	$ 0.4675

(i) Prior to its conversion to a corporation on January 1, 2011, Cineplex calculated distributable cash per unit, which is a non-GAAP measure recommended by the CICA in its July 2007 interpretive release, *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities.*

11. RELATED PARTY TRANSACTIONS

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

A member of the Board is the President and Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan"). During the three and nine months ended September 30, 2012, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of $11.8 million and $37.2 million, respectively (2011 - $11.9 million and $36.8 million, respectively).

12. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

Cineplex makes estimates and assumptions concerning the future that may not equal actual results. The most significant estimates made by management in the preparation of the financial statements relate to the estimated useful lives of property, equipment and leaseholds, the fair value of over-the-counter derivatives, revenue recognition for gift cards and gift certificates, the determination of income tax assets and liabilities,

the assessment of the fair value of assets and liabilities acquired in business combinations and the assessment of theatre cash flows to identify potential asset impairments. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The discussion on the methodology and assumptions underlying these significant accounting judgments and estimation uncertainties, their effect on Cineplex's results of operations and financial position for the year ended December 31, 2011 can be found in Cineplex's MD&A for the year ended December 31, 2011. These estimates have not changed materially during the first nine months of 2012. There were no events that occurred during the first nine months of 2012 that would indicate Cineplex's property, equipment and leasehold assets, as well as its goodwill and intangible assets, had been impaired.

13. ACCOUNTING POLICIES

13.1 FUTURE CHANGES IN ACCOUNTING POLICIES

Management of Cineplex reviews all changes to the International Financial Reporting Standards ("IFRS") when issued. The International Accounting Standards Board ("IASB") has issued the following standards, which have not yet been adopted by Cineplex. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Cineplex is in the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a description of the new standards:

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments* ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and 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, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss) ("OCI" or "OCL"). Where such equity instruments are measured at fair value through OCI or OCL, 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 (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk in liabilities designed at fair value through profit and loss would generally be recorded in OCI or OCL. In January 2012, the effective date was revised to January 1, 2015 with earlier application permitted.

IAS 1, Presentation of Financial Statements

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

IFRS 10, Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ("IFRS 10") requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operational policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee ("SIC") SIC-12,

Consolidation – Special Purpose Entities and parts of IAS 27, *Consolidated and Separate Financial Statements* ("IAS 27").

IFRS 11, Joint Arrangements

IFRS 11, *Joint Arrangements* ("IFRS 11") requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers.*

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, Fair Value Measurement

IFRS 13, *Fair Value Measurement* ("IFRS 13") is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to Other Standards

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

IAS 19, *Employee Benefits* ("IAS 19") has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with Cineplex's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current year (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plan, guidance on risk/cost sharing features, and expanded disclosures.

14. RISK MANAGEMENT

Cineplex is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. Cineplex has operating and risk management strategies and insurance programs to help minimize these operating risks. In addition Cineplex has entity level controls and governance

procedures including a corporate code of business conduct and ethics, whistle blowing procedures, clearly articulated corporate values, and detailed policies outlining the delegation of authority within Cineplex.

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

Industry Risk

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

In 2011, eight major film distributors accounted for approximately 97.7% of Cineplex's box office revenues, which is consistent with industry standards. Deterioration in Cineplex's relationships with any of the major film distributors could affect its ability to negotiate film licenses on favourable terms or its ability to obtain commercially successful films. Cineplex actively works on maintaining good relations with these distributors, as this affects its ability to negotiate commercially favourable licensing terms for first-run films or to obtain licenses at all.

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

Exhibition Competition Risk

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

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

Technology Risk

The film exhibition industry is in the process of conversion from a physical film-based medium to a digital medium of film exhibition. Financial costs of the conversion to digital projection equipment are being funded through a virtual print fee model to be paid by distributors. During the third quarter of 2012, Cineplex completed the planned conversion of its theatre circuit to digital projection through CDCP.

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

3D televisions are available in the Canadian market, which could result in consumers choosing to consume 3D product in-the-home rather than in theatre, however the number of 3D televisions and 3D content available is extremely limited to date. To mitigate these risks, Cineplex continues to enhance the out-of-home experience through the addition of new technologies including 3D, VIP, UltraAVX and digital projection in order to further differentiate the theatrical product from the home product. Approximately 36% of Cineplex's screens are currently equipped to screen 3D content. Cineplex has also diversified its offerings to customers by operating the Cineplex Store which sells DVDs, Blu-ray discs and digital downloads in order to participate in the in-the-home entertainment market.

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

Customer Risk

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

Cineplex monitors customer needs to ensure that the in-theatre experience meets the anticipated needs of key demographic groups. Cineplex is differentiating the movie-going experience by providing UltraAVX auditoriums, D-BOX MFX seating, VIP cinemas and XSCAPE entertainment centres in select theatres and by providing alternative programming which appeals to specific demographic groups. In addition, the advent of digital technology will allow for more niche programming. In the event that consumer preferences change, Cineplex may need to incur further capital expenditures to redevelop existing locations. In consideration of this risk, Cineplex continues to improve the quality of its theatre assets through ongoing theatre upgrades and retrofits.

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

Cineplex continues to pursue other revenue opportunities such as advertising, games, promotions and alternative uses of its theatres during non-peak hours. Cineplex's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams. Media revenue has been shown to be particularly sensitive to economic conditions and any changes in the economy may either adversely influence this revenue stream in times of a downturn or positively influence this revenue stream should economic conditions improve. Cineplex monitors customer satisfaction with advertising through customer satisfaction surveys and has introduced more entertainment content into its pre-show advertising and set limits on rolling stock advertising in order to maintain satisfaction in this area.

Human Resources Risk

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

Cineplex employs approximately 10,000 people, of whom approximately 90% are hourly workers whose compensation is based on the prevailing provincial minimum wages with incremental adjustments as required to match market conditions. Any increase in these minimum wages will increase employee related costs. Approximately 4% of Cineplex's employees are represented by unions, located in the province of Quebec. Because of the small percentage of employees represented by unions, the risk of labour disruption is low.

Real Estate Risk

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

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

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

Financial Markets Risk

Cineplex requires efficient access to capital in order to fuel growth, execute strategies, and generate future financial returns. For this reason Cineplex has established credit facilities at favourable rates. Cineplex has a $200.0 million revolving credit facility which matures in September 2016.

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

Sourcing Risk

Substantially all of Cineplex's beverage concessions are products of one major beverage company. If this relationship was disrupted, Cineplex may be forced to negotiate a substitute arrangement that could be

less favourable to Cineplex than the current arrangement. Any such disruptions could therefore increase the cost of concessions and harm Cineplex's operating margins, which would adversely affect its business and results of operations.

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

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

Health and Safety Risk

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

Business Continuity Risk

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

Legal, Taxation and Accounting Risk

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

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

Environment/Sustainability Risk

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

Information Management Risk

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

15. CONTROLS AND PROCEDURES

15.1 DISCLOSURE CONTROLS AND PROCEDURES

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

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

16. SUBSEQUENT EVENT

Subsequent to quarter-end, Cineplex sold land with a carrying value of $0.1 million for proceeds of approximately $4.0 million, of which $1.5 million are deferred. A gain of $3.9 million will be recognized in the fourth quarter.

17. OUTLOOK

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

THEATRE EXHIBITION

Box office revenues during the third quarter of 2012 decreased 0.2% due to the 1.0% decrease in attendance. BPP for the quarter was $8.84, 0.8% higher than the $8.77 recorded in the prior year period For the year to date period, box office revenues increased 5.4% due to a 3.2% increase in attendance and a 2.2% increase in BPP. During the quarter, Cineplex acquired AMC Ventures Inc., which owns four theatres located in Toronto, Mississauga and Oakville, Ontario and Montreal, Quebec. Cineplex believes its operating and programming expertise, combined with its merchandising, media, marketing, interactive and SCENE loyalty programs will positively and significantly impact the business of these four theatres. Cineplex will invest in each of the locations and may add UltraAVX auditoriums, VIP Cinemas, expanded food offerings or XSCAPE entertainment centres to one or more of the locations.

Highly anticipated 3D films to be released in the balance of 2012 include *The Hobbit: An Unexpected Journey* and *Life of Pi*. Other highly anticipated films to be released in 2012 include *The Twilight Saga: Breaking Dawn Part 2*, the latest edition of the James Bond franchise *Skyfall*, and the film adaptation of the popular musical *Les Miserables.* Cineplex believes that 3D, UltraAVX, IMAX and VIP formats provide an enhanced guest experience and will continue to charge a ticket price premium for films and events presented in these formats.

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

MERCHANDISING

Cineplex has continued to show growth in CPP over the past five years. CPP in the third quarter of 2012 was $4.68, a quarterly record for Cineplex, and $0.25 higher than the prior year. Although pricing does impact CPP, Cineplex's core focus is on operational execution and providing the optimal product mix to provide further growth in this area. As part of this strategy, Cineplex will continue to expand its in-house brand *Outtakes* across the circuit, and continues to roll-out new digital menu boards in its theatres which provide guests with more interactive messaging during visits to the concession stand.

The acquisition of NWS during 2011 and the creation of CSI in the first quarter of 2012 has allowed Cineplex to vertically integrate its gaming business. CSI now supplies and services all of the games in Cineplex's circuit, while also supplying equipment to third party arcades, amusement centers, bowling alleys, amusement parks and theatre circuits, in addition to owning and operating *Playdium*, the family entertainment centre located in Mississauga, Ontario.

MEDIA

Media revenues increased 3.6% in the third quarter of 2012 compared to the prior year period. The increase was primarily due to higher CDM revenues, with moderate growth in both on-screen and magazine revenues. After two quarters of lower media revenues to start 2012, the third quarter demonstrated that advertisers are returning to the market in the third quarter. Cineplex believes that cinema advertising continues to be a compelling media offering that provides an effective medium to reach all demographics, especially the 17-25 year old demographic. This demographic is a significant proportion of overall attendance and is a more challenging demographic to reach through other traditional media vehicles.

In the 2012 Fall study by the Print Measurement Bureau, *Cineplex Magazine* and *Le magazine Cineplex* earned outstanding readership numbers, with *Cineplex Magazine* ranking as the 8th most-read magazine in Canada, with a circulation of over 700,000 copies per issue; and *Le magazine Cineplex* reaching circulation of over 200,000 copies per issue.

Cineplex continues to enhance its media offering including enhanced website and mobile opportunities, expanding its customer base through its digital lobby network, and increasing its offerings in the digital out-of-theatre signage business through CDM, which continues to explore new customer relationships for media representation, equipment sales and consulting and ongoing service contracts.

ALTERNATIVE PROGRAMMING

During the third quarter of 2012, Cineplex offered a wide variety of alternative programming, including screening the Wimbledon tennis finals live in 3D, performances by the National Theatre in London and various concert performances by popular recording artists.

The completion of Cineplex's conversion to digital projection provides increased flexibility to screen alternative programming across the circuit. Aside from 3D feature films, it is expected that 3D alternative

programming events such as sporting events and concerts will increase in frequency in the coming years, and Cineplex is well positioned to take advantage of these opportunities as they arise.

INTERACTIVE

As of September 30, 2012, the Cineplex mobile app has been downloaded approximately 4.1 million times and recorded approximately 84.8 million app sessions. App development on all platforms continues, and during the period the Cineplex Store app was launched on LG set top boxes and Cineplex Store playback was added to Apple iOS devices.

The Cineplex Store continues to evolve, with Cineplex continuing to work on the integration of the UltraViolet digital locker to the Cineplex Store, allowing customers to store all of their digital content in a secure cloud-based digital locker that is accessible from anywhere, as well as continued integration of the Cineplex movie download application on consumer electronic devices.

LOYALTY

The SCENE loyalty program continues to grow its membership base, ending the third quarter of 2012 with more than 4.0 million members. As part of the *Cineplex Tuesdays* program, SCENE members get 10% off the already discounted ticket prices on Tuesdays across the circuit.

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

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

FINANCIAL OUTLOOK

During the twelve months ended September 30, 2012, Cineplex generated adjusted free cash flow per Share of $1.8992 and declared dividends of $1.3150. The payout ratios for this period was approximately 69.2%.

The acquisition of AMC Ventures Inc. and subsequent wind-up into Cineplex resulted in non-capital losses of $146.3 million being made available to offset taxable income earned by Cineplex beginning in 2013. These losses have been valued using Cineplex's effective tax rate and are included in the purchase price allocation (Section 1.3, Business acquisition). As a result of these losses, Cineplex's cash taxes in 2013 will be substantially reduced.

During 2011, Cineplex entered into the Fourth Amended Credit Facilities, which mature in September 2016. Cineplex has a $200.0 million revolving credit facility which is available to finance acquisitions, new theatre construction, working capital and distributions. As defined under its credit facility, as at September 30, 2012, Cineplex reported a leverage ratio of 1.10x as compared to a covenant of 3.50x. Between the free cash flow generated in excess of the dividends paid and amounts available under the Fourth Amended Credit Facilities, Cineplex believes that it has sufficient financial resources to meet its ongoing requirements for capital expenditures, investments in working capital and dividends. However, Cineplex's needs may change and in such event Cineplex's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

18. 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.

18.1 EBITDA AND ADJUSTED EBITDA

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income	**$ 51,712**	**$ 25,737**	**$ 87,780**	**$ 38,329**
Depreciation and amortization	14,014	16,613	45,124	51,303
Interest expense	2,499	6,275	10,495	17,886
Interest income	(44)	(381)	(147)	(804)
Current income tax expense	9,053	5,973	22,641	12,011
Deferred income tax expense (recovery)	707	2,625	(210)	11,994
EBITDA	**$ 77,941**	**$ 56,842**	**$ 165,683**	**$ 130,719**
Loss on disposal of assets	114	487	786	4
Gain on acquisition of business	(23,822)	—	(23,822)	—
CDCP equity income (i)	(462)	65	(1,388)	2,218
Depreciation and amortization - joint ventures (ii)	539	47	1,453	131
Current income taxes - joint ventures (ii)	29	—	29	—
Deferred income taxes - joint ventures (ii)	236	—	236	—
Adjusted EBITDA	**$ 54,575**	**$ 57,441**	**$ 142,977**	**$ 133,072**

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

18.2 ADJUSTED FREE CASH FLOW AND DISTRIBUTABLE CASH

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Cash provided by operating activities	$ 41,657	$ 48,124	$ 66,184	$ 83,525
Less: Total capital expenditures net of proceeds on sale of assets	(15,874)	(12,142)	(48,344)	(39,981)
Standardized free cash flow	25,783	35,982	17,840	44,544
Add/(Less):				
Changes in operating assets and liabilities (i)	2,178	181	54,845	21,101
Changes in operating assets and liabilities of joint ventures (i)	(163)	(2,064)	(4,038)	1,768
Tenant inducements (ii)	(727)	(1,535)	(5,972)	(5,585)
Principal component of finance lease obligations	(520)	(566)	(1,573)	(1,666)
Growth capital expenditures and other (iii)	9,733	8,166	32,986	29,931
Share of (loss) income of joint ventures, net of non-cash depreciation (iv)	(711)	1,598	(488)	3,441
Cash invested in CDCP (iv)	(4)	(159)	(248)	(378)
Adjusted free cash flow	**$ 35,569**	**$ 41,603**	**$ 93,352**	**$ 93,156**
Average number of Shares outstanding	61,996,063	58,323,720	60,705,608	57,857,376
Adjusted free cash flow per Share	**$ 0.5737**	**$ 0.7133**	**$ 1.5378**	**$ 1.6100**

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

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

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income	$ 51,712	$ 25,737	$ 87,780	$ 38,329
Adjust for:				
Depreciation and amortization	14,014	16,613	45,124	51,303
Loss on disposal of assets	114	487	786	4
Gain on acquisition of business	(23,822)	—	(23,822)	—
Non-cash interest expense (i)	199	1,767	2,498	2,922
Share of (income) loss of CDCP (ii)	(462)	65	(1,388)	2,218
Non-cash depreciation of joint ventures	539	47	1,453	131
Deferred income tax expense (recovery)	707	2,625	(210)	11,994
Joint venture deferred income tax expense	236	—	236	—
Maintenance capital expenditures	(6,141)	(3,976)	(15,358)	(9,050)
Principal component of finance lease obligations	(520)	(566)	(1,573)	(1,666)
Cash invested in CDCP (ii)	(4)	(159)	(248)	(378)
Non-cash items:				
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(1,436)	(1,074)	(3,601)	(2,944)
Non-cash Share-based compensation	433	37	1,675	293
Adjusted free cash flow	**$ 35,569**	**$ 41,603**	**$ 93,352**	**$ 93,156**

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

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

18.3 OTHER NON-GAAP MEASUREMENTS MONITORED BY MANAGEMENT

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

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

Cineplex Inc.

Interim Consolidated Balance Sheets
(Unaudited)

(expressed in thousands of Canadian dollars)

	September 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 1,076	$ 48,992
Trade and other receivables	36,042	67,185
Inventories	4,065	4,118
Prepaid expenses and other current assets	9,853	3,727
	51,036	124,022
Non-current assets		
Property, equipment and leaseholds	404,009	389,532
Deferred income taxes (note 3a)	53,961	12,052
Interests in joint ventures (note 3)	40,793	26,163
Intangible assets	81,981	84,379
Goodwill	608,929	608,929
	$ 1,240,709	$ 1,245,077

Business acquisitions and formations (note 3)

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

(expressed in thousands of Canadian dollars)

	September 30, 2012	December 31, 2011
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 76,970	$ 112,285
Dividends payable (note 4)	6,982	6,285
Share-based compensation (note 5)	—	1,331
Income taxes payable	10,221	17,485
Deferred revenue	53,287	83,907
Finance lease obligations (note 6)	2,182	2,411
Fair value of interest rate swap agreements	543	565
Convertible debentures	14,557	76,864
	164,742	301,133
Non-current liabilities		
Share-based compensation (note 5)	10,316	9,466
Long-term debt	167,936	167,531
Fair value of interest rate swap agreements	555	1,199
Finance lease obligations (note 6)	21,119	26,474
Post-employment benefit obligations	5,914	5,688
Other liabilities (notes 3a) and 6)	140,348	103,727
Deficiency interest in joint venture	8,082	8,250
	354,270	322,335
Total liabilities	519,012	623,468
Equity		
Share capital (notes 1 and 7)	833,720	764,801
Deficit	(114,075)	(140,469)
Accumulated other comprehensive loss	(1,088)	(2,723)
Contributed surplus (notes 1 and 5)	3,140	—
	721,697	621,609
	$ 1,240,709	$ 1,245,077

Business acquisitions and formations (note 3)

Approved by the Board of Directors

"Phyllis Yaffe"
Director

"Robert Steacy"
Director

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

Cineplex Inc.

Interim Consolidated Statements of Operations
(Unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Revenues				
Box office	$ 162,133	$ 162,522	$ 467,772	$ 443,613
Concessions	85,924	82,114	242,923	223,477
Other	33,311	32,072	82,481	89,417
	281,368	276,708	793,176	756,507
Expenses				
Film cost	83,632	85,320	243,804	230,647
Cost of concessions	17,831	16,817	50,321	46,722
Depreciation and amortization	14,014	16,613	45,124	51,303
Loss on disposal of assets	114	487	786	4
Gain on acquisition of business (note 3a)	(23,822)	—	(23,822)	—
Other costs (note 8)	124,648	118,728	355,615	349,507
Share of loss (income) of joint ventures	1,024	(1,486)	789	(1,092)
Interest expense	2,499	6,275	10,495	17,886
Interest income	(44)	(381)	(147)	(804)
	219,896	242,373	682,965	694,173
Income before income taxes	61,472	34,335	110,211	62,334
Provision for (recovery of) income taxes (note 1)				
Current	9,053	5,973	22,641	12,011
Deferred	707	2,625	(210)	11,994
	9,760	8,598	22,431	24,005
Net income	$ 51,712	$ 25,737	$ 87,780	$ 38,329
Basic net income per share (note 9)	$ 0.84	$ 0.44	$ 1.45	$ 0.67
Diluted net income per share (note 9)	$ 0.83	$ 0.44	$ 1.45	$ 0.66

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

Cineplex Inc.

Interim Consolidated Statements of Comprehensive Income
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income	$ 51,712	$ 25,737	$ 87,780	$ 38,329
Other comprehensive income				
Income (loss) on hedging instruments	196	(242)	2,457	1,281
Associated deferred income taxes expense	(107)	(12)	(822)	(2,253)
Other comprehensive income (loss)	89	(254)	1,635	(972)
Comprehensive income	$ 51,801	$ 25,483	$ 89,415	$ 37,357

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

Cineplex Inc.

Interim Consolidated Statements of Changes in Equity
(Unaudited)

(expressed in thousands of Canadian dollars)

	Unit capital (note 7)	Share capital (note 7)	Contributed surplus (note 5)	Accumulated other comprehensive loss	Deficit	Total
Balance - January 1, 2012	$ —	$ 764,801	$ —	$ (2,723)	$ (140,469)	$ 621,609
Share option liabilities reclassified	—	—	6,850	—	—	6,850
Net income	—	—	—	—	87,780	87,780
Other comprehensive income	—	—	—	1,635	—	1,635
Dividends declared (note 4)	—	—	—	—	(60,536)	(60,536)
Long-term incentive plan obligation	—	(5,071)	—	—	—	(5,071)
Long-term incentive plan shares	—	6,471	—	—	—	6,471
Share option expense	—	—	1,638	—	—	1,638
Issuance of shares on exercise of options	—	5,348	(5,348)	—	—	—
Issuance of shares on conversion of debentures	—	62,606	—	—	—	62,606
Issuance of shares for cash	—	501	—	—	—	501
Shares repurchased and cancelled	—	(936)	—	—	(850)	(1,786)
Balance - September 30, 2012	$ —	$ 833,720	$ 3,140	$ (1,088)	$ (114,075)	$ 721,697
Balance - January 1, 2011	$ 710,121	$ —	$ 1,407	$ (3,534)	$ (113,120)	$ 594,874
Effect of corporate conversion (note 1)	(710,121)	744,760	(1,407)	—	—	33,232
Net income	—	—	—	—	38,329	38,329
Other comprehensive loss	—	—	—	(972)	—	(972)
Long-term incentive plan obligation	—	(2,504)	—	—	—	(2,504)
Dividends declared (note 4)	—	—	—	—	(55,485)	(55,485)
Long-term incentive plan shares	—	1,888	—	—	—	1,888
Issuance of shares on conversion of debentures	—	19,080	—	—	—	19,080
Shares repurchased and cancelled	—	(375)	—	—	—	(375)
Balance - September 30, 2011	$ —	$ 762,849	$ —	$ (4,506)	$ (130,276)	$ 628,067

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

Cineplex Inc.

Interim Consolidated Statements of Cash Flows
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Cash provided by (used in)				
Operating activities				
Net income	$ 51,712	$ 25,737	$ 87,780	$ 38,329
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	14,014	16,613	45,124	51,303
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(1,436)	(1,074)	(3,601)	(2,944)
Accretion of debt issuance costs and other non-cash interest	140	237	419	701
Loss on disposal of assets	114	487	786	4
Gain on acquisition of business	(23,822)	—	(23,822)	—
Deferred income taxes	707	2,625	(210)	11,994
Interest rate swap agreements - non-cash interest	16	1,279	1,780	1,143
Non-cash share-based compensation	433	37	1,675	293
Accretion of convertible debentures	43	251	299	1,078
Net change in interests in joint ventures	1,187	578	4,827	(2,860)
Tenant inducements	727	1,535	5,972	5,585
Changes in operating assets and liabilities (note 10)	(2,178)	(181)	(54,845)	(21,101)
Net cash provided by operating activities	41,657	48,124	66,184	83,525
Investing activities				
Proceeds from sale of assets	4	82	1,133	1,822
Purchases of property, equipment and leaseholds	(15,878)	(12,224)	(49,477)	(40,803)
Acquisition and formation of businesses, net of cash acquired (note 3)	4,588	—	(2,811)	(3,280)
Additional equity funding of CDCP	(4)	(210)	(248)	(378)
Net cash used in investing activities	(11,290)	(12,352)	(51,403)	(42,639)
Financing activities				
Dividends paid	(20,908)	(18,804)	(59,839)	(49,201)
Repayments under credit facility, net	(20,000)	—	—	—
Payments under finance leases	(520)	(566)	(1,573)	(1,666)
Proceeds from issuance of shares	—	—	501	—
Acquisition of long-term incentive plan shares	—	—	—	(9,793)
Deferred financing fees	—	(1,915)	—	(1,915)
Shares repurchased and cancelled	—	(375)	(1,786)	(375)
Net cash used in financing activities	(41,428)	(21,660)	(62,697)	(62,950)
(Decrease) increase in cash and cash equivalents during the period	(11,061)	14,112	(47,916)	(22,064)
Cash and cash equivalents - Beginning of period	12,137	49,167	48,992	85,343
Cash and cash equivalents - End of period	$ 1,076	$ 63,279	$ 1,076	$ 63,279
Supplemental information				
Cash paid for interest	$ 1,955	$ 3,674	$ 7,427	$ 13,762
Cash paid for income taxes	$ 5,385	$ —	$ 29,987	$ 65

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

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

1 General information

Cineplex Galaxy Income Fund (the "Fund") was formed on October 2, 2003. On January 1, 2011, the Fund effected a reorganization for tax and business purposes, converting to an Ontario, Canada corporation, Cineplex Inc. ("Cineplex"). The assets of the Trust and the Fund were transferred to Cineplex on a tax-deferred basis, and the Trust was wound up. Additionally, on January 1, 2011, Cineplex acquired the 0.3% of the Partnership units it did not indirectly own, making the Partnership a wholly owned subsidiary of Cineplex. Cineplex is Canada's largest film exhibition operator, with theatres in six provinces, and is headquartered at 1303 Yonge Street, Toronto, Ontario, M4T 2Y9.

Financial effects of reorganization

In 2011, as a result of the reorganization, unit capital of $710,121 and contributed surplus of $1,407 were reclassified to share capital on the consolidated balance sheet. In addition, the fair value of the conversion derivative associated with the convertible debentures of $19,470, the long-term incentive plan ("LTIP") obligation, recorded as share or unit-based compensation of $9,911, and the fair value of exchangeable interests of $3,851 were all reclassified to share capital on the consolidated balance sheet.

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

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

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

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

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

2 Basis of preparation and accounting standards changes

Basis of preparation

Cineplex prepares its unaudited interim condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), as set out in the Handbook of The Canadian Institute of Chartered

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

Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

These unaudited interim condensed consolidated financial statements are presented in accordance with International Accounting Standard IAS 34, *Interim Financial Reporting*. The disclosures contained in these unaudited interim consolidated financial statements do not contain all requirements of Canadian GAAP for annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011.

These unaudited interim condensed consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2011. The Board of Directors approved these unaudited interim condensed consolidated financial statements on November 8, 2012.

3 Business acquisitions, formations and dispositions

a) AMC Ventures Inc.

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

The total consideration is dependent on the amount of non-capital losses available for use at the time of closing. The estimated additional consideration payable by Cineplex is based on the excess of non-capital losses greater than $68,682. A portion of the consideration payable by Cineplex in relation to the non-capital losses will be paid on initial determination, which will occur subsequent to quarter-end, and a portion will be paid later on final determination of the losses under the terms of the security purchase agreement. The estimated non-capital losses of $146,310 are available to offset taxable income earned by Cineplex beginning in 2013. The non-capital losses included in the purchase price allocation have been valued at 26.17%, Cineplex's effective tax rate. The recognition of the non-capital losses as deferred income tax assets is the primary reason Cineplex recognized a gain on the acquisition. The undiscounted amount of deferred consideration is $3,105 (fair value $2,721). All transaction costs associated with the transaction were expensed as incurred. Recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

Assets acquired and liabilities assumed		
Net working capital, including cash of $4,605	$	6,107
Equipment, including leaseholds		4,613
Deferred income taxes - non-capital losses		38,295
Deferred income taxes - other		5,074
Other liabilities - fair value of leases		(21,281)
Net assets	$	32,808
Consideration given		
Cash paid on closing	$	17
Payable to AMC Entertainment Inc. - non-capital tax losses		7,379
Payable to AMC Entertainment Inc. - working capital		1,590
	$	8,986
Gain recognized on acquisition	$	23,822

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

The acquired theatres had total revenues of $8,620 and loss before taxes of $1,232 included in the consolidated financial statements since the acquisition date. It is impracticable to determine the amount of revenues and income that would have been reported for the nine months ended September 30, 2012 as if the acquisition had occurred at January 1, 2012 because the financial statements of the acquired theatres for the period prior to the acquisition are not available to Cineplex.

As at September 30, 2012, the fair value of the assets and liabilities assigned to the acquisition have been determined on a provisional basis, pending finalization of the post-acquisition review of the fair value of the assets acquired and liabilities assumed. Any variations may be material.

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

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

c) CDCP

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

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

Digital projection systems leased from CDCP replaced substantially all of Cineplex's remaining 35 millimetre projection systems, allowing Cineplex to add additional 3D screens.

d) New Way Sales - acquisition

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

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

4 Dividends payable

Cineplex has declared the following dividends during the nine months ended September 30, 2012 and 2011:

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

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 October 2012, Cineplex declared a dividend of $6,984, $0.1125 per share, payable in November 2012.

5 Share-based compensation

Option plan

Cineplex has an incentive share option plan (the "Plan") for certain employees of the Partnership. 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 five years from the date granted (ten years for options granted after December 31, 2010).

Cineplex recorded $433 and $1,638 of employee benefits expense with respect to the options during the three and nine months ended September 30, 2012 (2011 - $853, and $7,367, respectively). At September 30, 2012, $3,140 associated with the options is reflected in contributed surplus on the consolidated balance sheets (2011 - $7,559 was accrued in current and non-current share-based compensation payable).

A summary of option activities for the nine months ended September 30, 2012 and 2011 is as follows:

		2012		2011	
	Weighted average remaining contractual life (years)	**Number of underlying shares**	**Weighted average exercise price**	**Number of underlying shares**	**Weighted average exercise price**
Options outstanding, January 1	6.65	1,587,538	$ 19.88	1,520,944	$ 15.15
Granted		474,000	27.33	1,029,774	23.12
Cancelled		—	—	—	—
Exercised		(598,492)	14.83	(846,938)	16.12
Options outstanding, September 30	8.61	1,463,046	$ 24.36	1,703,780	$ 19.51

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

At September 30, 2012 and 2011, options are vested and exercisable as follows:

	2012	2011
Options vested and exercisable at $23.12	244,873	—
Options vested and exercisable at $17.03	—	1
Options vested and exercisable at $14.00	20,167	260,672
	265,040	260,673

Long-term incentive plan

For the three-year service period beginning on January 1, 2012, the LTIP award consists of a "phantom" stock plan, awarding 137,302 (2011 - 227,649) 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 common shares, which are notionally reinvested as additional base share equivalents. The award 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 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 three and nine months ended September 30, 2012, Cineplex recognized $1,586 and $5,859, respectively (2011 - $1,625 and $5,904, respectively) of employee benefits expense under the LTIP. At September 30, 2012, a liability of $7,093 was reflected in non-current share-based compensation payable with respect to the LTIP (2011 - $2,020). The LTIP balances relating to performance periods prior to January 1, 2011 are presented as LTIP obligation within share capital.

6 Finance lease obligations and other liabilities

Cineplex has two non-cancellable finance leases for theatres and one finance lease for theatre equipment, including renewal options.

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

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

7 Share capital

Share capital at September 30, 2012 and 2011 and transactions during the periods are as follows:

2012

	Shares			Amount					
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust	Common shares, net	Common shares	Fund units	Equity component of convertible debentures	LTIP common shares	LTIP obligation	Total
Opening balance - December 31, 2011	58,465,254	(443,916)	58,021,338	$ 751,042	$ —	$ 15,182	$ (9,735)	$ 8,312	$ 764,801
Debenture conversions during the period	3,369,419	—	3,369,419	74,938	—	(12,332)	—	—	62,606
LTIP expense obligation	—	—	—	—	—	—	—	1,400	1,400
Issuance of shares on option exercises	299,960	—	299,960	5,849	—	—	—	—	5,849
Settlement of LTIP obligation through transfer of common shares to LTIP participants	—	304,189	304,189	478	—	—	6,471	(6,949)	—
Shares repurchased and cancelled under the normal course issuer bid	(71,400)	—	(71,400)	(936)	—	—	—	—	(936)
Closing balance - September 30, 2012	62,063,233	(139,727)	61,923,506	$ 831,371	$ —	$ 2,850	$ (3,264)	$ 2,763	$ 833,720

2011

	Shares			Amount					
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust	Common shares, net	Common shares	Fund units	Equity component of convertible debentures	LTIP common shares	LTIP obligation	Total
Opening balance - December 31, 2010	57,258,999	(540,023)	56,718,976	$ —	$ 719,589	$ —	$ (9,468)	$ —	710,121
Reclassification of unit capital to share capital	—	—	—	719,589	(719,589)	—	—	—	—
Reclassification of exchangeable interests	171,835	—	171,835	3,851	—	—	—	—	3,851
Reclassification of equity component of convertible debentures	—	—	—	—	—	19,470	—	—	19,470
Reclassification of LTIP obligation	—	—	—	—	—	—	—	9,911	9,911
Reclassification of contributed surplus	—	—	—	1,407	—	—	—	—	1,407
Debenture conversions during the period	1,040,088	—	1,040,088	22,887	—	(3,807)	—	—	19,080
Transfers and costs of LTIP obligation	—	—	—	—	—	—	—	9,177	9,177
Purchase of LTIP common shares	—	(419,178)	(419,178)	—	—	—	(9,793)	—	(9,793)
Settlement of LTIP obligation through transfer of common shares to LTIP participants	—	515,285	515,285	2,155	—	—	9,526	(11,681)	—
Shares repurchased and cancelled	(14,900)	—	(14,900)	(375)	—	—	—	—	(375)
Closing balance - September 30, 2011	58,456,022	(443,916)	58,012,106	$ 749,514	$ —	$ 15,663	$ (9,735)	$ 7,407	$ 762,849

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

8 Other costs

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Employee benefits	$ 42,384	$ 40,532	$ 123,672	$ 124,268
Rent	30,690	28,182	86,560	84,373
Realty and occupancy taxes and maintenance fees	14,999	12,957	42,106	39,368
Utilities	6,404	5,932	17,532	16,370
Purchased services	8,562	7,972	24,125	22,936
Other inventories consumed	1,867	2,459	4,872	7,257
Repairs and maintenance	4,638	4,343	12,579	12,270
Office and operating supplies	2,604	4,170	7,505	9,108
Licences and franchise fees	2,289	3,121	6,902	8,150
Insurance	562	587	1,513	1,779
Advertising and promotion	5,436	5,087	14,704	13,284
Professional and consulting fees	1,291	765	3,878	2,554
Telecommunications and data	825	895	2,707	2,473
Bad debts	231	33	300	217
Equipment rental	546	326	1,482	673
Other costs	1,320	1,367	5,178	4,427
	$ 124,648	$ 118,728	$ 355,615	$ 349,507

9 Net income per share

Basic

Basic net income per share is calculated by dividing the net income by the weighted average number of shares outstanding during the period:

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income	$ 51,712	$ 25,737	$ 87,780	$ 38,329
Weighted average number of shares outstanding	61,826,336	57,879,804	60,486,038	57,396,183
Basic net income per share	$ 0.84	$ 0.44	$ 1.45	$ 0.67

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

Diluted

Diluted net income per share 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 performed 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 the exercise of conversions or options.

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income	$ 51,712	$ 25,737	$ 87,780	$ 38,329
Adjustments for convertible debentures	—	1,518	—	—
Net income - adjusted	$ 51,712	$ 27,255	$ 87,780	$ 38,329
Weighted average number of shares outstanding	61,826,336	57,879,804	60,486,038	57,396,183
Adjustments for options	259,085	395,973	222,627	347,970
Adjustments for convertible debentures	—	4,279,467	—	—
Weighted average number of shares for diluted income per share	62,085,421	62,555,244	60,708,665	57,744,153
Diluted net income per share	$ 0.83	$ 0.44	$ 1.45	$ 0.66

10 Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Trade and other receivables	$ 3,679	$ 5,074	$ 22,162	$ 20,289
Inventories	874	(47)	51	(604)
Prepaid expenses and other current assets	1,205	1,863	(4,823)	(4,677)
Accounts payable and accrued expenses	(7,843)	(11,101)	(38,889)	(25,270)
Income taxes payable	3,750	5,870	(7,264)	11,842
Deferred revenue	(5,232)	(4,590)	(30,620)	(30,441)
Post-employment benefit obligations	125	97	225	207
Share-based compensation	1,685	1,104	5,382	1,115
Other liabilities	(421)	1,549	(1,069)	6,438
	$ (2,178)	$ (181)	$ (54,845)	$ (21,101)
Non-cash investing activities				
Property, equipment and leasehold purchases financed through accounts payable and accrued expenses	$ 8,587	$ 8,085	$ 8,587	$ 8,085

Certain non-cash transactions occurred relating to the formation of CSI (note 3), the derecognition of finance leases and the financial impact of the new agreements (note 6), and the conversion of debentures for shares.

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

11 Seasonal fluctuations

Cineplex's revenues are primarily dependent on the timing of film releases by distributors. The most marketable films have traditionally been released during the summer and year-end holiday seasons. Consequently, the results of operations and cash flows for interim periods are not necessarily indicative of the results to be expected for the full year. Although film studios and distributors have expanded the historical summer and year-end holiday release windows and increased the number of heavily marketed films released during traditionally lower attendance periods, Cineplex's results of operations may vary significantly from quarter to quarter.

12 Segment information

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

13 Comparative figures

Certain of the 2011 interim consolidated financial statement comparative figures have been reclassified to conform to the current periods' presentation.

14 Subsequent events

Subsequent to quarter-end, Cineplex sold land with a carrying value of $107 for proceeds of approximately $4,000, of which $1,450 is deferred. A gain of $3,893 will be recognized in the fourth quarter.

Galaxy Cinemas Chatham