2013

CINEPLEX
INC.

FIRST QUARTER 2013 REPORT

Letter to shareholders

After experiencing our best annual results yet in 2012—including record quarterly results for Q4 2012—the first quarter of 2013 was a tough comparator. Although, we experienced strong carry-over from films such as *The Hobbit: An Unexpected Journey*, *Django Unchained*, *Silver Linings Playbook,* and *Life of Pi*, the lack of blockbuster hits and compelling children's product for the period resulted in a difficult quarter for the industry and for Cineplex.

Total revenues of $248.1 million for the quarter were down 0.4% compared to the prior year period. Box office revenues of $145.2 million and concession revenues of $75.9 million declined 2.8% and 1.5% respectively. However, other revenues increased a substantial 20% to $27.0 million versus the prior year period. This helped partially offset the box office and concession declines, resulting in adjusted EBITDA of $31.7 million compared to $41.1 million during the same period in 2012.

I am very pleased to announce that the Board of Directors has approved a 6.7% dividend increase to $1.44 per share on an annual basis, which took effect with the May 2013 dividend.

So far this year, we've announced a number of new and continuing initiatives, including the acquisition of two new Vancouver theatres from Festival Cinemas, *The Fifth Avenue Cinema* and *The Park Theatre*. We are pleased to add these two iconic Vancouver locations to our theatre circuit, which now includes 136 theatres and 1,455 screens across six provinces.

Due to positive guest response and the tremendous success of UltraAVX, we continued the expansion of UltraAVX auditoriums in the first quarter, adding five new UltraAVX auditoriums to the circuit, including three at former AMC theatres. This brings the total count to 44 UltraAVX auditoriums as at March 31. Our plan is to add at least seven additional UltraAVX auditoriums in large and mid-size markets across the country throughout the remainder of the year.

Since I announced our launch of UltraViolet (UV) in Canada last quarter, we have added more than 2,500 UV enabled titles for purchase on the Cineplex Store from major partners, including Sony, Warner, and Universal. Looking ahead, we will continue to add more studios to the list for UV pin redemption, providing our guests with even more opportunities to receive e-copies of a DVD or Blu-ray movie, when purchased on the Cineplex Store.

Consistently, our SCENE loyalty program continues to grow as membership numbers reached over 4.5 million this quarter – an increase of approximately 200,000 members. Today that number has grown to over 4.6 million members.

Cineplex has one of the strongest brands in Canada with 10,000 employees whose passion is unmatched in the industry. I am proud of the hard work and dedication provided during this quarter and I am encouraged by what appears to be a strong film schedule for the second quarter and remainder of the year.

Finally, I would like to thank our investors for their continued confidence in Cineplex.

On behalf of the Board of Directors,

Ellis Jacob

President and CEO

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MANAGEMENT'S DISCUSSION AND ANALYSIS

May 8, 2013

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

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

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 Cineplex's Annual Information Form ("AIF") and in this MD&A. Those risks and uncertainties include adverse factors generally encountered in the film exhibition industry such as poor film product and unauthorized copying; the risks associated with national and world events, including war, terrorism, international conflicts, natural disasters, extreme weather conditions, infectious diseases, changes in income tax legislation; and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of Cineplex or the Partnership, their financial or operating results or their securities. Additional information, including Cineplex's AIF, can be found on SEDAR at www.sedar.com.

1. OVERVIEW OF CINEPLEX

Cineplex Galaxy Income Fund (the "Fund") was formed on November 26, 2003. On January 1, 2011, the Fund effected a reorganization, converting to an Ontario corporation, Cineplex, for tax efficiency and business purposes. Cineplex is Canada's largest film exhibition operator with theatres in 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 March 31, 2013, Cineplex owned, leased or had a joint venture interest in 1,455 screens in 136 theatres.

Cineplex Entertainment
Locations and screens at March 31, 2013

Province	Locations	Screens	Digital Screens	Digtal 3D Screens	UltraAVX	IMAX Screens	VIP Auditoriums
Ontario	65	708	698	272	20	9	10
Quebec	22	260	255	85	8	2	4
British Columbia	22	204	204	83	7	3	5
Alberta	16	183	183	71	7	2	3
Saskatchewan	6	51	51	19	1	—	—
Manitoba	5	49	49	21	1	1	3
TOTALS	**136**	**1,455**	**1,440**	**551**	**44**	**17**	**25**
Percentage of screens			99%	38%	3%	1%	2%

Cineplex Entertainment - Locations and screens last eight quarters								
	2013	2012				2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Theatres	136	134	133	130	130	130	130	129
Screens	1,455	1,449	1,438	1,359	1,352	1,352	1,351	1,344
Premium Screens								
3D Digital Screens	551	545	524	492	412	396	386	382
UltraAVX Screens	44	39	36	36	25	23	23	22
IMAX Screens	17	17	17	14	14	14	11	10
VIP Auditoriums	25	25	18	18	15	15	10	10
Percentage of 3D Digital Screens	38%	38%	36%	36%	30%	29%	29%	28%

1.1 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of Canadian dollars, except attendance in thousands of patrons and per Share amounts)	First Quarter		
	2013	2012 (i)	Change (ii)
Total revenues	$ 248,070	$ 248,978	-0.4%
Attendance	16,191	17,127	-5.5%
Other revenues	27,026	22,528	20.0%
Net income	8,816	15,108	-41.6%
Adjusted EBITDA (iii)	31,690	41,139	-23.0%
Adjusted EBITDA margin (iii)	12.8%	16.5%	-3.7%
Adjusted free cash flow per Share (iii)	$ 0.3838	$ 0.4803	-20.1%
Earnings per Share - basic	$ 0.14	$ 0.26	-46.2%
Earnings per Share - diluted	$ 0.14	$ 0.26	-46.2%

(i) Effective January 1, 2013, Cineplex implemented International Financial Reporting Standard ("IFRS") 11, *Joint Arrangements*, retrospectively. As a result, certain comparative items presented in this MD&A for 2012 have been revised. See Section 17, Revised 2012 quarterly consolidated statements of operations, for more details. Throughout this MD&A, disclosures for periods prior to 2012 have not been revised for the implementation of IFRS 11.
(ii) Throughout this MD&A, changes in percentage amounts are calculated as 2013 value less 2012 value.
(iii) See Section 18, Non-GAAP measures.

Total revenues for the first quarter of 2013 decreased 0.4% compared to the prior year period due to lower box office and concession revenues as a result of the 5.5% decrease in theatre attendance during the quarter. These decreases were partially offset by higher other revenues, primarily due to the 28.6% increase in media revenues. Despite the box office and concession revenue declines, both box office revenues per patron ("BPP") and concession revenues per patron ("CPP") were first quarter records for Cineplex, coming in at $8.97 and $4.69, respectively, with the CPP amount also representing an overall quarterly record for Cineplex. Adjusted EBITDA decreased $9.4 million to $31.7 million due to the lower revenues compounded by higher operating costs due in part to the four acquired theatres from AMC. Adjusted free cash flow per common share of Cineplex ("Share") was $0.3838, a $0.0965 decrease from $0.4803 in the prior year period.

1.2 KEY DEVELOPMENTS IN THE FIRST QUARTER OF 2013

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

THEATRE EXHIBITION

- First quarter BPP was $8.97, an increase of 2.9% over the prior year period, representing a first quarter record for Cineplex.
- Acquired two theatres located in Vancouver, British Columbia, bringing the total number of theatres in Cineplex's circuit to 136 with 1,455 screens at March 31, 2013.
- Continued the expansion of UltraAVX, Cineplex's premium movie-going experience targeting guests looking for an enhanced presentation experience, with five new UltraAVX auditoriums added to the circuit in the first quarter of 2013. At March 31, 2013, Cineplex had 44 UltraAVX auditoriums.
- Added 3D screens in strategic locations across the circuit, increasing the number of 3D screens to 551 at March 31, 2013.

MERCHANDISING

- First quarter CPP was $4.69, an increase of 4.2% over the prior year period, and a quarterly record for Cineplex, exceeding the previous record of $4.68 set in the third 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.
- Opened a new XSCAPE entertainment centre at Scotiabank Theatre Edmonton in the first quarter of 2013, bringing the total number of XSCAPE entertainment centres to nine.

MEDIA

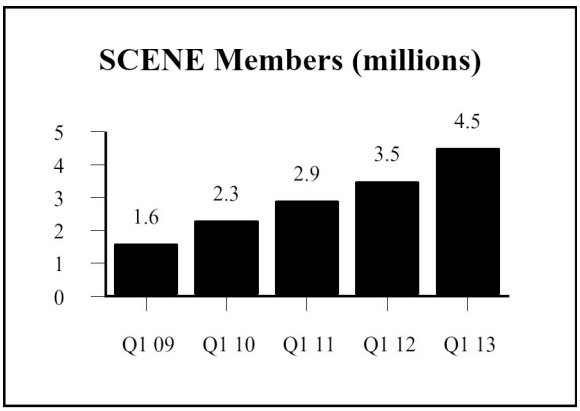
- Media revenues in the first quarter exceeded the same period in 2012 by 28.6%, with increases seen in all major categories of media.
- Media revenues benefited from an increase of 30.1% for in-theatre advertising as the first quarter of 2013 included increased spending in the automotive, packaged goods and electronic advertising sectors.
- Cineplex Digital Media Inc. ("CDM") business continued to grow, with revenues in the first quarter of 2013 exceeding the prior year by 32.9%.

ALTERNATIVE PROGRAMMING

- The highly successful Metropolitan Opera series continued its strong performance in Cineplex's theatres.
- Other alternative programming during the first quarter of 2013 included ethnic films, live sporting events such as World Wrestling Entertainment, and the Family Favourites film series.

INTERACTIVE

- Integrated the Cineplex online store ("Cineplex Store") app onto Toshiba smart televisions and 2013 LG and Samsung Smart Devices and finalized an agreement with Panasonic for Smart TV application deployment of the Cineplex Store app.
- As of March 31, 2013, Cineplex has completed deals to include digital content from all major studios on the Cineplex Store.
- Launched new Blackberry Z10 and Windows 8 tablet apps.
- As of March 31, 2013, the Cineplex app has been downloaded 5.8 million times and recorded 129.4 million app sessions.
- The Cineplex Mobile app ranks as the 7th most popular mobile brand in Canada based on the most recent ComScore MobiLens rankings.



LOYALTY

- Membership in the SCENE loyalty program surpassed the 4.5 million member mark during the quarter, increasing by approximately 0.2 million members during the first quarter of 2013.
- SCENE ran programs with various partners including Cara Foods and Rogers during the first quarter of 2013.

1.3 BUSINESS ACQUISITION

Festival Theatres

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

Cineplex recognized goodwill of $3.2 million, reflecting the potential efficiencies and incremental cash flows management expects to generate through the implementation of Cineplex standard operating procedures and growth initiatives. The amount deductible for tax purposes is approximately $2.4 million.

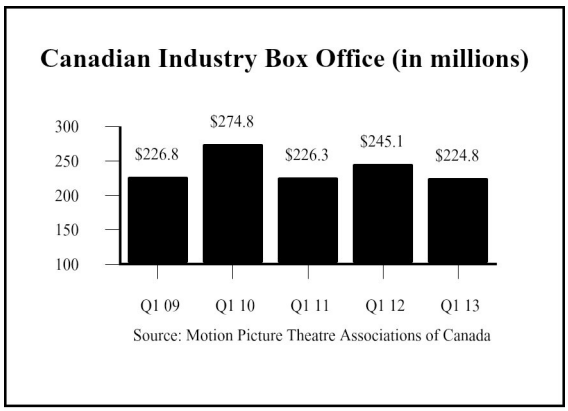
The total revenues and income of the acquired theatres since the acquisition date are immaterial. The revenues and income that would have been reported for three months ended March 31, 2013 as if the acquisition had occurred at January 1, 2013 are not materially different from the revenues and income actually reported for the period.

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

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

2. THEATRE EXHIBITION INDUSTRY

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and creation of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary channel for new motion picture releases and is the core business function for Cineplex. A detailed discussion of the motion picture exhibition industry in Canada can be found in Cineplex's MD&A for the year ended December 31, 2012.



3. BUSINESS STRATEGY

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

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

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

While box office revenues (which include alternative programming) continue to account for the largest portion of Cineplex's revenues, expanded concession offerings, in-theatre and out-of-home advertising, games, promotions and other revenue streams have increased as a share of total revenues. The margins on these other revenue streams, particularly advertising, are much higher than on admission sales and have enhanced Cineplex's profitability. Cineplex is committed to diversifying its revenue streams outside of the traditional theatre exhibition model through digital pre-show, show time and digital out-of-home advertising sales through Cineplex's media business, as well as further expansion of digital signage installations, network support and advertising sales through CDM. Additionally, at home and on-the-go entertainment options are available through the Cineplex Store which sells DVDs, Blu-ray discs, download-to-own ("DTO") and video-on-demand ("VoD") movies online.

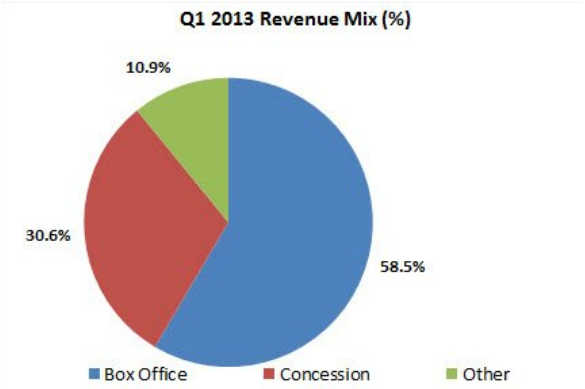
A detailed discussion of Cineplex's business strategy can be found in Cineplex's MD&A for the year ended December 31, 2012. That strategy has not changed materially during the first quarter of 2013.

4. OVERVIEW OF OPERATIONS

Revenues

Cineplex generates revenues primarily from box office and concession sales. These revenues are affected primarily by attendance levels and by changes in BPP and CPP. Box office revenue represented 58.5% of revenue in the first quarter of 2013 and continues to represent Cineplex's largest revenue component.

A key component of Cineplex's business strategy is to position itself as the leading exhibitor in the Canadian market by focusing on providing customers with an exceptional entertainment experience. Cineplex's current share of the Canadian theatre exhibition market is approximately 70% based on Canadian industry box office revenues. As a result of Cineplex's focus on diversifying the business beyond the traditional movie exhibition model, 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.

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

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

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

Cost of Sales and Expenses

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

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

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

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

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

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

Other operating expenses consist of fixed and variable expenses, with the largest component being theatre salaries and wages. Although theatre salaries and wages include a fixed cost component, these expenses vary in relation to revenues as theatre staffing levels are adjusted to handle fluctuations in attendance. Other components of this category include marketing and advertising, media, loyalty including SCENE, interactive, gaming, supplies and services, utilities and maintenance.

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

Accounting for Joint Arrangements

The financial statements incorporate the operating results of joint arrangements in which Cineplex has an interest using either the equity accounting method (for joint ventures) or proportionate consolidation (for joint operations), as required by GAAP.

Under IFRS 11, which was applied retrospectively as at January 1, 2012, Cineplex's 50% share of one theatre in Quebec and one IMAX screen in Ontario, its 78.2% interest in the Canadian Digital Cinema Partnership ("CDCP") and its 50% interest in CSI (formed January 31, 2012) are classified as joint ventures. Through equity accounting, Cineplex's share of the results of operations for these joint ventures are reported as a single item in the statements of operations, 'Share of income of joint ventures'. Theatre attendance for theatres held in joint ventures is not reported in Cineplex's consolidated attendance as the line-by-line results of the joint ventures are not included in the relevant lines in the statement of operations.

Under IFRS 11, Cineplex's 50% interest in SCENE LP is classified as a joint operation and Cineplex recognizes its share of the assets, liabilities, revenues and expenses of SCENE in its consolidated financial statements. This change did not result in any changes to net income or adjusted EBITDA for the prior year periods. See Section 17, Revised 2012 quarterly consolidated statements of operations, for the quarterly interim consolidated statements of operations for 2012 as revised for IFRS 11. More detailed disclosure relating to the implementation of IFRS 11 can be found in note 2 to the interim consolidated financial statements.

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

The following table presents summarized financial data for Cineplex for the three months ended March 31, 2013 and 2012 (expressed in thousands of Canadian dollars except Shares outstanding, per Share data, and per patron data, unless otherwise noted):

	Three months ended March 31, 2013	Three months ended March 31, 2012	Variance (%)
Box office revenues	$ 145,165	$ 149,413	-2.8%
Concession revenues	75,879	77,037	-1.5%
Other revenues	27,026	22,528	20.0%
Total revenues	248,070	248,978	-0.4%
Film cost	73,389	76,707	-4.3%
Cost of concessions	16,274	15,770	3.2%
Depreciation and amortization	17,298	16,473	5.0%
Loss (gain) on disposal of assets	1,062	(55)	NM
Other costs (a)	127,533	115,969	10.0%
Costs of operations	235,556	224,864	4.8%
Net income	$ 8,816	$ 15,108	-41.6%
Adjusted EBITDA (i)	$ 31,690	$ 41,139	-23.0%
(a) Other costs include:			
Theatre occupancy expenses	46,558	41,708	11.6%
Other operating expenses	64,468	58,538	10.1%
General and administrative expenses	16,507	15,726	5.0%
Total other costs	$ 127,533	$ 115,972	10.0%
Basic net income per Share	$ 0.14	$ 0.26	-46.2%
Diluted net income per Share	$ 0.14	$ 0.26	-46.2%
Total assets	$ 1,264,915	$ 1,188,161	6.5%
Total long-term financial liabilities (ii)	$ 165,000	$ 170,000	-2.9%
Shares outstanding at period end	62,844,158	61,006,393	3.0%
Cash dividends declared per Share	$ 0.3375	$ 0.3225	4.7%
Adjusted free cash flow per Share (i)	$ 0.3838	$ 0.4803	-20.1%
Box office revenue per patron	$ 8.97	$ 8.72	2.9%
Concession revenue per patron	$ 4.69	$ 4.50	4.2%
Film cost as a percentage of box office revenue	50.6%	51.3%	-0.7%
Attendance (in thousands of patrons)	16,191	17,127	-5.5%
Theatre locations (at period end)	136	130	4.6%
Theatre screens (at period end)	1,455	1,352	7.6%

(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. Excludes Share-based compensation, fair value of interest rate swap agreements, financing lease obligations, post-employment benefit obligations, other liabilities and deferred financing fees net against long-term debt.

5.2 OPERATING RESULTS FOR THE FIRST QUARTER OF 2013

Total revenues

Total revenues for the three months ended March 31, 2013 decreased $0.9 million (0.4%) to $248.1 million as compared to the prior year period. A discussion of the factors affecting the changes in box office, concession and other revenues for the period is provided on the following pages.

Box office revenues

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

Box office revenues	First Quarter		
	2013	2012	Change
Box office revenues	$ 145,165	$ 149,413	-2.8%
Attendance	16,191	17,127	-5.5%
Box office revenue per patron	$ 8.97	$ 8.72	2.9%
BPP excluding premium priced product	$ 8.19	$ 8.13	0.7%
Canadian industry revenues (i)			-9.1%
Same store box office revenues	$ 135,547	$ 148,991	-9.0%
Same store attendance	15,200	17,076	-11.0%
% Total box from 3D, UltraAVX, VIP & IMAX	35.5%	27.1%	8.4%

(i) The Motion Picture Theatre Associations of Canada ("MPTAC") reported that the Canadian exhibition industry reported a box office revenue decrease of 8.3% for the period from December 28, 2012 to March 28, 2013 as compared to the period from December 30, 2011 to March 29, 2012. On a basis consistent with Cineplex's calendar reporting period (January 1 to March 31), the Canadian industry box office revenue decrease is estimated to be 9.1%.

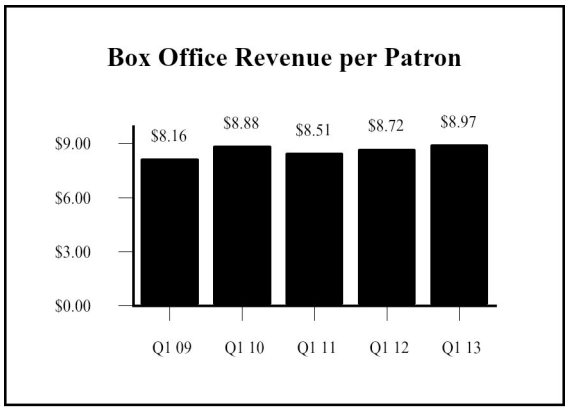
Box office continuity	First Quarter	
	Box Office	Attendance
2012 as reported	$ 149,413	17,127
Same store attendance change	(16,361)	(1,875)
Impact of same store BPP change	2,917	—
New and acquired theatres	9,617	990
Disposed and closed theatres	(421)	(51)
2013 as reported	$ 145,165	16,191

First Quarter

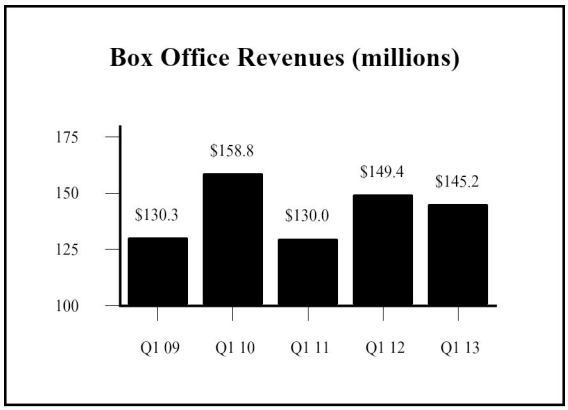
	First Quarter 2013 Top Cineplex Films	IMAX	3D	% Box		First Quarter 2012 Top Cineplex Films	IMAX	3D	% Box
1	Oz: The Great and Powerful	✔	✔	6.8%	1	The Hunger Games	✔		8.3%
2	The Hobbit: An Unexpected Journey	✔	✔	6.0%	2	Dr. Seuss' The Lorax	✔	✔	7.3%
3	Identity Thief			5.9%	3	Mission: Impossible - Ghost Protocol	✔		5.1%
4	Django Unchained			5.1%	4	The Vow			4.7%
5	Jack the Giant Slayer		✔	4.0%	5	Journey 2: The Mysterious Island	✔	✔	4.6%

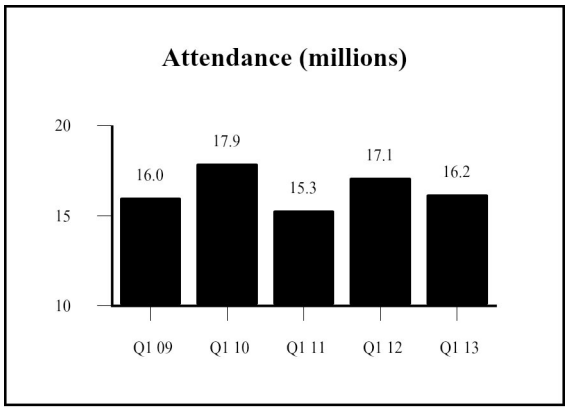
Box office revenues decreased $4.2 million, or 2.8%, to $145.2 million during the first quarter of 2013, compared to $149.4 million recorded in the same period in 2012. The decrease was primarily due to a 5.5% decrease in attendance as a result of the current period lacking a blockbuster release similar to the prior period's highly-anticipated release of the first film in *The Hunger Games* trilogy, which recorded the highest-ever box office revenues for a first quarter release and the third-largest opening weekend of all-time. The current period attendance decline was also impacted by less compelling product for children, as only one of the top five films during the quarter, *Jack the Giant Slayer*, catered to young children in the period that included the March break school holiday.

BPP increased 2.9% from $8.72 in the first quarter of 2012 to $8.97 in the current year period. The performance of premium priced product contributed to this BPP increase, which accounted for 35.5% of box office revenues in the current period, up from 27.1% in the prior year period. The top two films released during the quarter were screened in 3D, compared to only one last year. Since March 31, 2012, Cineplex has added 139 RealD 3D screens, 19 UltraAVX screens, 10 VIP auditoriums and three IMAX screens, contributing to the increase in revenues from premium priced product. The four theatres acquired from AMC in the third quarter of 2012, which are located in major metropolitan areas and have higher ticket prices than those in smaller markets, also contributed to the higher BPP in the period.



Cineplex continues to invest in premium priced formats including 3D, UltraAVX, IMAX and VIP thereby positioning itself to benefit from the premiums charged for these offerings.





Concession revenues

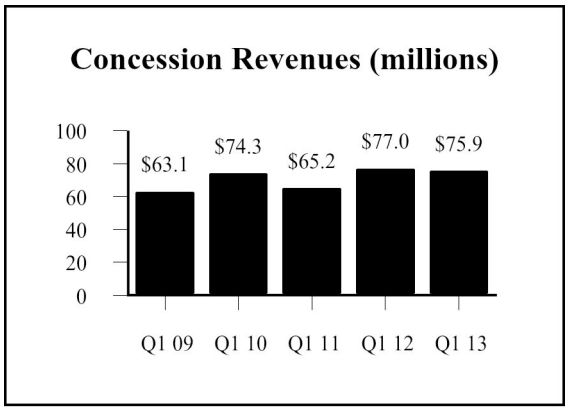
The following table highlights the movement in concession revenues, attendance and CPP for the quarter (in thousands of Canadian dollars, except attendance and same store attendance reported in thousands of patrons, and per patron amounts):

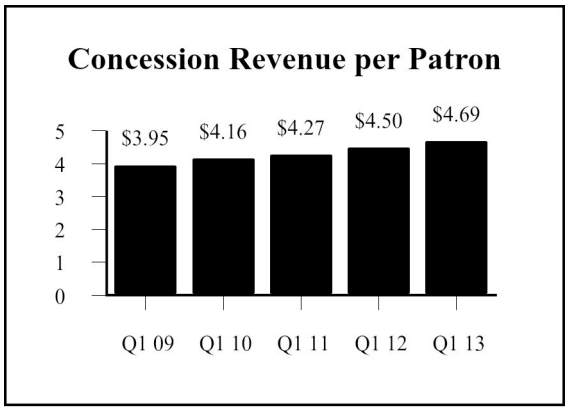
Concession revenues	First Quarter		
	2013	2012	Change
Concession revenues	$ 75,879	$ 77,037	-1.5%
Attendance	16,191	17,127	-5.5%
Concession revenue per patron	$ 4.69	$ 4.50	4.2%
Same store concession revenues	$ 71,858	$ 76,895	-6.6%
Same store attendance	15,200	17,076	-11.0%

Concession revenue continuity	First Quarter	
	Concession	Attendance
2012 as reported	$ 77,037	17,127
Same store attendance change	(8,444)	(1,875)
Impact of same store CPP change	3,406	—
New and acquired theatres	4,022	990
Disposed and closed theatres	(142)	(51)
2013 as reported	$ 75,879	16,191

First Quarter

Concession revenues decreased 1.5% as compared to the prior year quarter primarily due to the 5.5% decrease in attendance. CPP increased from $4.50 in the first quarter of 2012 to $4.69 in the same period in 2013, a 4.2% increase and quarterly record for Cineplex. 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.





Other revenues

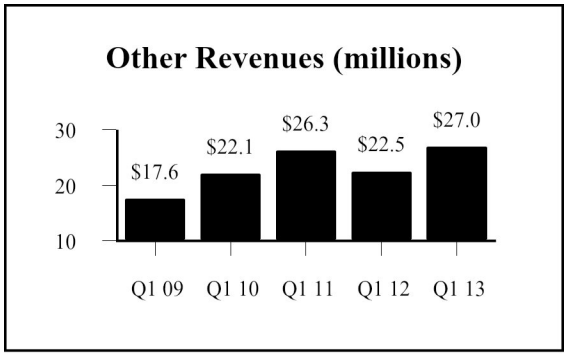
The following table highlights the movement in media, games and other revenues for the quarter (in thousands of Canadian dollars):

Other revenues	First Quarter		
	2013	2012	Change
Media	$ 16,310	$ 12,686	28.6%
Games	2,103	1,922	9.4%
Other	8,613	7,920	8.8%
Total	$ 27,026	$ 22,528	20.0%

First Quarter

Other revenues increased 20.0% to $27.0 million in the first quarter of 2013 compared to the prior year period. This increase was primarily due to higher media revenues, which were $16.3 million, up $3.6 million, or 28.6%, when compared to the prior year period. This increase was primarily due to showtime revenues increasing $2.8 million and CDM revenues increasing $0.5 million compared to the prior year period. A focus on regional advertising campaigns in addition to national campaigns contributed to the higher media revenues in the current year period.

The games revenue increase is primarily due to the addition of six new XSCAPE entertainment centres since the first quarter of 2012. The current period includes a life-to-date one-time increase to games revenue of $0.5 million due to a change in accounting policy regarding the recognition of revenue on the sale of XSCAPE gaming cards, which was offset by the games revenues for the first quarter of 2012 including the results of New Way Sales ("NWS") for January 2012 ($0.4 million).



On January 31, 2012, Cineplex deconsolidated NWS and merged its operations with the amusement game and vending assets of Starburst Coin Machines Inc. ("SCM"), to create CSI. Cineplex and SCM both have a 50%

interest in CSI. Cineplex's share of revenues from CSI for the periods subsequent to January 31, 2012 are included in the 'Share of income of joint ventures' line in the statements of operations.

Other revenues increased primarily due to increased revenues from enhanced guest service initiatives and auditorium rentals.

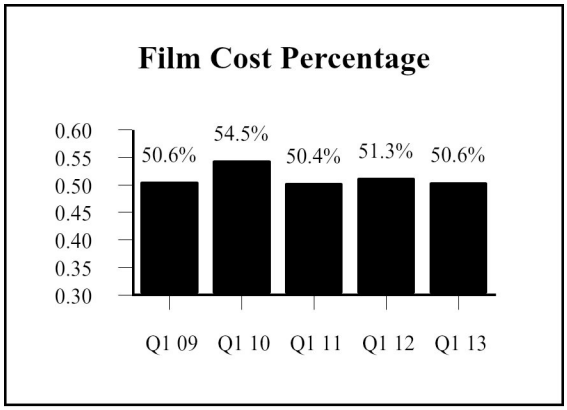
Film cost

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

Film cost	First Quarter		
	2013	2012	Change
Film cost	$ 73,389	$ 76,707	-4.3%
Film cost percentage	50.6%	51.3%	-0.7%

First 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 first quarter of 2013 compared to the prior year period was due to the decrease in box office revenue and the impact of the 0.7% decrease in film cost percentage. The decrease in film cost percentage is primarily due to the settlement rate on the top films during the first quarter of 2013 being lower than the average film settlement rate on certain strong performing titles in the 2012 period.



Cost of concessions

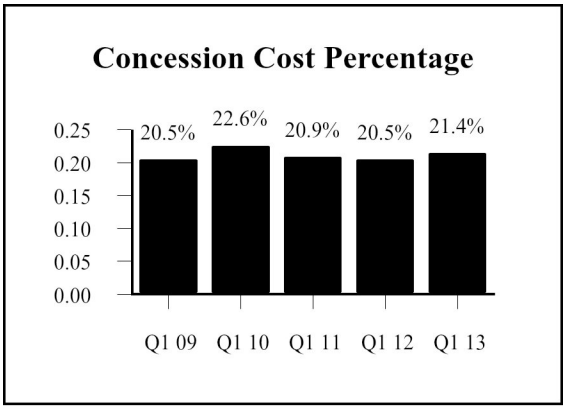
The following table highlights the movement in concession cost and concession cost as a percentage of concession revenues ("concession cost percentage") for the quarter (in thousands of Canadian dollars, except concession cost percentage and concession margin per patron):

Cost of concessions	First Quarter		
	2013	2012	Change
Concession cost	$ 16,274	$ 15,770	3.2%
Concession cost percentage	21.4%	20.5%	0.9%
Concession margin per patron	$ 3.68	$ 3.58	2.8%

First Quarter

Cost of concessions varies primarily with theatre attendance as well as the quantity and mix of concession offerings sold. The increase in concession cost as compared to the prior year period was due to the 0.9% increase in the concession cost percentage during the period. This increase was partially offset by the 1.5% decrease in concession revenues. The concession margin per patron increased from $3.58 in the first quarter of 2012 to $3.68 in the same period in 2013, reflecting the impact of the higher CPP during the period.

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



Depreciation and amortization

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

Amortization expenses	First Quarter		
	2013	2012	Change
Amortization of property, equipment and leaseholds	$ 13,779	$ 14,534	-5.2%
Amortization of intangible assets and other	3,519	1,939	81.5%
Amortization expenses as reported	$ 17,298	$ 16,473	5.0%

The quarterly decrease in amortization of property, equipment and leaseholds of $0.8 million is due in part to certain assets becoming fully amortized in the third quarter of 2012.

The increase in amortization of intangible assets and other in the first quarter of 2013 compared to the prior year period is due to the amortization of certain trade name assets that are being phased out by Cineplex. These assets were previously classified as indefinite life assets however during the fourth quarter of 2012 their classification was changed to definite life with amortization being recorded over the anticipated rebranding schedule of the associated theatres.

Loss (gain) on disposal of assets

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

Loss (gain) on disposal of assets	First Quarter		
	2013	2012	Change
Loss (gain) on disposal of assets	$ 1,062	$ (55)	NM

First Quarter

During the first quarter of 2013, Cineplex recorded a loss of $1.1 million on the disposal of assets that were sold or otherwise disposed of. The first quarter of 2012 resulted in a gain of $0.1 million on the disposal of assets.

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 (in thousands of Canadian dollars):

Other costs	First Quarter		
	2013	2012	Change
Theatre occupancy expenses	$ 46,558	$ 41,708	11.6%
Other operating expenses	64,468	58,538	10.1%
General and administrative expenses	16,507	15,726	5.0%
Total other costs	$ 127,533	$ 115,972	10.0%

Theatre occupancy expenses

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

Theatre occupancy expenses	First Quarter		
	2013	2012	Change
Rent	$ 31,099	$ 27,758	12.0%
Other occupancy	16,447	14,208	15.8%
One-time items (i)	(988)	(258)	282.9%
Total	$ 46,558	$ 41,708	11.6%

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

Theatre occupancy continuity	First Quarter Occupancy
2012 as reported	$ 41,708
Impact of new and acquired theatres	5,214
Impact of disposed theatres	(170)
Same store rent change	26
One-time items	(730)
Other	510
2013 as reported	$ 46,558

First Quarter

Theatre occupancy expenses increased $4.9 million during the first quarter of 2013 compared to the prior year period. This increase was primarily due to the four theatres acquired from AMC in the third quarter of 2012 ($4.9 million).

Other operating expenses

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

Other operating expenses	First Quarter		
	2013	2012	Change
Other operating expenses	$ 64,468	$ 58,538	10.1%

Other operating continuity	First Quarter Other Operating
2012 as reported	$ 58,538
Impact of new and acquired theatres	3,069
Impact of disposed theatres	(199)
Same store payroll change	(321)
Marketing change	133
Media	1,273
New Way Sales	(299)
Other	2,274
2013 as reported	$ 64,468

First Quarter

Other operating expenses during the first quarter of 2013 increased $5.9 million or 10.1% compared to the prior year period. The impact of new and acquired net of disposed theatres was a $2.9 million increase to the category primarily due to the four theatres acquired from AMC which accounted for $2.1 million of the $2.9 million increase. Media expenses increased $1.3 million due to the higher volume of media activity in the quarter. As a result of lower business volumes at the theatres during the current year period, same-store payroll costs decreased $0.3 million. The impact of NWS ($0.3 million) represents January 2012 activity prior to the deconsolidation of NWS and the formation of CSI.

The major movement in the Other category include the following:

- The increase in 3D attendance arising from the additional 139 3D screens added since March 31, 2012 resulted in higher 3D royalty costs ($0.4 million) and higher projector bulb expense ($0.4 million).
- Higher utility costs in the 2013 period compared to the prior year period ($0.4 million) due in part to colder average temperatures in certain areas of Canada in the 2013 period compared to the prior year.
- Despite the lower business volumes at the theatres, an increase in online ticket sales resulted in an increase in credit card service fees ($0.2 million).
- Increased spending for new business initiatives including Cineplex's interactive business ($0.2 million).

Total theatre payroll costs accounted for 43.5% of total operating expenses during the first quarter of 2013 as compared to 45.7% for the same period one year earlier.

General and administrative expenses

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

G&A expenses	First Quarter		
	2013	2012	Change
G&A excluding LTIP and option plan expense	$ 12,739	$ 12,496	1.9%
LTIP (i)	3,360	2,585	30.0%
Option plan	408	645	-36.7%
G&A expenses as reported	$ 16,507	$ 15,726	5.0%

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

First Quarter

G&A expenses increased $0.8 million during the first quarter of 2013 compared to the prior year period, due to a $0.8 million increase in LTIP expense. The $0.2 million increase in G&A excluding LTIP and option plan expense was offset by the $0.2 million decrease in the option plan expense.

Share of income of joint ventures

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

Share of income of joint ventures	First Quarter		
	2013	2012	Change
Share of (income) of CDCP	$ (333)	$ (75)	344.0%
Share of (income) of CSI	(251)	(226)	11.1%
Share of loss (income) of other joint ventures	43	(26)	NM
Total (income) of joint ventures	$ (541)	$ (327)	65.4%

First Quarter

The increase from income of $0.3 million in the first quarter of 2012 to income of $0.5 million in the current period is primarily due to CDCP. The CDCP increase is due in part to the full roll-out of Cineplex's digital projectors being completed in the third quarter of 2012.

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

Interest expense

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

Interest expense	First Quarter		
	2013	2012	Change
Long-term debt interest expense	$ 1,498	$ 1,599	-6.3%
Convertible debenture interest expense	—	1,068	-100.0%
Finance lease interest expense	412	489	-15.7%
Sub-total - cash interest expense	$ 1,910	$ 3,156	-39.5%
Deferred financing fee accretion and other non-cash interest	141	140	0.7%
Convertible debenture accretion	—	172	-100.0%
Interest rate swap - non-cash	(335)	916	NM
Sub-total - non-cash interest expense	(194)	1,228	NM
Total interest expense	$ 1,716	$ 4,384	-60.9%

Interest expense decreased $2.7 million for the quarter compared to the prior year period. Cash interest decreased $1.2 million, primarily due to the maturity of Cineplex's convertible debentures on December 31, 2012. Less borrowings in the current period compared to the prior year period also contributed to the lower cash interest expense. Non-cash interest moved from expense of $1.2 million in the 2012 period to income of $0.2 million in the current period. The 2012 period includes amounts relating to the accounting for the unwinding of the previous swap agreements which were settled during the third quarter of 2011 (see Section 7.4, Credit Facilities, for more details on the interest rate swap agreements settlement).

Interest income

Interest income for both the 2013 and 2012 periods was $0.1 million due to similar average cash balances and similar interest rates during both periods (in thousands of Canadian dollars):

Interest income	First Quarter		
	2013	2012	Change
Interest income	$ 78	$ 80	-2.5%

Income taxes

For the three months ended March 31, 2013, Cineplex recorded a current income tax recovery of $0.7 million (2012 – expense of $5.6 million). For the three months ended March 31, 2013, Cineplex recorded deferred income tax expense of $3.3 million (2012 – recovery of $0.6 million) (in thousands of Canadian dollars):

Income taxes	First Quarter		
	2013	2012	Change
Current income tax (recovery) expense	$ (727)	$ 5,642	(112.9)%
Deferred income tax expense (recovery)	$ 3,328	$ (613)	NM

Taxable income earned by Cineplex during the first quarter of 2013 has been offset by the use of loss carryforwards acquired through Cineplex's acquisition of AMC Ventures Inc. in 2012. As a result of the $147.0 million of non-capital losses acquired in this transaction, Cineplex's cash income taxes in 2013 will be substantially reduced. Total income taxes for the current quarter have a lower effective rate primarily due to the timing of certain deductions.

Cineplex's blended federal and provincial statutory tax rate for both periods was 26.2%.

Net income

For the three months ended March 31, 2013, Cineplex reported net income of $8.8 million (2012 – $15.1 million) (in thousands of Canadian dollars):

Net income	First Quarter		
	2013	2012	Change
Net income	$ 8,816	$ 15,108	-41.6%

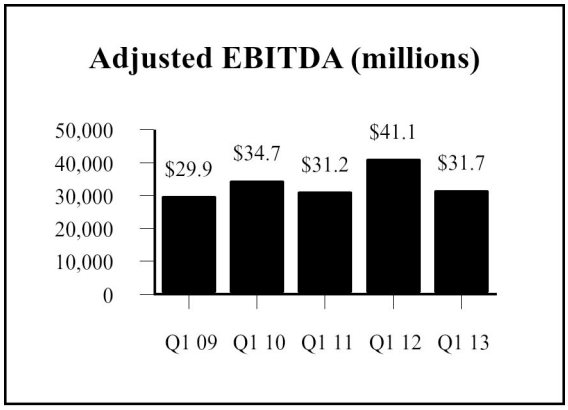
5.3 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (see Section 18, Non-GAAP measures)

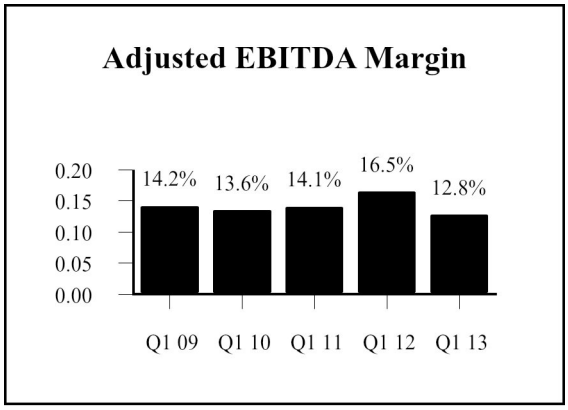
The following table presents EBITDA and adjusted EBITDA for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012 (expressed in thousands of Canadian dollars, except adjusted EBITDA margin):

EBITDA	First Quarter		
	2013	2012	Change
EBITDA	$ 30,353	$ 40,914	-25.8%
Adjusted EBITDA	$ 31,690	$ 41,139	-23.0%
Adjusted EBITDA margin	12.8%	16.5%	-3.7%

Adjusted EBITDA for the first quarter of 2013 decreased $9.4 million, or 23.0%, as compared to the prior year period. The decrease as compared to the prior year period was primarily due to the lower attendance in the period resulting in lower exhibition and concession revenues in the period. The four theatres acquired from AMC in the third quarter of 2012 reduced adjusted EBITDA in the period by $0.3 million.

Cineplex believes its operating and programming expertise, combined with its merchandising, media, marketing, interactive and SCENE loyalty programs will positively and significantly improve the operations of the four theatres acquired from AMC. Cineplex has added UltraAVX auditoriums to these locations and will continue to invest in each of the locations by potentially adding 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 three months ended March 31 (in thousands of Canadian dollars):

	March 31, 2013	December 31, 2012	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 14,272	$ 48,665	$ (34,393)	-70.7%
Trade and other receivables	43,856	77,278	(33,422)	-43.2%
Inventories	4,674	5,193	(519)	-10.0%
Prepaid expenses and other current assets	8,244	3,047	5,197	170.6%
	71,046	134,183	(63,137)	-47.1%
Non-current assets				
Property, equipment and leaseholds	413,768	418,498	(4,730)	-1.1%
Deferred income taxes	50,513	53,528	(3,015)	-5.6%
Interests in joint ventures	42,477	41,623	854	2.1%
Intangible assets	74,941	78,460	(3,519)	-4.5%
Goodwill	612,170	608,929	3,241	0.5%
	$ 1,264,915	$ 1,335,221	$ (70,306)	-5.3%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$ 82,993	$ 129,499	$ (46,506)	-35.9%
Share-based compensation	8,188	—	8,188	NM
Dividends payable	7,070	7,063	7	0.1%
Income taxes payable	930	13,654	(12,724)	-93.2%
Deferred revenue	88,413	106,253	(17,840)	-16.8%
Finance lease obligations	2,262	2,222	40	1.8%
Fair value of interest rate swap agreements	577	513	64	12.5%
	190,433	259,204	(68,771)	-26.5%
Non-current liabilities				
Share-based compensation	8,447	12,223	(3,776)	-30.9%
Long-term debt	163,195	148,066	15,129	10.2%
Fair value of interest rate swap agreements	539	273	266	97.4%
Finance lease obligations	19,967	20,548	(581)	-2.8%
Post-employment benefit obligations	6,401	6,274	127	2.0%
Other liabilities	140,999	141,319	(320)	-0.2%
	529,981	587,907	(57,926)	-9.9%
Equity	734,934	747,314	(12,380)	-1.7%
	$ 1,264,915	$ 1,335,221	$ (70,306)	-5.3%

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, coupons and media sales from the 2012 holiday period. December represents the highest volume month for gift card and coupon sales and is one of the strongest months for media sales during the year.

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 in the first quarter.

Property, equipment and leaseholds. The decrease in property, equipment and leaseholds is due to amortization expenses ($13.8 million) and asset dispositions ($1.0 million). These decreases were partially offset by new build and other capital expenditures ($4.6 million) and maintenance capital expenditures ($4.9 million) as well as assets acquired as part of the acquisition of the two theatres from Festival Cinemas ($0.6 million).

Deferred income taxes. The decrease in the deferred income taxes primarily relates to the use of non-capital losses to offset taxable income during the period.

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

Goodwill. The increase in goodwill arises from the purchase of the two theatres from Festival Cinemas as described in Section 1.3, Business acquisition.

Accounts payable and accrued expenses. The decrease in accounts payable and accrued expenses relates to the settlement of year-end liabilities relating to higher business volumes during the 2012 holiday period compared to the end of the first quarter of 2013.

Share-based compensation. Share-based compensation included in current liabilities represents amounts relating to the 2011 LTIP which are payable in the first quarter of 2014. The decrease in the non-current portion of share-based compensation relates to this reclassification of amounts from non-current to current, offset by the current period share-based compensation expenses.

Income taxes payable. Income taxes payable decreased due to the final installments for 2012 being paid in the first quarter of 2013.

Deferred revenue. Deferred revenue decreased primarily due to the redemption of gift cards and coupons sold during the 2012 holiday season.

Long-term debt. The increase in long-term debt represents the $15.0 million in net borrowings under the revolving facility, and the $0.1 million in deferred financing fee amortization recognized in the period.

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 OPERATING ACTIVITIES

Cash flow is generated primarily from the sale of admission tickets, concession sales, media sales and services and other revenues. Generally, this provides Cineplex with positive working capital, since cash revenues are normally collected in advance of the payment of certain expenses. Box office revenues are directly related to the success and appeal of the film product produced and distributed by the studios. The following table highlights the movements in cash from operating activities for the three months ended March 31, 2013 and 2012 (in thousands of Canadian dollars):

Cash flows provided by operating activities	**First Quarter**		
	2013	**2012**	**Change**
Net income	$ 8,816	$ 15,108	$ (6,292)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Non-cash amortization amounts (i)	15,870	15,678	192
Loss (gain) on disposal of assets	1,062	(55)	1,117
Deferred income taxes	3,328	(613)	3,941
Interest rate swap agreements - non-cash interest	(335)	916	(1,251)
Non-cash Share-based compensation	656	682	(26)
Accretion of convertible debentures	—	172	(172)
Net change in interests in joint ventures	(708)	5,953	(6,661)
Tenant inducements	2,957	3,297	(340)
Changes in operating assets and liabilities	(38,443)	(40,014)	1,571
Net cash (used in) provided by operating activities	**$ (6,797)**	**$ 1,124**	**$ (7,921)**

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

First Quarter

Cash used in operating activities decreased $7.9 million in the first quarter of 2013 compared to cash provided by operating activities the prior year period primarily due to the lower net income in the current period. Other large movements included the net change in interests in joint ventures, where the prior year period included the amounts relating to the formation of CSI, and deferred income taxes, where the current year period includes the use of non-capital losses against Cineplex's taxable income during the first quarter of 2013.

7.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the three months ended March 31, 2013 and 2012 (in thousands of Canadian dollars):

Cash flows used in investing activities	**First Quarter**		
	2013	**2012**	**Change**
Proceeds from sale of assets	$ —	$ 1,120	$ (1,120)
Purchases of property, equipment and leaseholds	(16,897)	(14,013)	(2,884)
Acquisition of businesses, net of cash acquired	(3,822)	(7,399)	3,577
Additional equity funding of joint ventures	(146)	(244)	98
Net cash used in investing activities	**$ (20,865)**	**$ (20,536)**	**$ (329)**

Cash used in investing activities during the first quarter of 2013 and the first quarter of 2012 were comparable. Purchases of property, equipment and leaseholds net of proceeds on the sale of assets were $4.0 million higher in the current period, as Cineplex currently has two new theatres under construction as compared to one in the prior year period. This increase was partially offset by cash spent on the formation of CSI in the prior year period which was $3.6 million higher than the cash spent on the acquisition of the two Festival Cinemas theatres in the current period.

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

Capital expenditures	**First Quarter**		
	2013	**2012**	**Change**
Gross capital expenditures	$ 16,897	$ 14,013	$ 2,884
Less: tenant inducements	(2,957)	(3,297)	340
Net capital expenditures	$ 13,940	$ 10,716	$ 3,224
Net capital expenditures consists of:			
Growth and acquisition capital expenditures (i)	$ 2,305	$ 4,342	$ (2,037)
Tenant inducements	(2,957)	(3,297)	340
Premium formats (ii)	2,299	3,465	(1,166)
Maintenance capital expenditures	4,863	3,119	1,744
Other (iii)	7,430	3,087	4,343
	$ 13,940	$ 10,716	$ 3,224

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

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

7.3 FINANCING ACTIVITIES

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

Cash flows used in financing activities	First Quarter		
	2013	2012	Change
Dividends paid	$ (21,191)	$ (18,867)	$ (2,324)
Borrowings under credit facility, net	15,000	—	15,000
Payments under finance leases	(540)	(541)	1
Proceeds from issuance of Shares	—	501	(501)
Shares repurchased and cancelled	—	(1,786)	1,786
Net cash used in financing activities	**$ (6,731)**	**$ (20,693)**	**$ 13,962**

The $14.0 million movement in cash used in financing activities for the first quarter of 2013 compared to the prior year period was primarily due to the net borrowings of $15.0 million during the period. The increase in dividends paid of $2.3 million was due to the higher number of Shares outstanding compared to the prior year period due to the convertible debentures that were converted into Shares during 2012. This increase was partially offset by cash spent in the prior period to repurchase shares under Cineplex's normal course issuer bid ("NCIB"), which expired in August 2013.

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

7.4 CREDIT FACILITIES

Cineplex and the Partnership entered into an amended and restated credit agreement (the "Credit Facilities") effective September 28, 2011. The Credit Facilities consist of the following facilities (in millions of Canadian dollars):

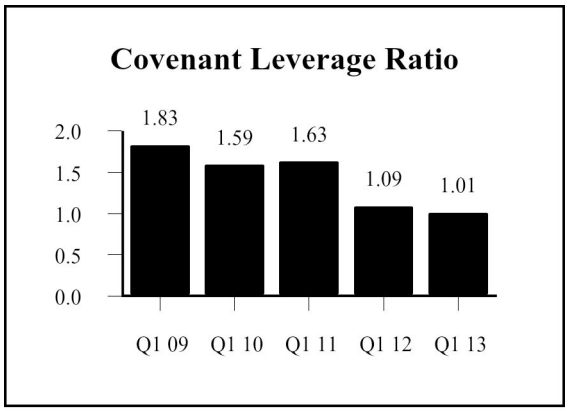
	Available	Drawn	Reserved	Remaining
(i) a five-year senior secured revolving credit facility ("Revolving Facility")	$ 200.0	$ 15.0	$ 3.4	$ 181.6
(ii) a five-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at March 31, 2013 of $3.4 million are reserved against the Revolving Facility.				

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

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

One of the key financial covenants in the Credit Facilities is the leverage covenant. As at March 31, 2013, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 1.01x, as compared to a covenant of 3.50x. The definition of debt in the credit facility includes long-term debt, financing leases and letters of credit but does not include a reduction for cash on hand. For the purposes of the credit facility definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres or acquisitions. The Credit Facilities are secured by all of Cineplex's assets.



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

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

Effective August 24, 2011, Cineplex entered into three interest rate swap agreements. Under these agreements, Cineplex pays a fixed rate of 1.715% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. These interest rate swap agreements have a term of five years that commenced in August 2011 and have an aggregate notional principal amount of $150.0 million. Based on the leverage ratio covenants at March 31, 2013 and 2012, Cineplex's effective cost of borrowing on the $150.0 million Term Facility was 3.215% for both periods.

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable under the Term Facility. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Under the provisions of IAS 39, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income. The new interest rate swap agreements are considered an extension of the former agreements, and the $6.4 million previously recognized in other comprehensive loss at the time of the settlement of the former interest rate swap agreements was recognized in interest expense over the course of the remaining term of the former agreements (through the third quarter of 2012).

7.5 FUTURE OBLIGATIONS

Cineplex has aggregate gross capital commitments of $83.5 million ($65.9 million net of tenant inducements) related to the completion of construction of nine theatre properties to include an aggregate of 90 screens (including 26 VIP auditoriums) over the next three years. In addition, Cineplex has gross commitments over the next two years of $15.3 million for other theatre projects, including the addition of three VIP auditoriums at one theatre and the conversion of existing auditoriums to VIP at selected theatres.

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 of directors of Cineplex (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.

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 first quarter of 2013 compared to the first quarter of 2012:

Adjusted free cash flow	**First Quarter**		
	2013	**2012**	**Change**
Adjusted free cash flow per Share	$ 0.3838	$ 0.4803	-20.1%
Dividends declared per Share	$ 0.3375	$ 0.3225	4.7%
Payout ratio - three months ended March 31	87.9%	67.1%	20.8%
Payout ratio - twelve months ended March 31	68.0%	62.7%	5.3%

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

	First Quarter		
	2013	**2012**	**Change**
Cash flows (used in) provided by operations	$ (6,797)	$ 1,124	NM
Net income	$ 8,816	$ 15,108	-41.6%
Standardized free cash flow	$ (23,694)	$ (11,397)	107.9%
Adjusted free cash flow	$ 24,107	$ 28,264	-14.7%
Cash dividends declared	$ 21,198	$ 19,140	10.8%
Average number of Shares outstanding	62,803,716	58,847,728	6.7%

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 first quarter of 2013, Cineplex declared dividends totaling $0.3375 per Share. For the first quarter of 2012, Cineplex declared dividends totaling $0.3225 per Share.

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

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

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

9. SHARE ACTIVITY

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

The initial grants of Share equivalents were as follows:

	Base Share equivalents
2013 LTIP award	124,936
2012 LTIP award	137,302
2011 LTIP award	227,649

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

Cineplex has an incentive Share option plan for certain employees. The aggregate number of Shares that may be issued under the option plan is limited to 5,250,000 Shares. All of the options must be exercised over specified periods not to exceed ten years from the date granted (five years for options granted on or before December 31, 2010). As of March 31, 2013, 4,389,608 Share options have been issued under the Share option plan.

A summary of option activities for the three months ended March 31, 2013 and 2012 is as follows:

	2013			2012	
	Weighted average remaining contractual life (years)	Number of underlying Shares	Weighted average exercise price	Number of underlying Shares	Weighted average exercise price
Options outstanding - January 1	8.37	1,460,546	$ 24.38	1,587,538	$ 19.88
Granted		385,834	33.49	474,000	27.33
Cancelled		—	—	—	—
Exercised		(196,576)	23.20	(554,005)	14.77
Options outstanding – end of period	8.59	1,649,804	$ 26.65	1,507,533	$ 24.10

During the three months ended March 31 2012, convertible debentures issued by Cineplex with a principal amount of $43.8 million were converted into 2,334,072 Shares. The convertible debentures bore interest at a rate of 6% per annum paid semi-annually, were convertible at the option of the holder into Shares at $18.75 per Share, and matured on December 31, 2012.

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 three months ended March 31, 2012, 71,400 Shares were purchased and cancelled by Cineplex for $1.8 million, at an average price of $25.00 per Share.

10. SEASONALITY AND QUARTERLY RESULTS

Historically, Cineplex's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures have traditionally been released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter, in attendance levels, theatre staffing levels and reported results. The seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. To meet working capital requirements during the traditionally lower-revenue quarters, Cineplex has available for its use the Revolving Facility. As of March 31, 2013, there was $15.0 million drawn on the Revolving Facility.

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

	2013	2012 (i)				2011 (i)		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues								
Box office revenues	$ 145,165	$ 170,524	$ 162,133	$ 156,226	$ 149,413	$ 133,735	$ 162,522	$ 151,135
Concession revenues	75,879	86,409	85,924	79,962	77,037	68,161	82,114	76,209
Other revenues	27,026	41,768	33,091	27,486	22,528	39,792	32,072	31,063
	248,070	298,701	281,148	263,674	248,978	241,688	276,708	258,407
Expenses								
Film cost	73,389	87,477	83,632	83,465	76,707	68,757	85,320	79,783
Cost of concessions	16,274	18,077	17,831	16,720	15,770	14,015	16,817	16,257
Depreciation and amortization	17,298	16,968	14,044	14,678	16,473	16,812	16,613	17,318
Loss (gain) on disposal of assets	1,062	(3,138)	114	727	(55)	731	487	(1,020)
Other costs	127,533	136,319	126,253	116,996	115,969	116,918	118,728	117,303
	235,556	255,703	241,874	232,586	224,864	217,233	237,965	229,641
Income from operations	12,514	42,998	39,274	31,088	24,114	24,455	38,743	28,766
Adjusted EBITDA (ii)	31,690	57,507	54,575	47,263	41,139	40,102	57,441	44,393
Net income	$ 8,816	$ 32,704	$ 51,712	$ 20,960	$ 15,108	$ 10,931	$ 25,737	$ 13,440
Basic earnings per Share	$ 0.14	$ 0.53	$ 0.84	$ 0.34	$ 0.26	$ 0.19	$ 0.44	$ 0.23
Diluted earnings per Share (iii)	$ 0.14	$ 0.52	$ 0.83	$ 0.34	$ 0.26	$ 0.19	$ 0.44	$ 0.23
Cash provided by operating activities	(6,797)	109,445	38,955	25,969	1,124	92,752	48,124	27,548
Cash used in investing activities	(20,865)	(20,097)	(11,482)	(19,693)	(20,536)	(19,612)	(12,352)	(17,873)
Cash used in financing activities	(6,731)	(42,609)	(41,428)	(576)	(20,693)	(87,427)	(21,660)	(18,882)
Net change in cash	$ (34,393)	$ 46,739	$ (13,955)	$ 5,700	$ (40,105)	$ (14,287)	$ 14,112	$ (9,207)
Box office revenue per patron	$ 8.97	$ 9.18	$ 8.84	$ 9.11	$ 8.72	$ 8.87	$ 8.77	$ 8.80
Concession revenue per patron	$ 4.69	$ 4.65	$ 4.68	$ 4.66	$ 4.50	$ 4.52	$ 4.43	$ 4.44
Attendance (in thousands of patrons)	16,191	18,577	18,348	17,146	17,127	15,070	18,542	17,175
Theatre locations (at period end)	136	134	133	130	130	130	130	129
Theatre screens (at period end)	1,455	1,449	1,438	1,359	1,352	1,352	1,351	1,344

(i) Effective January 1, 2013, Cineplex has implemented IFRS 11 retrospectively. As a result, certain comparative items presented in this MD&A for 2012 have been revised. See Section 17, Revised 2012 quarterly consolidated statements of operations, for more details. Throughout this MD&A, disclosures for periods prior to 2012 have not been revised for the implementation of IFRS 11.

(ii) See Section 18, Non-GAAP measures for a description of adjusted EBITDA.

(iii) Excludes the conversion of the convertible debentures as such conversion would be anti-dilutive for all quarters with the exception of the third quarter of 2011 where conversion was dilutive.

Summary of adjusted free cash flow by quarter

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

	2013	2012 (i)				2011 (i)		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash provided by operating activities	$ (6,797)	$ 109,445	$ 38,955	$ 25,969	$ 1,124	$ 92,752	$ 48,124	$ 27,548
Less: Total capital expenditures	(16,897)	(19,907)	(16,066)	(19,693)	(12,893)	(19,685)	(12,142)	(14,425)
Standardized free cash flow	(23,694)	89,538	22,889	6,276	(11,769)	73,067	35,982	13,123
Add/(Less):								
Changes in operating assets and liabilities	38,443	(62,706)	3,052	12,154	40,014	(59,395)	181	3,041
Changes in operating assets and liabilities of joint ventures	167	(222)	(160)	(816)	(6,280)	377	(2,064)	3,837
Tenant inducements	(2,957)	(1,643)	(727)	(1,948)	(3,297)	(1,565)	(1,535)	(1,195)
Principal component of financing lease obligations	(540)	(531)	(520)	(512)	(541)	(576)	(566)	(555)
New build capital expenditures and other	12,034	8,665	9,925	13,595	9,774	10,838	8,166	11,675
Share of income (loss) of joint ventures, net of non-cash depreciation	800	661	1,114	770	607	(1,896)	1,598	(671)
Cash invested in CDCP	(146)	(190)	(4)	—	(244)	22	(159)	(219)
Adjusted free cash flow	$ 24,107	$ 33,572	$ 35,569	$ 29,519	$ 28,264	$ 20,872	$ 41,603	$ 29,036
Average number of Shares outstanding	62,803,716	62,137,513	61,996,063	61,289,181	58,847,728	58,461,523	58,323,720	57,770,425
Adjusted free cash flow per Share	$ 0.3838	$ 0.5403	$ 0.5737	$ 0.4816	$ 0.4803	$ 0.3570	$ 0.7133	$ 0.5026

(i) Effective January 1, 2013, Cineplex has implemented IFRS 11 retrospectively. As a result, certain comparative items presented in this MD&A for 2012 have been revised. See Section 17, Revised 2012 quarterly consolidated statements of operations, for more details. Throughout this MD&A, disclosures for periods prior to 2012 have not been revised for the implementation of IFRS 11.

11. RELATED PARTY TRANSACTIONS

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

A member of the Board is the President and Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan"). During the three months ended March 31, 2013, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of $12.3 million (2012 - $12.2 million).

12. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

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

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, 2012 can be found in Cineplex's MD&A for the year ended December 31, 2012. These estimates have not changed materially during the first quarter of 2013. There were no events that occurred during the three months ended March 31, 2013 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 ACCOUNTING STANDARDS ADOPTED IN THE FIRST QUARTER OF 2013

The following amendments to standards were adopted in the first quarter of 2013:

IFRS 10, Consolidated Financial Statements

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

IFRS 11, Joint Arrangements

IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, *Investments in Associates and Joint Ventures* (amended in 2011). The other amendments to IAS 28 did not affect Cineplex. Cineplex has classified its involvement with SCENE as a joint operation. Cineplex's 50% interest in SCENE previously was accounted for using the equity method of accounting. As a result of the change in accounting, Cineplex now recognizes its share of assets, liabilities, revenues and expenses of SCENE. This change in accounting was adopted retrospectively as at January 1, 2012 by Cineplex derecognizing its deficiency investment in SCENE and recognizing its share of assets and liabilities of SCENE, with no adjustment to net income, comprehensive income, or retained earnings. Subsequent to January 1, 2012, Cineplex has recognized its share of assets, liabilities, revenues and expenses of SCENE. See Section 17, Revised 2012 quarterly consolidated statements of operations, for the quarterly interim consolidated statements of operations for 2012 as revised for IFRS 11.

IFRS 13, Fair Value Measurement

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

Amendments to Other Standards

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

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

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

13.2 FUTURE CHANGES IN ACCOUNTING POLICIES

Management of Cineplex reviews all changes to the IFRS when issued. The International Accounting Standards Board ("IASB") has issued the following standards, which have not yet been adopted by Cineplex. The new standard is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted. Cineplex is in the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a description of the new standard:

IFRS 9, Financial Instruments

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

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk in liabilities designed at fair value through profit and loss would generally be recorded in OCI or OCL. In January 2012, the effective date was revised to January 1, 2015 with earlier application permitted. Cineplex has not yet assessed the impact of this standard and amendments or determined whether it will early adopt them.

14. RISK MANAGEMENT

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

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

Industry Risk

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

In 2012, eight major film distributors accounted for approximately 96.0% of Cineplex's box office revenues, which is consistent with industry standards. Deterioration in Cineplex's relationships with any of the major film distributors could affect its ability to negotiate film licenses on favourable terms or its ability to obtain commercially successful films. Cineplex actively works on maintaining good relations with these distributors, as this affects its ability to negotiate commercially favourable licensing terms for first-run films or to obtain licenses at all.

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

Exhibition Competition Risk

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

In response to this risk, management fosters strong ties with the real estate and development community and monitors potential development sites closely. Most prime locations in larger markets have been developed such that further development would be generally uneconomical. In addition the exhibition industry is capital intensive

with high operating costs and long-term contractual commitments. Significant construction and real estate costs make it increasingly difficult to develop new sites profitably, reducing the risk of competition through development.

Technology Risk

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

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

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

Customer Risk

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

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

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

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

Human Resources Risk

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

Cineplex employs approximately 10,000 people, of whom approximately 90% are hourly workers whose compensation is based on the prevailing provincial minimum wages with incremental adjustments as required to match market conditions. Any increase in these minimum wages will increase employee related costs. Approximately 6% of Cineplex's employees are represented by unions, located in the province of Quebec. Because of the small percentage of employees represented by unions, the risk of labour disruption is low.

Real Estate Risk

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

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

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

Financial Markets Risk

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

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

Sourcing Risk

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

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

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

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

Health and Safety Risk

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

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

THEATRE EXHIBITION

Film product during the first quarter of 2013 did not match the strength of the prior year period, which featured two strong performing films, *The Hunger Games* and *Dr. Seuss' The Lorax*. Despite the overall attendance decline, Cineplex continued to report growth in box office revenues from its premium-priced offerings, which accounted for 35.5% of Cineplex's box office revenues in the first quarter of 2013, compared to 27.1% in the prior year period.

While 2012 resulted in the highest annual box office revenues in the history of North American theatre exhibition, box office revenues are highly dependent on the marketability, quality and appeal of the film product released

by the major motion picture studios. Cineplex's future box office revenues will be dependent on the quality and availability of the film product released in the remainder of 2013 and beyond.

Highly anticipated 3D films to be released in the balance of 2013 include *Iron Man 3, Star Trek Into Darkness, Man of Steel, Despicable Me 2, Thor: The Dark World* and *The Hobbit: The Desolation of Smaug*. Other highly anticipated films to be released in the balance of 2013 include *The Hangover Part III, Fast and Furious 6, The Wolverine* and *The Hunger Games: Catching Fire.* Cineplex believes that 3D, UltraAVX, IMAX and VIP formats provide an enhanced guest experience and will continue to charge a ticket price premium for films and events presented in these formats.

MERCHANDISING

Cineplex continues to report growth in CPP, with the first quarter of 2013 CPP of $4.69 being Cineplex's highest ever quarterly CPP. Although pricing does impact CPP, Cineplex's core focus is on operational execution, promotions and providing the optimal product mix to provide further growth in this area. As part of this strategy, Cineplex will continue to expand its in-house brands *Outtakes* and *Poptopia* across the circuit, and continues to roll-out new digital menu boards in its theatres which provide guests with more interactive messaging during visits to the concession stands and to Cineplex's RBO's.

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

MEDIA

Cineplex believes that no other medium engages viewers like the cinema experience: engaged moviegoers, sitting in a darkened theatre, ready to be entertained and fully focused on the screen. Research has shown that cinema media advertising reaches the most sought-after demographics, as well as Canada's high-income households and educated populations. Media revenues increased 28.6% compared to the first quarter of 2012 as revenues increased in all three of Cineplex's major revenue categories: showtime revenues, pre-show revenues, and CDM revenues. Media revenues benefited from an increase of 30.1% for in-theatre advertising as the first quarter of 2013 included increased spending in the automotive, packaged goods and electronic advertising sectors.

Cineplex continues to enhance its media offerings outside of the theatre setting, including enhanced website advertising at cineplex.com, which delivers more unique visitors per month than any other Canadian movie site, and additional mobile opportunities through Cineplex mobile, as well as increasing its offerings in the digital signage business through CDM. CDM's business includes broadcasting, advertising and providing custom content to premium office towers, shopping malls, sports stadiums and other networks across Canada. CDM also designs, installs, maintains and operates digital signage networks on numerous software platforms in retail, financial, hospitality and entertainment markets across North America.

With the 28.6% increase in media revenues in the first quarter of 2013 compared to the prior year period, Cineplex believes it is well positioned for future growth in all categories of media in the balance of 2013 and beyond.

ALTERNATIVE PROGRAMMING

During the first quarter of 2013, Cineplex offered a wide variety of alternative programming, including the popular Metropolitan Opera live in HD series. Other highlights included performances by the National Theatre in London and various concert performances by popular recording artists.

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

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

INTERACTIVE

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

As of March 31, 2013, the Cineplex app had been downloaded 5.8 million times and recorded 129.4 million app sessions. The Cineplex mobile brand app ranks 7th in Canada and first among retailers based on the most recent ComScore MobiLens rankings. Cineplex launched the new Blackberry Z10 and Windows 8 tablet apps in the first quarter of 2013, and will continue development to allow the app to be available on other devices.

At-home and on-the-go content distribution and consumption is an emerging and transforming market. Cineplex believes it is well positioned to take advantage of this exciting market with the launch of UltraViolet in Canada and continued expansion of other offerings.

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 4.5 million members at March 31, 2013. As part of the *Cineplex Tuesdays* program, SCENE members get 10% off all ticket prices on Tuesdays across the circuit, which are already generally discounted.

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

FINANCIAL OUTLOOK

During the twelve months ended March 31, 2013, Cineplex generated adjusted free cash flow per Share of $1.9784, compared to $2.0527 in the prior year period. Cineplex declared dividends per Share of $1.3450 and $1.2875, respectively, in each period. The payout ratios for these periods were approximately 68.0% and 62.7%, respectively. Subsequent to the period end, Cineplex announced a dividend increase to $1.44 per Share on an annual basis from the current $1.35 per Share. This increase will be effective with the May 2013 dividend which will be paid in June 2013. This increase represents Cineplex's third dividend increase since converting to a corporation on January 1, 2011.

The acquisition of AMC Ventures Inc. and its subsequent wind-up into Cineplex resulted in non-capital losses of $147.0 million being made available to offset taxable income earned by Cineplex beginning in 2013. As a result of the use of these losses, Cineplex's cash taxes in 2013 will be substantially reduced.

As part of Cineplex's 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 Facilities, as at March 31, 2013, Cineplex reported a leverage ratio of 1.01x as compared to a covenant of 3.50x. Between the free cash flow generated in excess of the dividends paid and amounts available under its Credit Facilities, Cineplex believes that it has sufficient financial resources to meet its ongoing requirements for capital expenditures, investments in working capital and dividends. However, Cineplex's needs may change and in such event Cineplex's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

17. REVISED 2012 QUARTERLY CONSOLIDATED STATEMENTS OF OPERATIONS

Under IFRS 11, which was applied retrospectively on January 1, 2013, Cineplex's 50% interest in SCENE LP is classified as a joint operation and Cineplex recognizes its share of the assets, liabilities, revenues and expenses of SCENE in its consolidated financial statements. The following table illustrates the 2012 quarterly consolidated statements of operations for Cineplex revised for the retrospective application of IFRS 11 (in thousands of Canadian dollars):

	Three months ended March 31, 2012	Three months ended June 30, 2012	Three months ended September 30, 2012	Three months ended December 31, 2012
Revenues				
Box office	$ 149,413	$ 156,226	$ 162,133	$ 170,524
Concessions	77,037	79,962	85,924	86,409
Other	22,528	27,486	33,091	41,768
	248,978	263,674	281,148	298,701
Expenses				
Film cost	76,707	83,465	83,632	87,477
Cost of concessions	15,770	16,720	17,831	18,077
Depreciation and amortization	16,473	14,678	14,044	16,968
(Gain) loss on disposal of assets	(55)	727	114	(3,138)
Gain on acquisition of business	—	—	(23,822)	(930)
Other costs	115,969	116,996	126,253	136,319
Share of loss of joint ventures	(327)	(1,103)	(831)	(1,002)
Interest expense	4,384	3,612	2,499	2,090
Interest income	(80)	(23)	(44)	(58)
	228,841	235,072	219,676	255,803
Income before income taxes	20,137	28,602	61,472	42,898
Provision for (recovery of) income taxes				
Current	5,642	7,946	9,053	8,795
Deferred	(613)	(304)	707	1,399
	5,029	7,642	9,760	10,194
Net income	$ 15,108	$ 20,960	$ 51,712	$ 32,704

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 (gain) loss on disposal of assets and the equity income 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 Cineplex's 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 March 31,	
	2013	**2012**
Net income	**$ 8,816**	**$ 15,108**
Depreciation and amortization	17,298	16,473
Interest expense	1,716	4,384
Interest income	(78)	(80)
Current income tax expense	(727)	5,642
Deferred income tax expense	3,328	(613)
EBITDA	**$ 30,353**	**$ 40,914**
Loss (gain) on disposal of assets	1,062	(55)
CDCP equity income (i)	(333)	(75)
Depreciation and amortization - joint ventures (ii)	519	355
Future income taxes - joint ventures (ii)	73	—
Current income taxes - joint ventures (ii)	16	—
Adjusted EBITDA	**$ 31,690**	**$ 41,139**

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

18.2 ADJUSTED FREE CASH FLOW

Free cash flow measures the amount of cash from operating activities net of capital expenditures available for activities such as repayment of debt, 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 March 31,	
	2013	**2012**
Cash (used in) provided by operating activities	$ (6,797)	$ 1,124
Less: Total capital expenditures net of proceeds on sale of assets	(16,897)	(12,893)
Standardized free cash flow	(23,694)	(11,769)
Add/(Less):		
Changes in operating assets and liabilities (i)	38,443	40,014
Changes in operating assets and liabilities of joint ventures (i)	167	(6,280)
Tenant inducements (ii)	(2,957)	(3,297)
Principal component of finance lease obligations	(540)	(541)
Growth capital expenditures and other (iii)	12,034	9,774
Share of income of joint ventures, net of non-cash depreciation (iv)	800	607
Cash invested in CDCP (iv)	(146)	(244)
Adjusted free cash flow	**$ 24,107**	**$ 28,264**
Average number of Shares outstanding	62,803,716	58,847,728
Adjusted free cash flow per Share	**$ 0.3838**	**$ 0.4803**

(i) Changes in operating assets and liabilities are not considered a source or use of adjusted free cash flow or distributable cash.
(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 and distributable cash using the income statement as a reference point would be as follows (expressed in thousands of Canadian dollars):

	Three months ended March 31, 2013	2012
Net income	$ 8,816	$ 15,108
Adjust for:		
Depreciation and amortization	17,298	16,473
Loss (gain) on disposal of assets	1,062	(55)
Non-cash interest expense (i)	(194)	1,228
Share of income of CDCP (ii)	(333)	(75)
Non-cash depreciation of joint ventures	519	355
Deferred income tax expense (recovery)	3,328	(613)
Joint venture deferred income tax expense	73	—
Maintenance capital expenditures	(4,863)	(3,119)
Principal component of finance lease obligations	(540)	(541)
Cash invested in CDCP (ii)	(146)	(244)
Non-cash items:		
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(1,569)	(935)
Non-cash Share-based compensation	656	682
Adjusted free cash flow	**$ 24,107**	**$ 28,264**

(i) Non-cash interest expense includes amortization of deferred financing costs on the long-term debt, and other non-cash interest expense items. 2012 also includes accretion expense on the convertible debentures.

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

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 Condensed Consolidated Balance Sheets
(Unaudited)

(expressed in thousands of Canadian dollars)

	March 31, 2013	December 31, 2012 (note 2)	January 1, 2012 (note 2)
Assets			
Current assets			
Cash and cash equivalents	$ 14,272	$ 48,665	$ 50,145
Trade and other receivables	43,856	77,278	70,473
Inventories	4,674	5,193	4,124
Prepaid expenses and other current assets	8,244	3,047	3,727
	71,046	134,183	128,469
Non-current assets			
Property, equipment and leaseholds	413,768	418,498	389,674
Deferred income taxes	50,513	53,528	12,052
Interests in joint ventures	42,477	41,623	26,163
Intangible assets	74,941	78,460	84,379
Goodwill (note 3)	612,170	608,929	608,929
	$ 1,264,915	$ 1,335,221	$ 1,249,666

Business acquisition (note 3)

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

(expressed in thousands of Canadian dollars)

	March 31, 2013	December 31, 2012 (note 2)	January 1, 2012 (note 2)
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	$ 82,993	$ 129,499	$ 115,076
Share-based compensation	8,188	—	1,331
Dividends payable	7,070	7,063	6,285
Income taxes payable	930	13,654	17,485
Deferred revenue (note 2)	88,413	106,253	93,955
Finance lease obligations	2,262	2,222	2,411
Fair value of interest rate swap agreements	577	513	565
Convertible debentures	—	—	76,864
	190,433	259,204	313,972
Non-current liabilities			
Share-based compensation (note 4)	8,447	12,223	9,466
Long-term debt	163,195	148,066	167,531
Fair value of interest rate swap agreements	539	273	1,199
Finance lease obligations	19,967	20,548	26,474
Post-employment benefit obligations	6,401	6,274	5,688
Other liabilities	140,999	141,319	103,727
	339,548	328,703	314,085
Total liabilities	529,981	587,907	628,057
Equity			
Share capital (note 5)	848,222	847,235	764,801
Deficit	(114,929)	(102,547)	(140,469)
Accumulated other comprehensive loss	(1,797)	(1,142)	(2,723)
Contributed surplus (note 5)	3,438	3,768	—
	734,934	747,314	621,609
	$ 1,264,915	$ 1,335,221	$ 1,249,666

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 Condensed Consolidated Statements of Operations
(Unaudited)
For the three months ended March 31, 2013 and 2012

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

	2013	2012 (note 2)
Revenues		
Box office	$ 145,165	$ 149,413
Concessions	75,879	77,037
Other	27,026	22,528
	248,070	248,978
Expenses		
Film cost	73,389	76,707
Cost of concessions	16,274	15,770
Depreciation and amortization	17,298	16,473
Loss (gain) on disposal of assets	1,062	(55)
Other costs (note 6)	127,533	115,969
Share of income of joint ventures	(541)	(327)
Interest expense	1,716	4,384
Interest income	(78)	(80)
	236,653	228,841
Income before income taxes	11,417	20,137
Provision for (recovery of) income taxes		
Current (note 9)	(727)	5,642
Deferred (note 9)	3,328	(613)
	2,601	5,029
Net income	$ 8,816	$ 15,108
Basic net income per share (note 7)	$ 0.14	$ 0.26
Diluted net income per share (note 7)	$ 0.14	$ 0.26

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
For the three months ended March 31, 2013 and 2012

(expressed in thousands of Canadian dollars)

	2013	2012 (note 2)
Net income	$ 8,816	$ 15,108
Other comprehensive (loss) income		
Items that may be reclassified subsequently to net income:		
(Loss) income on hedging instruments	(766)	3,324
Associated deferred income taxes recovery (expense)	111	(910)
Other comprehensive (loss) income	(655)	2,414
Comprehensive income	$ 8,161	$ 17,522

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)
For the three months ended March 31, 2013 and 2012

(expressed in thousands of Canadian dollars)

	Share capital (note 5)	Contributed surplus (note 5)	Accumulated other comprehensive loss	Deficit	Total
Balance - January 1, 2013	$ 847,235	$ 3,768	$ (1,142)	$ (102,547)	$ 747,314
Net income	—	—	—	8,816	8,816
Other comprehensive loss	—	—	(655)	—	(655)
Total comprehensive income			**(655)**	**8,816**	**8,161**
Dividends declared	—	—	—	(21,198)	(21,198)
Long-term incentive plan obligation	248	—	—	—	248
Share option expense	—	409	—	—	409
Issuance of shares on exercise of options	739	(739)	—	—	—
Balance - March 31, 2013	$ 848,222	$ 3,438	$ (1,797)	$ (114,929)	$ 734,934
Balance - January 1, 2012	$ 764,801	$ —	$ (2,723)	$ (140,469)	$ 621,609
Share option liabilities reclassified	—	6,850	—	—	6,850
Net income	—	—	—	15,108	15,108
Other comprehensive income	—	—	2,414	—	2,414
Total comprehensive income			**2,414**	**15,108**	**17,522**
Dividends declared	—	—	—	(19,140)	(19,140)
Long-term incentive plan obligation	(5,575)	—	—	—	(5,575)
Long-term incentive plan shares	6,471	—	—	—	6,471
Share option expense	—	646	—	—	646
Issuance of shares on exercise of options	4,969	(4,969)	—	—	—
Issuance of shares on conversion of debentures	43,338	—	—	—	43,338
Issuance of shares for cash	501	—	—	—	501
Shares repurchased and cancelled	(936)	—	—	(850)	(1,786)
Balance - March 31, 2012	$ 813,569	$ 2,527	$ (309)	$ (145,351)	$ 670,436

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)
For the three months ended March 31, 2013 and 2012

(expressed in thousands of Canadian dollars)

	2013	2012 (note 2)
Cash (used in) provided by		
Operating activities		
Net income	$ 8,816	$ 15,108
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	17,298	16,473
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(1,569)	(935)
Accretion of debt issuance costs and other non-cash interest	141	140
Loss (gain) on disposal of assets	1,062	(55)
Deferred income taxes	3,328	(613)
Interest rate swap agreements - non-cash interest	(335)	916
Non-cash share-based compensation	656	682
Accretion of convertible debentures	—	172
Net change in interests in joint ventures	(708)	5,953
Tenant inducements	2,957	3,297
Changes in operating assets and liabilities (note 8)	(38,443)	(40,014)
Net cash (used in) provided by operating activities	(6,797)	1,124
Investing activities		
Proceeds from sale of assets	—	1,120
Purchases of property, equipment and leaseholds	(16,897)	(14,013)
Acquisition of business, net of cash acquired (note 3)	(3,822)	(7,399)
Additional equity funding of joint ventures	(146)	(244)
Net cash used in investing activities	(20,865)	(20,536)
Financing activities		
Dividends paid	(21,191)	(18,867)
Borrowings under credit facility, net	15,000	—
Payments under finance leases	(540)	(541)
Proceeds from issuance of shares	—	501
Shares repurchased and cancelled	—	(1,786)
Net cash used in financing activities	(6,731)	(20,693)
Decrease in cash and cash equivalents during the period	(34,393)	(40,105)
Cash and cash equivalents - Beginning of period	48,665	50,145
Cash and cash equivalents - End of period	$ 14,272	$ 10,040
Supplemental information		
Cash paid for interest	1,858	1,944
Cash paid for income taxes	12,199	18,120

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

The Board of Directors approved these unaudited interim condensed consolidated financial statements on May 8, 2013.

2 Basis of presentation and accounting standards changes

Basis of preparation and measurement

Cineplex prepares its unaudited interim condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), defined as International Financial Reporting Standards ("IFRS") as set out in the Handbook of The Canadian Institute of Chartered Accountants. The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Cineplex's accounting policies.

These unaudited interim condensed consolidated financial statements are presented in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The disclosures contained in these unaudited interim condensed consolidated financial statements do not contain all requirements of Canadian GAAP for annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012. These unaudited interim condensed consolidated financial statements follow the same accounting policies and methods of application as the audited financial statements for the year ended December 31, 2012, except as described for the following, which were adopted in the first quarter of 2013.

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

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

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

Adjustments to unaudited condensed consolidated balance sheets previously reported:

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

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

Adjustments to unaudited condensed consolidated statements of operations previously reported:

	Three months ended March 31, 2012		
Revenues	As published	Adjustment	Revised
Box office	$ 149,413	$ —	$ 149,413
Concessions	77,037	—	77,037
Other	21,736	792	22,528
	248,186	792	248,978
Expenses			
Film cost	76,707	—	76,707
Cost of concessions	15,770	—	15,770
Depreciation and amortization	16,454	19	16,473
Gain on disposal of assets	(55)	—	(55)
Other costs	115,146	823	115,969
Share of loss of joint ventures	(277)	(50)	(327)
Interest expense	4,384	—	4,384
Interest income	(80)	—	(80)
	228,049	792	228,841
Income before income taxes	20,137	—	20,137
Provision for (recovery of) income taxes			
Current	5,642	—	5,642
Deferred	(613)	—	(613)
	5,029	—	5,029
Net income	$ 15,108	$ —	$ 15,108

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

Adjustments to unaudited condensed consolidated statements of operations previously reported:

	Three months ended March 31, 2012		
	As published	Adjustment	Revised
Cash provided by (used in)			
Operating activities			
Net income	$ 15,108	$ —	$ 15,108
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of property, equipment and leaseholds, deferred charges and intangible assets	16,454	19	16,473
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(935)	—	(935)
Accretion of debt issuance costs and other non-cash interest	140	—	140
Gain on disposal of assets	(55)	—	(55)
Deferred income taxes	(613)	—	(613)
Interest rate swap agreements - non-cash interest	916	—	916
Non-cash share or unit-based compensation	682	—	682
Accretion of convertible debentures	172	—	172
Net change in interests in joint ventures	2,665	3,288	5,953
Tenant inducements	3,297	—	3,297
Changes in operating assets and liabilities	(36,449)	(3,565)	(40,014)
Net cash provided by operating activities	1,382	(258)	1,124
Investing activities			
Proceeds from sale of assets	1,120	—	1,120
Purchases of property, equipment and leaseholds	(13,899)	(114)	(14,013)
Acquisition of businesses, net of cash acquired	(7,399)	—	(7,399)
Additional equity funding of joint ventures	(244)	—	(244)
Net cash used in investing activities	(20,422)	(114)	(20,536)
Financing activities			
Dividends paid	(18,867)	—	(18,867)
Payments under finance leases	(541)	—	(541)
Proceeds from issuance of shares	501	—	501
Purchase of shares for cancellation	(1,786)	—	(1,786)
Net cash used in financing activities	(20,693)	—	(20,693)
Decrease in cash and cash equivalents during the period	(39,733)	(372)	(40,105)
Cash and cash equivalents - Beginning of period	48,992	1,153	50,145
Cash and cash equivalents - End of period	$ 9,259	$ 781	$ 10,040

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

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

Fair value of financial instruments

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

		2013		2012	
	Input level	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Long-term debt	2	$ 163,195	$ 165,000	$ 148,066	$ 150,000
Other liabilities - equipment liabilities	2	11,483	11,483	11,777	11,777
Interest rate swap agreements	2	1,116	1,116	786	786

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

The long-term debt has a fair value approximately equal to its face value at March 31, 2013 and December 31, 2012, due to its market rate of interest.

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

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

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

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

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

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

Level 3 inputs are unobservable inputs for the financial asset or financial liability, and include situations where there is little, if any, market activity for the financial asset or financial liability. Cineplex's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the financial asset or financial liability. Cineplex had no financial instruments valued under Level 3 inputs on the consolidated balance sheets.

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

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

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

3 Business acquisition

Festival Theatres

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

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

The total revenues and income of the acquired theatres since the acquisition date are immaterial. The revenues and income that would have been reported for three months ended March 31, 2013 as if the acquisition had occurred at January 1, 2013 are not materially different from the revenues and income actually reported for the period.

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

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

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

The following table discloses the change in goodwill for three months ended March 31:

		2013		2012
Balance - Beginning of year	$	608,929	$	608,929
Goodwill acquired		3,241		—
Balance - End of year	$	612,170	$	608,929

4 Share-based compensation

Option plan

Cineplex recorded $409 of employee benefits expense with respect to share options during the three months ended March 31, 2013 (2012 - $645).

Cineplex granted options in 2013 and 2012 as follows:

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

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

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

		2013		2012	
	Weighted average remaining contractual life (years)	**Number of underlying shares**	**Weighted average exercise price**	**Number of underlying shares**	**Weighted average exercise price**
Options outstanding, January 1	8.37	1,460,546	$ 24.38	1,587,538	$ 19.88
Granted		385,834	33.49	474,000	27.33
Cancelled		—	—	—	—
Exercised		(196,576)	23.20	(554,005)	14.77
Options outstanding, March 31	8.59	1,649,804	$ 26.65	1,507,533	$ 24.10

Long-term incentive plan ("LTIP")

For the three-year service period beginning on January 1, 2013, the LTIP award consists of a "phantom" stock plan, awarding 124,936 share equivalents (2012 - 137,302), which, subject to certain performance and market conditions, may decrease approximately 67% or increase by 100% subject to certain performance and market conditions. The base share equivalents attract compounding notional dividends at the same rate as outstanding common shares, which are notionally reinvested as additional base share equivalents. The awards will be settled in cash at the end of service periods, within 30 days of the approval of the consolidated financial statements by the Board of Directors.

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the year of change. Forfeitures are estimated at $nil. For the three months ended March 31, 2013, Cineplex recognized $2,984 (2012 - $2,352) of compensation costs under the LTIP.

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

5 Share capital

Cineplex is authorized to issue an unlimited number of common shares, and 10,000,000 preferred shares of which none are outstanding. Share capital at March 31, 2013 and 2012 and transactions during the years are as follows:

2013

	Shares			Amount				
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust	Common shares, net	Common shares	Equity component of convertible debentures	LTIP common shares or units	LTIP obligation	Total
Balance - December 31, 2012	62,783,002	(139,727)	62,643,275	$ 847,483	$ —	$ (3,264)	$ 3,016	$ 847,235
Costs of LTIP obligation	—	—	—	—	—	—	248	248
Issuance of shares on exercise of options	61,156	—	61,156	739	—	—	—	739
Transfer of common shares to LTIP participants	—	139,727	139,727	—	—	3,264	(3,264)	—
Balance - March 31, 2013	62,844,158	—	62,844,158	$ 848,222	$ —	$ —	$ —	$ 848,222

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 or units	LTIP obligation	Total
Balance - December 31, 2011	58,465,254	(443,916)	58,021,338	$ 751,042	$ 15,182	$ (9,735)	$ 8,312	$ 764,801
Debenture conversions	2,334,072	—	2,334,072	51,881	(8,543)	—	—	43,338
Transfers and costs of LTIP obligation	—	—	—	—	—	—	896	896
Purchase of LTIP common shares	278,467	—	278,467	5,470	—	—	—	5,470
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)
Balance - March 31, 2012	61,006,393	(139,727)	60,866,666	$ 807,935	$ 6,639	$ (3,264)	$ 2,259	$ 813,569

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

6 Other costs

	2013	2012 (note 2)
Employee salaries and benefits	$ 44,216	$ 41,374
Rent	31,413	28,058
Realty and occupancy taxes and maintenance fees	15,044	13,735
Utilities	6,192	5,834
Purchased services	8,550	7,917
Other inventories consumed	1,973	1,374
Repairs and maintenance	4,306	3,755
Office and operating supplies	2,711	2,224
Licences and franchise fees	2,546	1,924
Insurance	659	416
Advertising and promotion	4,911	4,606
Professional and consulting fees	1,127	1,652
Telecommunications and data	1,024	913
Bad debts	81	72
Equipment rental	631	452
Other costs	2,149	1,663
	$ 127,533	$ 115,969

7 Net income per share

Basic

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

	2013	2012
Net income	$ 8,816	$ 15,108
Weighted average number of shares outstanding	62,695,039	58,467,596
Basic EPS	$ 0.14	$ 0.26

Diluted

Diluted EPS is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. Cineplex has several categories of dilutive potential shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the outstanding shares for the period), based on the monetary value of the rights attached to the potentially dilutive shares. The number of shares calculated

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

above is compared with the number of shares that would have been issued assuming exercise of conversions, exchanges or options.

	2013	2012
Net income	$ 8,816	$ 15,108
Weighted average number of shares outstanding	62,695,039	58,467,596
Adjustments for stock options	325,022	160,876
Weighted average number of shares for diluted income per share	63,020,061	58,628,472
Diluted EPS	$ 0.14	$ 0.26

8 Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	2013	2012 (note 2)
Trade and other receivables	$ 32,424	$ 24,885
Inventories	553	(44)
Prepaid expenses and other current assets	(5,182)	(3,590)
Accounts payable and accrued expenses	(37,964)	(28,168)
Income taxes payable	(12,926)	(12,435)
Deferred revenue	(17,864)	(21,975)
Post-employment benefit obligations	127	(2)
Share-based compensation	3,112	1,689
Other liabilities	(723)	(374)
	$ (38,443)	$ (40,014)
Non-cash investing activities		
Property, equipment and leasehold purchases financed through accounts payable and accrued expenses	$ 6,795	$ 7,068

9 Provision for (recovery of) income taxes

Taxable income earned by Cineplex during the first quarter of 2013 has been offset by the use of loss carryforwards acquired through Cineplex's acquisition of AMC Ventures Inc. in 2012. As a result of the $147,034 non-capital losses acquired in this transaction, Cineplex's cash income taxes in 2013 will be substantially reduced. Total income taxes for the current quarter have a lower effective rate primarily due to the timing of certain deductions.

10 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.

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