CINEPLEX®

2017

FIRST QUARTER

March 31, 2017

Dear fellow shareholders,

I am pleased to report that Cineplex delivered a record first quarter with total revenue of $394.2 million and adjusted EBITDA of $59.4 million, both up 4.0% compared to the same period last year.

Box Office revenue decreased slightly to $195.4 million due to a tough comparator in the prior year period, however premium entertainment experiences represented 44.9% of box office, which resulted in a first quarter record BPP of $9.97. Food service revenue increased 1.7% to $113.9 million; Media revenue increased 2.6% to a new first quarter record $33.9 million; and Amusement revenue of $41.4 million increased 58.9% versus the prior year, largely due to the acquisitions of Tricorp Amusements and SAW LLC which were completed in the fourth quarter of 2016.

During the quarter we were pleased to announce our partnership with Morguard Investments Limited to install, maintain and operate 175 digital displays across 21 retail properties throughout Canada. With all of our mall partnerships, Cineplex will reach approximately 50% of all mall traffic in Canada.

During the quarter, we continued to roll out luxury recliners in select theatres across the country. Our goal is to retrofit 15 theatres by year end.

SCENE membership increased by 0.2 million to 8.3 million members during the quarter and we also launched a new SCENE mobile app, allowing members to instantly access their digital card, earn and redeem points, or plan their night out.

Player One Amusement Group (“Player One”) announced its acquisition of Dandy Amusements International, a leading amusement game operator in the western United States. The addition of Dandy to Player One - which closed subsequent to quarter end - gives us coast-to-coast coverage throughout the U.S. and Canada.

We were also pleased to announce a 3.7% dividend increase to $1.68 per share on an annual basis from the current $1.62 per share. This increase will be effective with the May 2017 dividend, which will be paid in June 2017.

Overall, it was a successful quarter for Cineplex. We achieved record results in a number of areas and continued to focus on our diversification strategy. We are committed to expanding our business model beyond the box office and into businesses that leverage our core strengths in entertainment, food service and media. This strategy continues to position us well for future growth.

Sincerely,

Ellis Jacob
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 1, 2017

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

Unless otherwise specified, all information in this MD&A is as of March 31, 2017 and all amounts are in Canadian dollars.

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

Forward-Looking Statements

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

By their very nature, forward-looking statements involve inherent risks and uncertainties, including those described in Cineplex's Annual Information Form ("AIF"), its MD&A for the year ended December 31, 2016 ("Annual MD&A") and in this MD&A. Those risks and uncertainties, both general and specific, give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. Cineplex cautions readers not to place undue reliance on these statements, as a number of important factors, many of which are beyond Cineplex's control, could cause actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, risks generally encountered in the relevant industry, competition, customer, legal, taxation and accounting matters.

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

Cineplex does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable Canadian securities law. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of Cineplex, its financial or operating results or its securities. All forward-looking statements in this MD&A are made as of the date hereof and are qualified by these cautionary statements. Additional information, including Cineplex's AIF and Annual MD&A, can be found on SEDAR at www.sedar.com.

1. OVERVIEW OF CINEPLEX

A leading entertainment and media company, Cineplex is a top-tier Canadian brand that operates in the Film Entertainment and Content, Amusement and Leisure, and Media sectors. As Canada's largest and most innovative film exhibitor, Cineplex welcomes 75 million guests annually through its circuit of 164 theatres across the country. Cineplex also operates successful businesses in digital commerce (CineplexStore.com), food service, alternative programming (Cineplex Events), cinema media (Cineplex Media), digital place-based media (Cineplex Digital Media) and amusement solutions (Player One Amusement Group). It also operates a location based entertainment business through Canada's newest destination for 'Eats & Entertainment' (The Rec Room), and an online eSports platform for competitive and passionate gamers (WorldGaming.com). Additionally, Cineplex is a joint venture partner in SCENE, Canada's largest entertainment loyalty program.

Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets. As of March 31, 2017, Cineplex owned, leased or had a joint venture interest in 1,677 screens in 164 theatres from coast to coast.

Cineplex
Theatre locations and screens at March 31, 2017

Province	Locations	Screens	Digital 3D Screens	Ultra AVX Screens	IMAX Screens (i)	VIP Auditoriums	D-BOX Locations
Ontario	68	733	353	38	12	39	38
Quebec	20	250	98	10	3	4	6
British Columbia	25	232	118	15	3	11	12
Alberta	17	193	97	16	2	3	12
Nova Scotia	13	92	44	1	1	—	2
Saskatchewan	6	54	28	2	—	3	2
Manitoba	5	49	26	1	1	3	2
New Brunswick	5	41	20	1	—	—	2
Newfoundland & Labrador	3	20	9	1	1	—	1
Prince Edward Island	2	13	6	—	—	—	1
TOTALS	**164**	**1,677**	**799**	**85**	**23**	**63**	**78**
Percentage of screens			48%	5%	1%	4%	5%

(i) All IMAX screens are 3D enabled. Total 3D screens including IMAX screens are 822 screens or 49% of the circuit.

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

	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Theatres	164	165	164	162	163	162	162	162
Screens	1,677	1,683	1,677	1,659	1,666	1,655	1,652	1,652
3D Digital Screens	799	801	799	788	790	783	781	781
UltraAVX Screens	85	85	85	83	82	80	77	77
IMAX Screens (i)	23	23	23	23	23	23	23	22
VIP Auditoriums	63	63	63	59	59	56	53	53
D-BOX Locations	78	77	68	62	44	43	38	33

(i) All IMAX screens are 3D enabled. Total 3D screens including IMAX screens are 822 screens or 49% of the circuit.

1.1 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of dollars, except attendance in thousands of patrons and per Share and per patron amounts)	**First Quarter 2017**	**2016**	**Change (i)**
Total revenues	$ 394,243	$ 378,913	4.0%
Attendance	19,593	20,583	-4.8%
Net income	$ 22,965	$ 21,455	7.0%
Box office revenues per patron ("BPP") (ii) (iii)	$ 9.97	$ 9.65	3.3%
Concession revenues per patron ("CPP") (ii)	$ 5.71	$ 5.44	5.0%
Adjusted EBITDA (ii)	$ 59,449	$ 57,140	4.0%
Adjusted EBITDA margin (ii)	15.1%	15.1%	—%
Adjusted free cash flow (ii)	$ 43,335	$ 43,978	-1.5%
Adjusted free cash flow per common share of Cineplex ("Share") (ii)	$ 0.682	$ 0.696	-2.0%
Earnings per Share ("EPS") - basic	$ 0.37	$ 0.35	5.7%
EPS excluding change in fair value of financial instrument - basic (ii)	$ 0.35	$ 0.35	—%
EPS - diluted	$ 0.37	$ 0.34	8.8%
EPS excluding change in fair value of financial instrument - diluted (ii)	$ 0.35	$ 0.34	2.9%

(i) Throughout this MD&A, changes in percentage amounts are calculated as 2017 value less 2016 value.

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

(iii) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.

Total revenues for the first quarter of 2017 increased 4.0%, or $15.3 million, compared to the prior year period, primarily due to higher amusement revenues resulting from Cineplex's ongoing growth and diversification of these businesses. Cineplex reported a record first quarter BPP of $9.97, primarily due to increased premium priced product, and a record first quarter CPP of $5.71. Amusement revenues increased 58.9% to a first quarter record of $41.4 million, mainly due to the 2016 fourth quarter acquisitions of Tricorp Amusements Inc. ("Tricorp") and SAW LLC ("SAW") by Player One Amusement Group, ("P1AG"). As a result of these increases, Cineplex reported a first quarter record for adjusted EBITDA (increasing $2.3 million or 4.0% to $59.4 million). Higher earnings were offset by an increase in maintenance capital expenditures and interest expense on higher borrowings related to acquisitions resulting in a decrease in adjusted free cash flow from $0.696 in the prior year period to $0.682.

1.2 KEY DEVELOPMENTS IN THE FIRST QUARTER OF 2017

The following describes certain key business initiatives undertaken and results achieved during the first quarter of 2017 in each of Cineplex's core business areas:

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

- Reported first quarter box office revenues of $195.4 million, a decrease of $3.3 million (1.7%) from $198.6 million reported in the prior year period due to a weaker film slate resulting in a 4.8% attendance decrease from 20.6 million in 2016 to 19.6 million in the first quarter of 2017.
- BPP was $9.97, a first quarter record for Cineplex, an increase of $0.32 (3.3%) over the prior year period BPP of $9.65. The increase resulted primarily from a higher proportion of box office revenues from premium priced product in the current period compared to the prior period.
- Converted 50 auditoriums to recliner seating during the quarter.

Theatre Food Service

- Reported first quarter theatre food service revenues of $111.8 million, a decrease of $0.2 million (0.2%) from $112.0 million reported in the prior year period.
- CPP was $5.71 for the period, a first quarter record for Cineplex, $0.27 (5.0%) higher than the prior year period.

Alternative Programming

- Alternative programming in the first quarter of 2017 included performances from international film programming, encore performances of the Metropolitan Opera: Live in HD series, and performances of the Bolshoi Ballet from Moscow and the National Theatre from London.

Digital Commerce

- Cineplex.com registered an 18% increase in unique visits and a 13% increase in visits during the first quarter of 2017 as compared to the prior year period.
- Monthly active users of Cineplex.com increased by 5% during the first quarter of 2017 as compared to the prior year period.
- Continued to develop the Cineplex Store user interface, improving the overall user experience.

MEDIA

- Reported record first quarter total media revenues of $33.9 million, which increased $0.9 million, or 2.6% compared to the prior year period.

Cinema Media

- Reported record first quarter cinema media revenues of $21.6 million, compared to $21.1 million in the prior year period, with the increase primarily due to sponsorship and other media associated with eSports.

Digital Place-Based Media

- Digital place-based media revenues increased $0.4 million (3.0%) compared to the prior year, as an expanded client base contributed to higher recurring revenues, offsetting lower project installation revenues.
- Chosen to install, maintain and operate a state-of-the-art digital signage network at 21 shopping centres in Canada managed by Morguard Investments Limited ("Morguard").

AMUSEMENT AND LEISURE

Amusement Solutions

- First quarter amusement revenues were $41.4 million, an increase of $15.4 million over the prior year period. The majority of the increase was from Tricorp and SAW, which were acquired in the fourth quarter of 2016.
- Announced the acquisition of the assets of Dandy Amusements International Inc. ("Dandy"), a leading amusement gaming machine operator in the western United States. The transaction was completed on April 1, 2017 (see Section 15, Subsequent events).

Location Based Entertainment

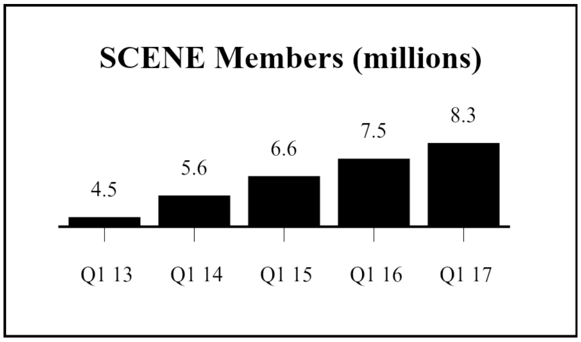
- *The Rec Room* reported first quarter food service revenues of $2.1 million and amusement revenues of $2.0 million.
- Continued construction on three previously-announced *Rec Room* locations in Calgary, Alberta, a second location in Edmonton, Alberta at the iconic West Edmonton Mall and in Toronto, Ontario, at the historical John Street Roundhouse across from the CN Tower, all scheduled for openings in 2017.

eSports

- On March 26, 2017 World Gaming Network Limited Partnership ("WGN") hosted the Call of Duty: Infinite Warfare tournament final with a grand prize of $65,000.

LOYALTY

- Membership in the SCENE loyalty program increased by 0.2 million members in the period, reaching 8.3 million members at March 31, 2017.
- On March 27, 2017, SCENE launched a new mobile app that allows members to instantly browse all the ways to earn and redeem points, access their digital card and plan a night out.



CORPORATE

- In partnership with the IWK Health Centre in Halifax, Cineplex announced plans to transform the IWK Health Centre's O.E. Smith auditorium into a new theatre where IWK's patients and families can enjoy movies free of charge.

1.3 BUSINESS ACQUISITIONS

a) SAW, LLC

On December 1, 2016, Cineplex acquired the operating assets of SAW, for $8.3 million in cash. SAW is a distributor and operator of amusement and gaming equipment operating principally in the southeastern United States. Immaterial transaction costs were expensed as incurred.

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

Assets acquired		
Net working capital, including cash of $356	$	1,500
Customer relationships		3,156
Equipment		3,625
Net assets		8,281
Less: Cash from acquisition		(356)
	$	7,925
Consideration given - cash paid	$	8,291
Less: Receivable from vendor		(10)
Less: Cash from acquisition		(356)
	$	7,925

During the first quarter of 2017, the fair values were revised based on the post-acquisition review of the fair value of the customer relationships and equipment acquired, and liabilities assumed, resulting in the recognition of $3.2 million in customer relationships, and a $3.2 million reduction in the value of equipment, and a small decrease in working capital.

SAW has arrangements with customers to operate SAW's gaming equipment on a revenue share basis. The fair value of customer relationships recognized reflect annual renewal rates of approximately 88% for existing customers. They will be amortized on a straight-line basis over eight years.

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

b) Tricorp Amusements Inc.

On October 1, 2016, Cineplex acquired 100% of the issued and outstanding equity of Tricorp for approximately $28.3 million cash, including $25.7 million paid in the fourth quarter of 2016, and $2.6 million to be paid in 2017. Tricorp is a distributor and operator of amusement and gaming equipment operating principally in the eastern United States. Immaterial transaction costs were expensed as incurred.

Cineplex recognized $8.9 million of tax-deductible goodwill relating primarily to anticipated operational efficiencies.

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

Assets acquired and liabilities assumed		
Net working capital, including cash of $1,849	$	(1,019)
Equipment		16,066
Intangible assets - customer relationships		4,319
Goodwill		8,905
Net assets		28,271
Less: Cash from acquisition		(1,849)
	$	26,422
Consideration given - cash paid	$	25,695
Plus: Payable to vendor		2,576
Less: Cash from acquisition		(1,849)
	$	26,422

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

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

During the first quarter of 2017, the fair values were revised based on the post-acquisition review of the fair value of the assets acquired and liabilities assumed, and goodwill relating to tax elections, resulting in a decrease of $0.9 million for working capital, and additional consideration to be paid in 2017.

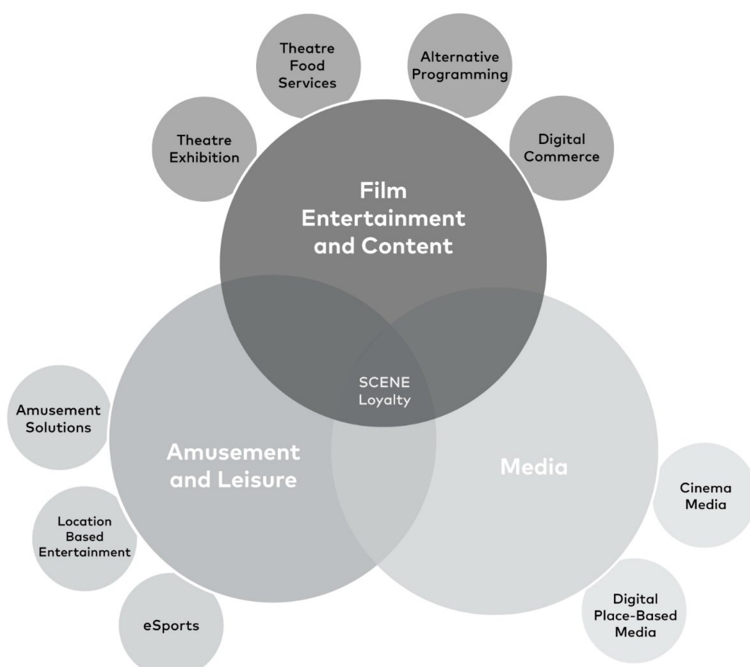
2. CINEPLEX'S BUSINESSES AND STRATEGY

Cineplex's mission statement is "Passionately delivering exceptional experiences." All of its efforts are focused towards this mission and it is Cineplex's goal to consistently provide guests and customers with exceptional experiences.

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

- Continue to enhance and expand existing infrastructure and expand Cineplex's presence as an entertainment destination for Canadians in-theatre, at-home and on-the-go;
- Capitalize on core media strengths and infrastructure to provide continued growth of Cineplex's media business both inside and outside theatres;
- Develop and scale amusement and leisure concepts by extending existing capabilities and infrastructure; and
- Pursue selective acquisitions and opportunities that are strategic, accretive and capitalize on Cineplex's core strengths.

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



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

While box office revenues (which include alternative programming) continue to account for the largest portion of Cineplex's revenues, expanded theatre food service offerings, cinema media, digital place-based media, amusement and leisure, the Cineplex Store, promotions and other revenue streams have increased as a share of total revenues. Cineplex is committed to diversifying its revenue streams outside of the traditional theatre exhibition model through its media and amusement and leisure businesses.

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

A detailed discussion of Cineplex's businesses and business strategy can be found in Cineplex's Annual MD&A. These have not changed materially during the first quarter of 2017.

3. 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 49.6% of revenue in the first quarter of 2017 and continues to represent Cineplex's largest revenue component.

Revenue mix % by period	**Q1 2017**	**Q1 2016**	**Q1 2015**	**Q1 2014**	**Q1 2013**
Box office (i)	**49.6%**	52.4%	55.1%	56.6%	59.3%
Food service	**28.9%**	29.6%	31.3%	31.1%	30.6%
Media	**8.6%**	8.7%	10.0%	8.7%	6.6%
Amusement (i)	**10.5%**	6.9%	0.7%	0.7%	0.8%
Other (i)	**2.4%**	2.4%	2.9%	2.9%	2.7%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.

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 exceptional entertainment experiences. Cineplex's share of the Canadian theatre exhibition market was approximately 78% based on Canadian industry box office revenues for the year ended December 31, 2016. As a result of Cineplex's focus on diversifying its business beyond the traditional movie exhibition model, its revenue mix has shifted from box office revenue to other revenue sources.

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), ticket prices during a given period and the appeal of premium priced product available. While BPP is negatively impacted by the SCENE loyalty program and the Cineplex Tuesdays program, these programs are designed to increase attendance frequency at Cineplex's theatres. Cineplex's main focus is to drive incremental visits to theatres, to employ a ticket price strategy which takes into account the local demographics at each individual theatre, and to maximize BPP through premium offerings.

Food service revenues are comprised primarily of concession revenues, arising from food sales at theatre locations, as well as food and beverage sales at *The Rec Room*. CPP represents theatre food service revenues divided by theatre attendance, and is impacted by the theatre food service product mix, theatre food service prices, film genre, promotions, the 10% SCENE discount and the issuance of SCENE points on the purchase of certain theatre food service combos. Films targeted to families and teenagers tend to result in a higher CPP and more adult-oriented product tends to result in a lower CPP. As a result, CPP can fluctuate from quarter to quarter depending on the genre of film product playing. The 10% SCENE discount offer and SCENE points issued on certain theatre food service purchases both decrease food service revenues on individual purchases. Cineplex believes the program drives incremental purchase incidence, increasing overall revenues. Although pricing has an impact on CPP, Cineplex focuses on growing CPP by optimizing the product offerings and improving operational excellence to increase purchase incidence and transaction value. Food service revenues from *The Rec Room* include food and beverage revenues from the various bars and restaurants located throughout the venue.

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

Amusement revenues include amusement solutions revenues from P1AG, which supplies and services all of the games in Cineplex's theatre circuit while also supplying equipment to third party arcades, amusement parks and centres, bowling alleys and theatre circuits across Canada and the United States, in addition to owning and operating family entertainment centres, including *Playdium*. Additionally, included in amusement revenues generated by Cineplex's XSCAPE Entertainment Centres and game rooms in theatres as well as revenues generated at *The Rec Room*.

Cineplex generates other revenues from the Cineplex Store, promotional activities, screenings, private parties, corporate events, breakage on gift card sales, and revenues from 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. There can be significant variances in film cost percentage between quarters due to, among other things, the concentration of box office revenues amongst the top films in the period.

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

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

Loss on disposal of assets represents the 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, amusement and leisure (including P1AG, *The Rec Room* and WGN), loyalty including SCENE, digital commerce, 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 theatre food service management, accounting and financial reporting, legal, treasury, design and construction, real estate development, communications and investor relations, information systems and administration. Included in these costs are payroll (including the long-term incentive plan ("LTIP") and Share option plan costs), occupancy costs related to Cineplex's corporate offices, professional fees (such as public accountant and legal fees) and travel and related costs. Cineplex maintains general and administrative staffing and associated costs at a level that it deems appropriate to manage and support the size and nature of its theatre portfolio and its business activities.

Accounting for Joint Arrangements

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

Under IFRS 11, Cineplex's 50% share of one IMAX auditorium in Ontario, its 78.2% interest in the Canadian Digital Cinema Partnership ("CDCP") and 50% interest in YoYo's Yogurt Cafe ("YoYo's") are classified as joint ventures. Through equity accounting, Cineplex's share of the results of operations for these joint ventures are reported as a single item in the statements of operations, 'Share of income of joint ventures'. Theatre attendance for the IMAX auditorium held in a joint venture is not reported in Cineplex's consolidated attendance as the line-by-line results of the joint venture 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.

4. RESULTS OF OPERATIONS

4.1 SELECTED FINANCIAL DATA

The following table presents summarized financial data for Cineplex for the three months ended March 31, 2017 and 2016 (expressed in thousands of dollars except Shares outstanding, per Share data and per patron data, unless otherwise noted):

	Three months ended March 31, 2017	Three months ended March 31, 2016	Variance (%)
Box office revenues (i)	$ 195,354	$ 198,643	-1.7%
Food service revenues	113,935	112,006	1.7%
Media revenues	33,912	33,058	2.6%
Amusement revenues (i)	41,401	26,051	58.9%
Other revenues (i)	9,641	9,155	5.3%
Total revenues	394,243	378,913	4.0%
Film cost	103,289	107,386	-3.8%
Cost of food service	25,654	25,314	1.3%
Depreciation and amortization	28,267	25,005	13.0%
Loss on disposal of assets	26	506	-94.9%
Other costs (a)	206,071	189,404	8.8%
Costs of operations	363,307	347,615	4.5%
Net income	$ 22,965	$ 21,455	7.0%
Adjusted EBITDA (ii)	$ 59,449	$ 57,140	4.0%
(a) Other costs include:			
Theatre occupancy expenses	51,963	52,733	-1.5%
Other operating expenses	132,000	117,611	12.2%
General and administrative expenses	22,108	19,060	16.0%
Total other costs	$ 206,071	$ 189,404	8.8%
EPS - basic	$ 0.37	$ 0.35	5.7%
EPS excluding change in fair value of financial instrument - basic (ii)	$ 0.35	$ 0.35	—%
EPS - diluted	$ 0.37	$ 0.34	8.8%
EPS excluding change in fair value of financial instrument - diluted (ii)	$ 0.35	$ 0.34	2.9%
Total assets	$ 1,718,668	$ 1,653,486	3.9%
Total long-term financial liabilities (iii)	$ 482,500	$ 412,500	17.0%
Shares outstanding at period end	63,517,603	63,410,690	0.2%
Cash dividends declared per Share	$ 0.405	$ 0.390	3.8%
Adjusted free cash flow per Share (ii)	$ 0.682	$ 0.696	-2.0%
Box office revenue per patron (i) (ii)	$ 9.97	$ 9.65	3.3%
Concession revenue per patron (ii)	$ 5.71	$ 5.44	5.0%
Film cost as a percentage of box office revenues (i)	52.9%	54.1%	-1.2%
Attendance (in thousands of patrons) (ii)	19,593	20,583	-4.8%
Theatre locations (at period end)	164	163	0.6%
Theatre screens (at period end)	1,677	1,666	0.7%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.

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

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

4.2 OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2017

Total revenues

Total revenues for the three months ended March 31, 2017 increased $15.3 million (4.0%) to $394.2 million as compared to the prior year period, a first quarter record. A discussion of the factors affecting the changes in box office, food service, media, amusement and other revenues for the period is provided below.

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

Box office revenues

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

Box office revenues	First Quarter		
	2017	2016	Change
Box office revenues (i)	$ 195,354	$ 198,643	-1.7%
Attendance (ii)	19,593	20,583	-4.8%
Box office revenue per patron (i) (ii)	$ 9.97	$ 9.65	3.3%
BPP excluding premium priced product (ii)	$ 8.55	$ 8.32	2.8%
Canadian industry revenues (iii)			-0.7%
Same theatre box office revenues (i) (ii)	$ 191,142	$ 197,695	-3.3%
Same theatre attendance (ii)	19,234	20,480	-6.1%
% Total box from premium priced product (i) (ii)	44.9%	42.2%	2.7%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.
(ii) See Section 17, Non-GAAP measures.
(iii) Source: The Movie Theatre Association of Canada industry data adjusted for calendar quarter dates.

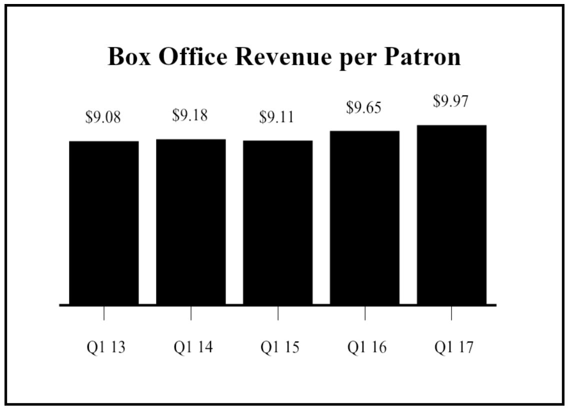
Box office continuity (i)	First Quarter	
	Box Office	Attendance
2016 as reported	$ 198,643	20,583
Same theatre attendance change	(12,022)	(1,245)
Impact of same theatre BPP change	5,468	—
New and acquired theatres (ii)	3,707	320
Disposed and closed theatres (ii)	(442)	(65)
2017 as reported	$ 195,354	19,593

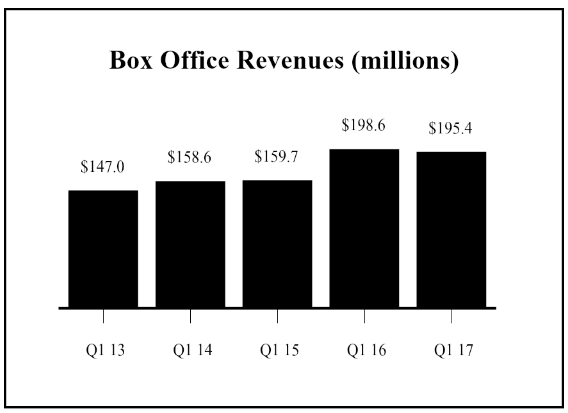
(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.
(ii) See Section 17, Non-GAAP measures. Represents theatres opened, acquired, disposed or closed subsequent to the start of the prior year comparative period.

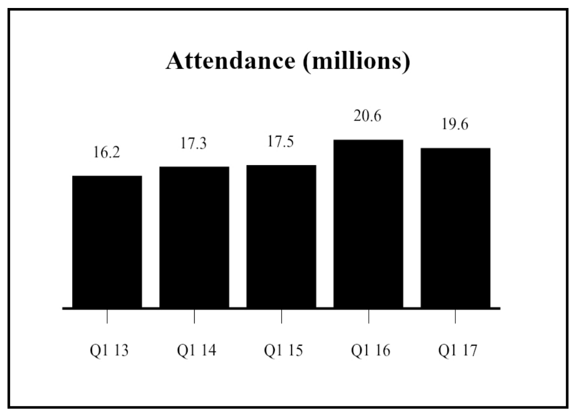
	First Quarter 2017 Top Cineplex Films	3D	% Box		First Quarter 2016 Top Cineplex Films	3D	% Box
1	Beauty and the Beast	✔	12.1%	1	Deadpool		14.2%
2	Logan		7.8%	2	Star Wars: The Force Awakens	✔	13.0%
3	The Lego Batman Movie	✔	6.6%	3	Zootopia	✔	9.0%
4	Rogue One: A Star Wars Story	✔	6.3%	4	The Revenant		6.8%
5	Sing	✔	4.9%	5	Batman v Superman: Dawn of Justice	✔	6.3%

Box office revenues decreased $3.3 million, or 1.7%, to $195.4 million during the first quarter of 2017, compared to $198.6 million recorded in the same period in 2016. The decrease was due to the 4.8% decrease in attendance to 19.6 million guests, partially offset by higher BPP. The attendance decrease was due to the weaker film slate in the first quarter of 2017 compared to the first quarter of 2016. Although the current period benefited from the strong performance of *Beauty and the Beast,* the prior period was a tough comparator, with strong results from *Deadpool*, which had the all-time highest-grossing February opening weekend, and the strong performance of the record-breaking success of *Star Wars: The Force Awakens.*

BPP for the three months ended March 31, 2017 was $9.97, a $0.32 increase (3.3%) from the prior year period, and a first quarter record for Cineplex. The increase in BPP was due to the film mix featuring more 3D films than in the prior year period, with four of the top five films available in 3D compared to three of the top five films in 2016. In addition, box office revenues from premium product accounted for 44.9% of box office revenues in the current period, up from 42.2% in the prior year period.







Food service revenues

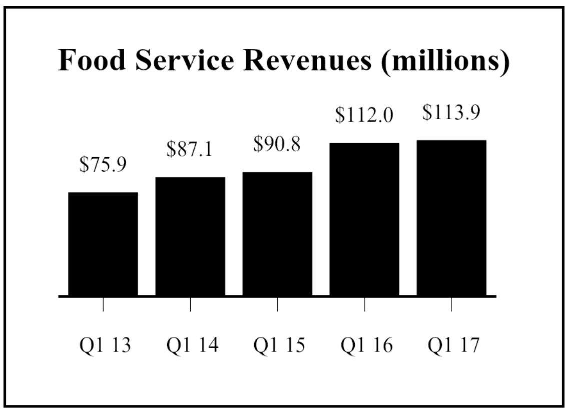
The following table highlights the movement in food service revenues, attendance and CPP for the quarter (in thousands of dollars, except attendance and same theatre attendance reported in thousands of patrons, and per patron amounts):

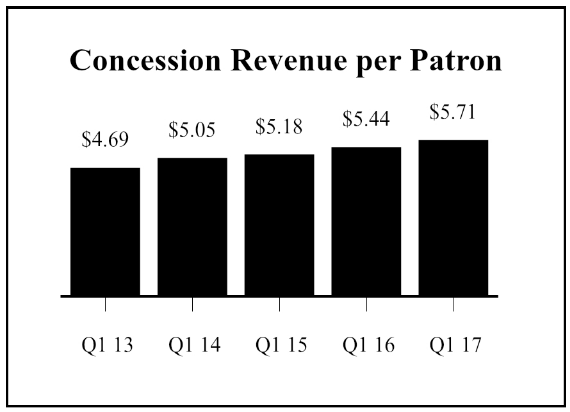
Food service revenues	First Quarter		
	2017	2016	Change
Food service - theatres	$ 111,827	$ 112,006	-0.2%
Food service - The Rec Room	2,108	—	NM
Total food service revenues	113,935	112,006	1.7%
Attendance (i)	19,593	20,583	-4.8%
CPP (i)	$ 5.71	$ 5.44	5.0%
Same theatre food service revenues (i)	$ 109,216	$ 111,443	-2.0%
Same theatre attendance (i)	19,234	20,480	-6.1%
(i) See Section 17, Non-GAAP Measures.			

Theatre food service revenue continuity	First Quarter	
	Theatre Food Service	Attendance
2016 as reported	$ 112,006	20,583
Same theatre attendance change	(6,777)	(1,245)
Impact of same theatre CPP change	4,550	—
New and acquired theatres (i)	2,360	320
Disposed and closed theatres (i)	(312)	(65)
2017 as reported	$ 111,827	19,593
(i) See Section 17, Non-GAAP measures. Represents theatres opened, acquired, disposed or closed subsequent to the start of the prior year comparative period.		

Food service revenues are comprised primarily of concession revenues, which includes food service sales at theatre locations and food and beverage sales at *The Rec Room*. Food service revenues increased $1.9 million, or 1.7% as a result of the operations of *The Rec Room* in Edmonton which contributed $2.1 million in the period, partially offset by a $0.2 million (0.2%) decrease in theatre food service revenue. The decrease in theatre food service revenue resulted from the 4.8% decrease in attendance, partially offset by the 5.0% ($0.27) increase in CPP to $5.71. Food service revenue from *The Rec Room* is not included in the CPP calculation.

CPP of $5.71 is a first quarter record for Cineplex. Expanded offerings outside of core food service products, including offerings at Cineplex's VIP Cinemas and *Outtakes* locations, contributed to increased visitation and higher average transaction values, resulting in the record CPP in the period.





Media revenues

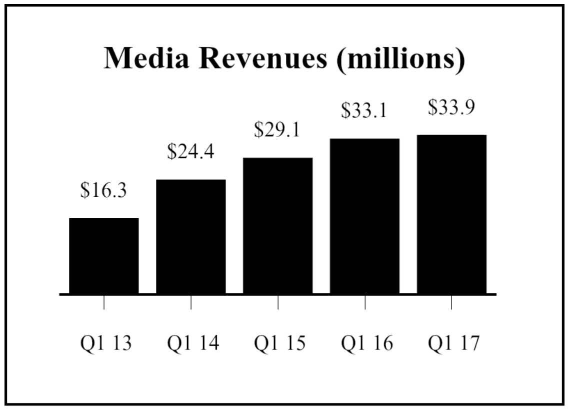
The following table highlights the movement in media revenues for the quarter (in thousands of dollars):

Media revenues	First Quarter		
	2017	2016	Change
Cinema media	$ 21,592	$ 21,097	2.3%
Digital place-based media	12,320	11,961	3.0%
Total media revenues	$ 33,912	$ 33,058	2.6%

Total media revenues increased 2.6% to $33.9 million in the first quarter of 2017 compared to the prior year period, representing record first quarter media revenues record for Cineplex.

Cinema media revenues increased 2.3% to $21.6 million, a first quarter record, with the increase primarily due to sponsorship and other media associated with eSports.

Digital place-based media revenues increased $0.4 million, as an expanded client base contributed to higher recurring revenues, offsetting lower project installation revenues. During the quarter, Cineplex announced it had been selected by Morguard to install, maintain and operate a leading edge digital display network at 21 shopping centres across Canada which are managed by Morguard. The rollout of this project in 2017 will result in project revenues as well as advertising and service revenues once the network is fully installed and operational.



Amusement revenues

The following table highlights the movement in amusement revenues for the quarter (in thousands of dollars):

Amusement revenues (i)	First Quarter		
	2017	2016	Change
Amusement - P1AG excluding Cineplex exhibition and *The Rec Room* (ii)	$ 36,516	$ 23,260	57.0%
Amusement - Cineplex exhibition (ii)	$ 2,930	$ 2,791	5.0%
Amusement - *The Rec Room*	1,955	—	NM
Total amusement revenues	$ 41,401	$ 26,051	58.9%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.

(ii) Cineplex receives a venue revenue share on games revenues earned at in-theatre game rooms and XSCAPE Entertainment Centres. Amusement - Cineplex exhibition reports the total of this venue revenue share which is consistent with the historical presentation of Cineplex's amusement revenues. Amusement - P1AG excluding Cineplex exhibition reflects P1AG's gross amusement revenues, net of the venue revenue share paid to Cineplex reflected in Amusement - Cineplex exhibition above.

Amusement revenues increased 58.9%, or $15.4 million, to $41.4 million in the first quarter of 2016 compared to the prior year period primarily due to the acquisitions of Tricorp and SAW in the fourth quarter of 2016. Amusement revenues from Cineplex's exhibition business increased $0.1 million (5.0%) despite the decrease in attendance.

Other revenues

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

Other revenues (i)	First Quarter		
	2017	2016	Change
Other revenues	9,641	9,155	5.3%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.

Film cost

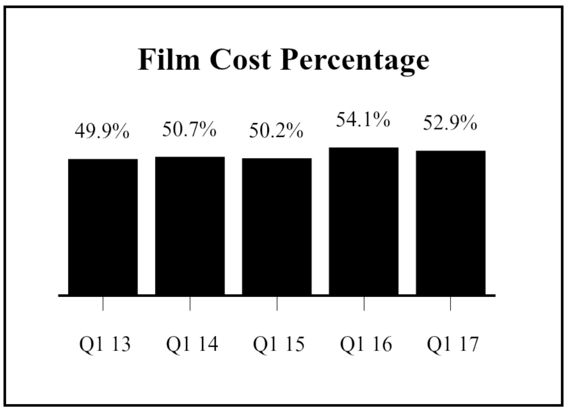
The following table highlights the movement in film cost and the film cost percentage for the quarter (in thousands of dollars, except film cost percentage):

Film cost	First Quarter		
	2017	2016	Change
Film cost	$103,289	$107,386	-3.8%
Film cost percentage (i) (ii)	52.9%	54.1%	-1.2%

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

(ii) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.

Film cost varies primarily with box office revenues, and can vary from quarter to quarter based on the relative strength of the titles exhibited during the period. This is due to film cost terms varying by title and distributor. Film cost percentage during the first quarter of 2017 was 52.9%, a 1.2% decrease from the prior year period. The decrease in film cost percentage is attributable to the reduced concentration of box office revenues from a few titles, with the top five films in the current period accounting for only 37.7% of box office revenues in the period (2016 period - 49.3%). Top films tend to have higher settlement rates than the other films in the slate due to their strong performance.



Cost of food service

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

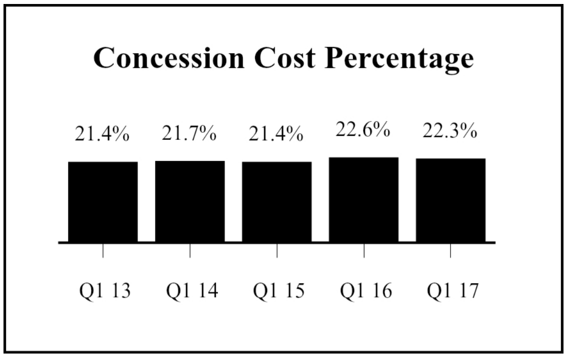
Cost of food service	First Quarter		
	2017	2016	Change
Cost of food service - theatre	$ 24,909	$ 25,314	-1.6%
Cost of food service - *The Rec Room*	$ 745	$ —	NM
Cost of food service	$ 25,654	$ 25,314	1.3%
Theatre concession cost percentage (i)	22.3%	22.6%	-0.3%
Theatre concession margin per patron (i)	$ 4.44	$ 4.21	5.5%

(i) See Section 17, Non-GAAP measures

Cost of food service at the theatres varies primarily with theatre attendance as well as the quantity and mix of offerings sold. Cost of food service at *The Rec Room* varies primarily with the volume of guests who visit the location as well as the quantity and mix of food and beverage items sold.

The decrease in the theatre cost of food service compared to the prior year period was due to the lower food service revenues and the decrease in the theatre concession cost percentage from 22.6% to 22.3% from the prior year period. The concession margin per patron increased 5.5% from $4.21 in the first quarter of 2016 to $4.44 in the same period in 2017, reflecting the impact of the higher CPP and lower theatre concession cost percentage during the period.

Cost of food service at *The Rec Room* reflects the costs incurred at the South Edmonton Common location during the period, which opened in the third quarter of 2016 and therefore does not have a comparator.



Depreciation and amortization

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

Depreciation and amortization expenses	**First Quarter**		
	2017	**2016**	**Change**
Depreciation of property, equipment and leaseholds	$ 24,165	$ 21,601	11.9%
Amortization of intangible assets and other	4,102	3,404	20.5%
Depreciation and amortization expenses as reported	$ 28,267	$ 25,005	13.0%

The quarterly increase in depreciation of property, equipment and leaseholds of $2.6 million (11.9%) is primarily due to investments in Amusement and Leisure, including *The Rec Room*, and the acquisition of Tricorp and SAW.

The increase in amortization of intangible assets and other is primarily due to the acquisition of Tricorp and SAW customer relationships.

Loss on disposal of assets

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

Loss on disposal of assets	**First Quarter**		
	2017	**2016**	**Change**
Loss on disposal of assets	$ 26	$ 506	-94.9%

Other costs

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

The following table highlights the movement in other costs for the quarter (in thousands of dollars):

Other costs	First Quarter		
	2017	2016	Change
Theatre occupancy expenses	$ 51,963	$ 52,733	-1.5%
Other operating expenses	132,000	117,611	12.2%
General and administrative expenses	22,108	19,060	16.0%
Total other costs	$ 206,071	$ 189,404	8.8%

Theatre occupancy expenses

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

	First Quarter		
	2017	2016	Change
Rent - Theatre	$ 34,297	$ 34,250	0.1%
Other occupancy	18,199	18,569	-2.0%
One-time items (i)	(533)	(86)	519.8%
Total	$ 51,963	$ 52,733	-1.5%

(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
2016 as reported	$ 52,733
Impact of new and acquired theatres	435
Impact of disposed theatres	(168)
Same theatre rent change (i)	(11)
One-time items	(447)
Other	(579)
2017 as reported	$ 51,963

(i) See Section 17, Non-GAAP measures

Theatre occupancy expenses decreased $0.8 million (1.5%) during the first quarter of 2017 compared to the prior year period. This decrease was primarily due to the impact of a change in one-time items of $0.4 million and decrease in other charges of $0.6 million, partially offset by the increase in new and acquired theatres net of disposed theatres of $0.3 million as compared to the prior year period.

Other operating expenses

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

Other operating expenses	First Quarter		
	2017	2016	Change
Theatre payroll	$ 36,097	$ 38,068	-5.2%
Media	17,101	15,873	7.7%
P1AG	30,970	20,096	54.1%
The Rec Room (i)	2,882	—	NM
Other	44,950	43,574	3.2%
Other operating expenses	$ 132,000	$ 117,611	12.2%

(i) Includes operating costs of *The Rec Room* location in Edmonton. Pre-opening costs relating to *The Rec Room* locations and overhead relating to management of *The Rec Room* portfolio are included in the 'Other' line.

Other operating continuity	First Quarter Other Operating
2016 as reported	$ 117,611
Impact of new and acquired theatres	1,189
Impact of disposed theatres	(191)
Same theatre payroll change (i)	(2,610)
Marketing change	(1,766)
Media change	1,228
P1AG change	10,874
Amusement and leisure, excluding P1AG	4,675
Other	990
2017 as reported	$ 132,000
(i) See Section 17, Non-GAAP measures	

Other operating expenses during the first quarter of 2017 increased $14.4 million or 12.2% compared to the prior year period. The increase is primarily due to higher amusement and leisure costs, including higher P1AG costs due primarily to the acquisitions of Tricorp and SAW in the fourth quarter of 2016, and therefore not included in the prior period comparatives, as well as costs relating to the ongoing expansion of *The Rec Room*. Media costs were higher due to the increased digital place-based media business volumes. These increases were partially offset by lower same theatre payroll costs.

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 dollars):

G&A expenses	First Quarter		
	2017	2016	Change
G&A excluding LTIP and option plan expense	$ 18,337	$ 14,988	22.3%
LTIP (i)	3,362	3,653	-8.0%
Option plan	409	419	-2.4%
G&A expenses as reported	$ 22,108	$ 19,060	16.0%
(i) LTIP includes the expense for the LTIP program as well as the expense for the executive and Board deferred share unit plans.			

G&A expenses increased $3.0 million (16.0%) during the first quarter of 2017 compared to the prior year period primarily due to higher head office payroll, including non-recurring $1.6 million past-service costs associated with the supplemental executive retirement plan, and higher professional fees, partially offset by a $0.3 million decrease in LTIP expense. The LTIP decrease was mainly due to Cineplex's Share price decreasing from $51.22 at December 31, 2016 to $50.50 at March 31, 2017, compared to an increase from $47.55 at December 31, 2015 to $50.57 at March 31, 2016.

Share of income of joint ventures

Cineplex's joint ventures include its 78.2% interest in CDCP, 50% interest in one IMAX auditorium in Ontario and 50% interest in YoYo's.

The following table highlights the components of share of income of joint ventures during the quarter (in thousands of dollars):

Share of income of joint ventures	First Quarter		
	2017	2016	Change
Share of (income) of CDCP	$ (967)	$ (375)	157.9%
Share of (income) of other joint ventures	(31)	(25)	24.0%
Total (income) of joint ventures	$ (998)	$ (400)	149.5%

Interest expense

Cineplex had previously included foreign exchange gains and losses in interest expense. As of January 1, 2017, foreign exchange gains and losses are reported separately on the statements of operations. The prior year period figures have been reclassified to conform to current period presentation.

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

Interest expense	First Quarter		
	2017	2016	Change
Long-term debt interest expense	$ 2,908	$ 2,183	33.2%
Convertible debenture interest expense	1,192	1,206	-1.2%
Finance lease interest expense	215	270	-20.4%
Sub-total - cash interest expense	$ 4,315	$ 3,659	17.9%
Deferred financing fee accretion and other non-cash interest	160	160	—%
Convertible debenture accretion	562	526	6.8%
Interest rate swap - non-cash	(175)	262	NM
Sub-total - non-cash interest expense	547	948	-42.3%
Total interest expense	$ 4,862	$ 4,607	5.5%

Interest expense increased $0.3 million (5.5%) for the quarter compared to the prior year period, with the cash interest increasing $0.7 million (17.9%) due to higher average borrowings during the period, partially offset by a decrease in non-cash interest arising on the interest rate swap agreements.

Interest income

Interest income during the first quarter of 2017 was higher than the 2016 period due to lower average cash balances throughout the period (in thousands of dollars):

Interest income	First Quarter		
	2017	2016	Change
Interest income	$ 52	$ 67	-22.4%

Foreign exchange

The following table highlights the movement in foreign exchange during the quarter (in thousands of dollars):

Foreign exchange	First Quarter		
	2017	2016	Change
Foreign exchange (gain) loss	(17)	$ 219	NM

Change in fair value of financial instrument

The following table shows the change in fair value of the WGN put option liability relating to the 20% interest in WGN that Cineplex owned as at March 31, 2017 (in thousands of dollars):

Change in fair value of financial instrument	First Quarter		
	2017	2016	Change
(Gain) on change in fair value of financial instrument	$ (987)	$ —	NM

The WGN put option liability, included in accounts payable and accrued liabilities, was reduced from $5.0 million to $4.0 million at March 31, 2017, resulting in a $987 change in fair value of financial instrument. Subsequent to the quarter end, Cineplex acquired the remaining interest in WGN and settled the put liability (See Section 15, Subsequent events).

Income taxes

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

Income taxes	First Quarter		
	2017	2016	Change
Current income tax expense	$ 4,586	$ 4,136	10.9%
Deferred income tax expense	$ 577	$ 1,348	-57.2%
Provision for income taxes	$ 5,163	$ 5,484	-5.9%

The decrease in provision for income taxes in spite of higher income before income taxes is primarily the result of timing of deductions for tax versus accounting in the current period as compared to the prior year period.

Cineplex's blended federal and provincial statutory tax rate at March 31, 2017 was 26.8% (2016 - 26.8%).

Net income

For the three months ended March 31, 2017, Cineplex reported net income of $23.0 million (2016 – $21.5 million) (in thousands of dollars):

Net income	First Quarter		
	2017	2016	Change
Net income	$ 22,965	$ 21,455	7.0%

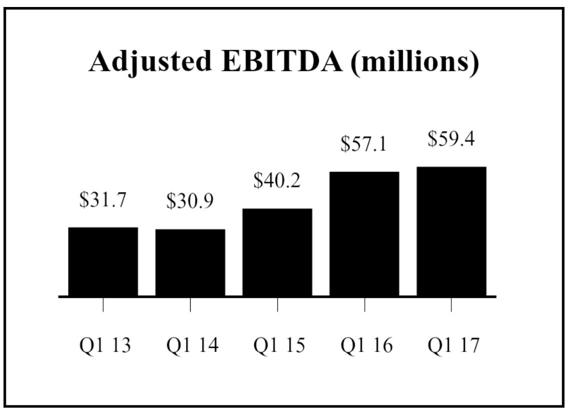
4.3 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (see Section 17, Non-GAAP measures)

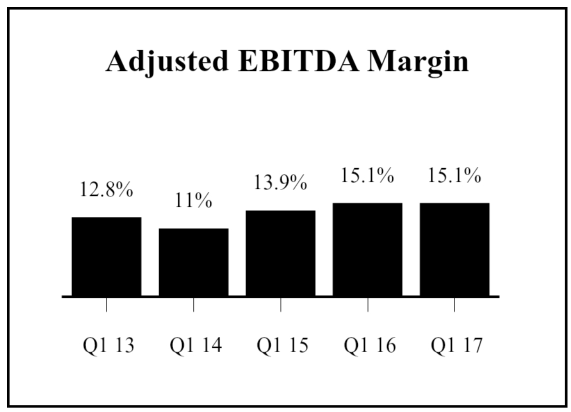
The following table presents EBITDA and adjusted EBITDA for the three months ended March 31, 2017 as compared to the prior year period (expressed in thousands of dollars, except adjusted EBITDA margin):

EBITDA	First Quarter		
	2017	2016	Change
EBITDA (i)	$ 61,205	$ 56,484	8.4%
Adjusted EBITDA	$ 59,449	$ 57,140	4.0%
Adjusted EBITDA margin	15.1%	15.1%	—%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 4.2, Interest expense.

Adjusted EBITDA for the first quarter of 2017 increased $2.3 million, or 4.0%, as compared to the prior year period, representing a first quarter record for Cineplex. The increase compared to the prior year period was primarily due to growth in the Amusement and Leisure businesses. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 15.1% in the current period, flat as compared to the prior year period despite the revenue growth, due to higher costs attributable to Cineplex's emerging businesses as it continues to execute its diversification strategy.





5. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the three months ended March 31, 2017 as compared to December 31, 2016 (in thousands of dollars):

	March 31, 2017	December 31, 2016	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 41,414	$ 33,553	$ 7,861	23.4%
Trade and other receivables	78,759	115,903	(37,144)	-32.0%
Income taxes receivable	1,268	463	805	NM
Inventories	23,026	21,412	1,614	7.5%
Prepaid expenses and other current assets	15,017	10,856	4,161	38.3%
	159,484	182,187	(22,703)	-12.5%
Non-current assets				
Property, equipment and leaseholds	572,303	564,879	7,424	1.3%
Deferred income taxes	6,422	5,891	531	9.0%
Fair value of interest rate swap agreements	507	756	(249)	-32.9%
Interests in joint ventures	37,180	35,487	1,693	4.8%
Intangible assets	125,770	125,492	278	0.2%
Goodwill	817,002	813,494	3,508	0.4%
	$ 1,718,668	$ 1,728,186	$ (9,518)	-0.6%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$ 161,857	$ 204,725	$ (42,868)	-20.9%
Share-based compensation	6,482	8,958	(2,476)	-27.6%
Dividends payable	8,575	8,575	—	—%
Income taxes payable	1,741	2,042	(301)	-14.7%
Deferred revenue	139,581	172,140	(32,559)	-18.9%
Finance lease obligations	3,256	3,180	76	2.4%
Fair value of interest rate swap agreements	2,375	2,419	(44)	-1.8%
	323,867	402,039	(78,172)	-19.4%
Non-current liabilities				
Share-based compensation	15,496	18,346	(2,850)	-15.5%
Long-term debt	372,640	297,496	75,144	25.3%
Fair value of interest rate swap agreements	1,541	2,020	(479)	-23.7%
Finance lease obligations	8,040	8,871	(831)	-9.4%
Post-employment benefit obligations	8,193	7,932	261	3.3%
Other liabilities	122,603	125,560	(2,957)	-2.4%
Deferred income taxes	12,688	11,210	1,478	13.2%
Convertible debentures	103,380	102,817	563	0.5%
	968,448	976,291	(7,843)	-0.8%
Equity attributable to owners of Cineplex	747,776	749,095	(1,319)	-0.2%
Non-controlling interests	2,444	2,800	(356)	-12.7%
	$ 1,718,668	$ 1,728,186	$ (9,518)	-0.6%

Trade and other receivables. The decrease in trade and other receivables is primarily due to the collection of receivables from the sales of gift cards, vouchers and media sales from the 2016 holiday period. December represents the highest volume month for gift card and voucher sales and is one of the strongest months for media sales during the year.

Income taxes receivable. The balance represents the excess of income tax installments paid by several taxable entities in Cineplex's consolidated group to various tax authorities in excess of their current period income tax provisions.

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 increase in property, equipment and leaseholds is due to new build and other capital expenditures ($26.7 million) and maintenance capital expenditures ($4.9 million), offset by amortization expenses ($24.2 million).

Intangible assets. The increase in intangible assets is primarily due to the recognition of the fair value of SAW customer relationships, net of amortization of intangible assets during the period.

Goodwill. Goodwill increased with the adjustment of the fair values of assets from the acquisition of Tricorp.

Accounts payable and accrued expenses. The decrease in accounts payable and accrued expenses primarily relates to the settlement of year end liabilities.

Share-based compensation. The decrease in Share-based compensation is primarily due to the lower share price of Cineplex shares, and the payment of the 2014 LTIP, which vested in the first quarter of 2017.

Income taxes payable. The decrease in income taxes payable represents the amount paid by Cineplex during the first quarter of 2017 for taxes due based on its 2016 operations, offset by liabilities for current income tax expense relating to the first quarter of 2017 in excess of tax installments paid for certain taxable entities in the consolidated group.

Deferred revenue. Deferred revenue decreased primarily due to the redemption of gift cards and vouchers sold during the 2016 holiday season.

Long-term debt. The increase in long-term debt relates to borrowings under the Revolving Facility (defined and discussed in Section 6.4, Credit Facilities) and the deferred financing fee amortization recognized in the year.

6. LIQUIDITY AND CAPITAL RESOURCES

6.1 OPERATING ACTIVITIES

Cash flow is generated primarily from film entertainment (the sale of admission tickets and food service sales), media sales and services, amusement and leisure (amusement and food service sales) 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, 2017 and 2016 (in thousands of dollars):

Cash flows used in operating activities	**First Quarter**		
	2017	**2016**	**Change**
Net income	$ 22,965	$ 21,455	$ 1,510
Adjustments to reconcile net income to net cash used in operating activities:			
Non-cash amortization amounts (i)	25,735	23,110	2,625
Loss on disposal of assets	26	506	(480)
Deferred income taxes	577	1,348	(771)
Interest rate swap agreements - non-cash interest	(175)	262	(437)
Non-cash Share-based compensation	409	419	(10)
Accretion of convertible debentures	563	526	37
Change in fair value of financial instruments	(987)	—	(987)
Net change in interests in joint ventures	(2,377)	(1,526)	(851)
Tenant inducements	309	231	78
Changes in operating assets and liabilities	(61,720)	(69,632)	7,912
Net cash used in operating activities	**$ (14,675)**	**$ (23,301)**	**$ 8,626**

(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.

Cash used in operating activities decreased $8.6 million in the first quarter of 2017 compared to the prior year period primarily due to changes in operating assets and liabilities including lower income tax payments and the $1.5 million increase in net income compared to the prior period.

6.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the three months ended March 31, 2017 and 2016 (in thousands of dollars):

Cash flows used in investing activities	**First Quarter**		
	2017	**2016**	**Change**
Proceeds from sale of assets	$ 232	$ 108	$ 124
Purchases of property, equipment and leaseholds	(25,453)	(28,957)	3,504
Acquisition of businesses, net of cash acquired	(106)	(407)	301
Intangible assets additions	(1,322)	—	(1,322)
Net cash provided by joint ventures	684	682	2
Net cash used in investing activities	**$ (25,965)**	**$ (28,574)**	**$ 2,609**

Cash used in investing activities during the first quarter of 2017 decreased by $2.6 million compared to the prior year period, primarily due to the decrease in purchases of property, equipment and leaseholds partially offset by higher intangible asset expenditures as compared to the prior year period. Components of capital expenditures include (in thousands of dollars):

Capital expenditures	**First Quarter**		
	2017	**2016**	**Change**
Gross capital expenditures	$ 25,453	$ 28,957	$ (3,504)
Less: tenant inducements	(309)	(231)	(78)
Net capital expenditures	$ 25,144	$ 28,726	$ (3,582)
Net capital expenditures consists of:			
Growth and acquisition capital expenditures (i)	$ 16,535	$ 12,608	$ 3,927
Tenant inducements	(309)	(231)	(78)
Media growth capital expenditures	1,940	170	1,770
Amusement and leisure growth capital expenditures (excluding *The Rec Room* build expenditures)	648	2,454	(1,806)
Premium formats (ii)	11,138	558	10,580
Maintenance capital expenditures	4,911	3,542	1,369
Other (iii)	(9,719)	9,625	(19,344)
	$ 25,144	$ 28,726	$ (3,582)

(i) Growth and acquisition capital expenditures include expenditures on the construction of new locations (including VIP cinemas) and other Board approved growth projects with the exception of premium formats, media growth, and amusement gaming and leisure growth capital expenditures.

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

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

Cineplex funds maintenance capital expenditures through internally generated cash flow and cash on hand. Cineplex's Revolving Facility (defined and discussed in Section 6.4, Credit Facilities) is available to fund new theatre capital expenditures.

6.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the three months ended March 31, 2017 and 2016 (in thousands of dollars):

Cash flows provided by financing activities	**First Quarter**		
	2017	**2016**	**Change**
Dividends paid	$ (25,724)	$ (24,715)	$ (1,009)
Borrowings under credit facilities, net	75,000	81,210	(6,210)
Payments under finance leases	(773)	(719)	(54)
Net cash provided by financing activities	**$ 48,503**	**$ 55,776**	**$ (7,273)**

Cash flows provided by financing activities were $48.5 million in the first quarter of 2017, a $7.3 million decrease from the prior year period, primarily due to lower net borrowings in the current period, net of higher dividend payments resulting from the higher dividend rate and more shares outstanding compared to the prior year period.

6.4 CREDIT FACILITIES

Cineplex entered into certain credit facilities effective May 2, 2016 (the "Credit Facilities"). At March 31, 2017, the Credit Facilities consisted of the following (in millions of Canadian dollars):

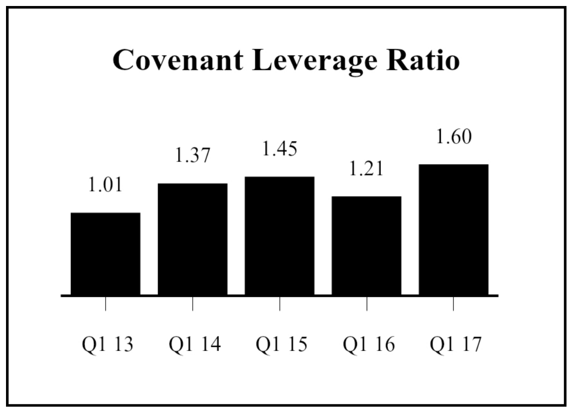
		Available	Drawn	Reserved	Remaining
(i)	a five-year senior secured revolving credit facility ("Revolving Facility")	$ 400.0	$ 225.0	$ 7.0	$ 168.0
(ii)	a five-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at March 31, 2017 of $7.0 million are reserved against the Revolving Facility.					

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

The Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. The facilities mature in April 2021 and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity.

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

One of the key financial covenants in the Credit Facilities is the leverage covenant. As at March 31, 2017, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 1.60, as compared to a covenant of 3.50x. The definition of debt in the Credit Facilities includes long-term debt (excluding any convertible debentures), financing leases and letters of credit but does not include a reduction for cash on hand. For the purposes of the Credit Facilities definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new operating locations or acquisitions.



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

Interest rate swap agreements. During the third quarter of 2011, Cineplex entered into three interest rate swap agreements. Under these agreements, Cineplex paid a fixed rate of 1.715% 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 net settlements quarterly. These interest rate swap agreements had a term of five years that commenced in August 2011 and had an aggregate notional principal amount of $150.0 million. The last settlements under these agreements occurred on September 28, 2016.

During the first quarter of 2014, Cineplex entered into three interest rate swap agreements which commenced in August 2016 for an aggregate notional principal amount of $150.0 million, and mature on October 24, 2018, the maturity of the Credit Facilities at that time. Under these agreements, Cineplex pays a fixed rate of 2.62% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commenced April 26, 2016 for an aggregate notional principal amount of $50.0 million, and mature on October 24, 2018. Under these agreements, Cineplex pays a fixed rate of 1.07% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

Also during the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commence on October 24, 2018 for an aggregate notional principal amount of $200.0 million, and mature on April 26, 2021, the same date as the maturity of the Credit Facilities. Under these agreements, Cineplex pays a fixed rate of 1.484% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable on Cineplex's first $200.0 million of borrowings. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its first $200.0 million of borrowings 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.

Based on the leverage ratio covenant in effect at March 31, 2017, Cineplex's effective cost of borrowing on the $200.0 million hedged borrowings was 3.633% (March 31, 2016 - $150.0 million hedged borrowings - 3.115%).

6.5 FUTURE OBLIGATIONS

Cineplex has aggregate gross capital commitments of $137.7 million ($117.8 million net of tenant inducements) related to the completion of construction of 16 operating locations, including theatres and *The Rec Room* locations, over the next four years.

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

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

Cineplex recognized the fair value of contingent consideration relating to its acquisition of EK3 Technologies Inc. at the date the transaction closed, August 30, 2013. The sale and purchase agreement sets out a process by which the final consideration will be determined. Cineplex has measured the liability at March 31, 2017 based on a weighted average probability of reasonably possible outcomes. Cineplex's best estimate of the expected value of the deferred consideration is $10.0 million, unchanged from December 31, 2016. The amount is included in accounts payable and accrued liabilities. The sale and purchase agreement includes a maximum contingent consideration payment of $39.5 million. Final settlement of the consideration payable to the vendors may be materially different from the amount accrued. Cineplex expects resolution of the consideration in 2017.

As part of Cineplex's acquisition of WGN in 2015, the non-controlling interests of WGN had a put option that allowed them to have Cineplex acquire their 20% interest in WGN for fair market value. The value of the put option was reduced $1.0 million to $4.0 million at March 31, 2017. On April 13, 2017, Cineplex purchased the remaining interest in WGN for $4.0 million cash. (Section 15, Subsequent events.)

At March 31, 2017, Cineplex had $107.5 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2018. At March 31, 2017, the convertible debentures were recorded on Cineplex's balance sheet at $103.4 million. The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*. The debentures were not redeemable by Cineplex prior to December 31, 2016. After that date, at the holder's option, the debentures may be converted into Shares at any time prior to the close of business five days before the earlier of the maturity date, the date fixed for redemption by Cineplex, or if called for repurchase in the event of a change in control, the payment date, at a conversion price of $56 per Share. See Section 8, Share activity, for more information regarding the convertible debentures.

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

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

7.1 ADJUSTED FREE CASH FLOW

Cineplex distributes cash to its shareholders on a monthly basis. The following table illustrates adjusted free cash flow per Share, dividends paid per Share, and the payout ratio of dividends relative to adjusted free cash flow for the three months ended March 31, 2017 and 2016:

Adjusted free cash flow	First Quarter		
	2017	2016	Change
Adjusted free cash flow per Share	$ 0.682	$ 0.696	-2.0%
Dividends declared per Share	$ 0.405	$ 0.390	3.8%
Payout ratio - twelve months ended March 31	66.1%	56.5%	9.6%

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

	First Quarter		
	2017	2016	Change
Cash flows used in operations	$ (14,675)	$ (23,301)	-37.0%
Net income	$ 22,965	$ 21,455	7.0%
Standardized free cash flow	$ (39,896)	$ (52,150)	-23.5%
Adjusted free cash flow	$ 43,335	$ 43,978	-1.5%
Cash dividends declared	25,724	$ 24,721	4.1%
Average number of Shares outstanding	63,516,499	63,220,133	0.5%

7.2 DIVIDENDS

Subject to the discretion of the Board, dividends are typically declared on a monthly basis to common shareholders of record on the last business day of each month. For the three months ended March 31, 2017 and 2016, Cineplex declared dividends totaling $0.405 per Share and $0.390 per Share, respectively.

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

Distribution and dividend history		
Effective Date		**Monthly Distribution/ Dividend per Unit/ Share**
January 2004 (i)	$	0.0958
May 2007	$	0.1000
May 2008 (ii)	$	0.1050
May 2011	$	0.1075
May 2012	$	0.1125
May 2013	$	0.1200
May 2014	$	0.1250
May 2015	$	0.1300
May 2016	$	0.1350

(i) Cineplex Galaxy Income Fund (the "Fund") was formed on November 26, 2003. For the 36 day period from November 26, 2003 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.

Subsequent to the period end, the Board approved an increase in the monthly dividend to $0.140 per Share ($1.68 on an annual basis), effective with the May 2017 dividend which will be paid in June 2017.

8. SHARE ACTIVITY

Share capital at March 31, 2017 and the transactions during the period are as follows (expressed in thousands of dollars except Share amounts):

	Shares						
		Amount					
	Number of common shares issued and outstanding		**Common shares**		**Equity component of convertible debentures**		**Total**
Balance - December 31, 2016	63,515,875	$	854,880	$	4,471	$	859,351
Issuance of shares on exercise of options	1,728		32		—		32
Balance - March 31, 2017	63,517,603	$	854,912	$	4,471	$	859,383

Officers and key employees are eligible to participate in the LTIP. Each annual LTIP grant is for a three-year service period beginning January 1. 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
2017 LTIP award	129,136
2016 LTIP award	112,804
2015 LTIP award	114,335

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

Cineplex has an incentive Share option plan for certain employees. The aggregate number of Shares that may be issued under the option plan is limited to 5.3 million Shares. All of the options must be exercised over specified periods not to exceed ten years from the date granted. As of March 31, 2017, 2.2 million Share options were outstanding under the Share option plan. Upon cashless exercise, the Share options exercised in excess of Shares issued are canceled and returned to the pool available for future grants. At March 31, 2017, 2.0 million Share options were available for grant under the plan.

A summary of option activities for the three months ended March 31, 2017 and 2016 is as follows:

	2017			2016	
	Weighted average remaining contractual life (years)	Number of underlying Shares	Weighted average exercise price	Number of underlying Shares	Weighted average exercise price
Options outstanding - January 1	7.72	1,705,338	$ 43.21	1,550,521	$ 38.6
Granted		544,992	51.25	501,270	47.86
Cancelled		—	—	(3,944)	46.74
Exercised		(9,009)	41.34	(96,245)	28.90
Options outstanding – end of period	8.06	2,241,321	$ 45.17	1,951,602	$ 41.44

During the fourth quarter of 2013, Cineplex issued $107.5 million principal amount of convertible unsecured subordinated debentures, maturing on December 31, 2018 (the "Maturity Date") and bearing interest at a rate of 4.5% per annum, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2013. At the holder's option, the debentures may be converted into Shares at a conversion price of $56 per Share at any time prior to the close of business five days before the earlier of the Maturity Date, the date fixed for redemption by Cineplex, or if called for repurchase in the event of a change in control, the payment date. The debentures were not redeemable by Cineplex prior to December 31, 2016. On and after December 31, 2016 and prior to December 31, 2017, Cineplex may, at its option, redeem the convertible debentures in whole or in part from time to time, subject to the market price of the Shares. On or after December 31, 2017, the convertible debentures may be redeemed in whole or in part from time to time at the option of Cineplex at a price equal to their principal amount plus accrued and unpaid interest. Redemptions may be in cash or in the form of Shares, at the option of Cineplex.

9. SEASONALITY AND QUARTERLY RESULTS

Historically, Cineplex's revenues have been seasonal, coinciding with the timing of major film releases. The most marketable motion pictures were traditionally released during the summer and the late-November through December holiday season. This caused changes, from quarter to quarter, in attendance affecting theatre exhibition reported results. The seasonality of attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. Cineplex's diversification into other businesses such as digital place-based media and amusement and leisure, which are not dependent on motion picture content, has contributed to reduce the impact of this seasonality on Cineplex's consolidated results. To meet working capital requirements during the traditionally lower-revenue quarters, Cineplex can draw upon the Revolving Facility, which had $150.0 million drawn as of March 31, 2017.

Cineplex has reclassified box office, amusement and other revenues to reflect the growth of its Amusement and Leisure business and to enhance comparability with exhibition peers in the United States. Certain revenues from Cineplex's enhanced guest experience initiatives were previously included in other revenues and are now included with box office revenues. This presentation is consistent with other exhibitors and better reflects how Cineplex management measures and operates the business. This affects the BPP, film cost percentage and percentage of premium priced products due to the increase in box office revenues reported. Prior period financial statement figures have been reclassified to conform to current period presentation. The following table presents the reclassified box office revenues in 2016 and 2015 (in thousands of dollars):

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Box office - previous presentation	$ 177,516	$ 180,146	$ 162,145	$ 192,639	$ 196,293	$ 172,571	$ 186,202	$ 156,041
Reclassification from other revenues	5,897	5,266	4,580	6,004	6,196	4,353	4,859	3,656
Box office - new presentation	183,413	185,412	166,725	198,643	202,489	176,924	191,061	159,697

Other revenues also previously contained all amusement revenue. Due to the growth of Cineplex's amusement solutions and location based entertainment businesses, these revenues are now separately reported as amusement revenues. The following table presents the reclassified other revenues in 2016 and 2015 (in thousands of dollars):

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Other revenues - previous presentation	$ 49,665	$ 41,413	$ 38,880	$ 41,210	$ 42,022	$ 15,915	$ 15,921	$ 13,887
Reclassification to box office revenues	(5,897)	(5,266)	(4,580)	(6,004)	(6,196)	(4,353)	(4,859)	(3,656)
Reclassification to amusement revenues	(33,737)	(26,971)	(24,589)	(26,051)	(23,577)	(2,523)	(2,473)	(2,020)
Other revenues - new presentation	10,031	9,176	9,711	9,155	12,249	9,039	8,589	8,211

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

	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues								
Box office revenues (i)	$ 195,354	$ 183,413	$ 185,412	$ 166,725	$ 198,643	$ 202,489	$ 176,924	$ 191,061
Food service revenues	113,935	105,535	109,565	96,814	112,006	113,799	105,464	108,397
Media revenues	33,912	52,720	44,828	40,186	33,058	55,258	34,296	35,020
Amusement revenues (i)	41,401	33,737	26,971	24,589	26,051	23,577	2,523	2,473
Other revenues (i)	9,641	10,031	9,176	9,711	9,155	12,249	9,039	8,589
	394,243	385,436	375,952	338,025	378,913	407,372	328,246	345,540
Expenses								
Film cost	103,289	96,068	95,471	90,677	107,386	105,210	91,567	102,155
Cost of food service	25,654	24,786	24,356	21,603	25,314	24,836	22,325	23,921
Depreciation and amortization	28,267	28,254	26,703	25,979	25,005	24,526	22,111	21,802
Loss on disposal of assets	26	168	468	428	506	899	987	1,033
Other costs	206,071	198,067	189,127	183,332	189,404	192,378	156,743	155,334
	363,307	347,343	336,125	322,019	347,615	347,849	293,733	304,245
Income from operations	30,936	38,093	39,827	16,006	31,298	59,523	34,513	41,295
Adjusted EBITDA (ii)	59,449	66,841	67,260	42,768	57,140	85,163	59,081	65,310
Net income	$ 22,965	$ 23,328	$ 25,996	$ 7,212	$ 21,455	$ 76,805	$ 21,439	$ 25,478
EPS - basic	$ 0.37	$ 0.37	$ 0.42	$ 0.12	$ 0.35	$ 1.22	$ 0.34	$ 0.40
EPS - diluted (iii)	$ 0.37	$ 0.37	$ 0.41	$ 0.12	$ 0.34	$ 1.20	$ 0.34	$ 0.40
Cash (used in) provided by operating activities	(14,675)	131,414	36,597	21,304	(23,301)	156,346	36,272	54,434
Cash used in investing activities	(25,965)	(60,176)	(27,548)	(18,742)	(28,574)	(37,352)	(37,980)	(22,751)
Cash provided by (used in) financing activities	48,503	(61,475)	(20,683)	(6,564)	55,776	(108,227)	2,726	(24,625)
Effect of exchange rate differences on cash	(2)	105	231	(15)	(509)	151	77	—
Net change in cash	$ 7,861	$ 9,868	$ (11,403)	$ (4,017)	$ 3,392	$ 10,918	$ 1,095	$ 7,058
Box office revenue per patron (i) (ii)	$ 9.97	$ 10.23	$ 9.65	$ 9.89	$ 9.65	$ 9.93	$ 9.12	$ 9.70
Concession revenue per patron (ii)	$ 5.71	$ 5.75	$ 5.69	$ 5.74	$ 5.44	$ 5.58	$ 5.43	$ 5.50
Film cost percentage (i) (ii)	52.9%	52.4%	51.5%	54.4%	54.1%	52%	51.8%	53.5%
Attendance (in thousands of patrons) (ii)	19,593	17,934	19,219	16,858	20,583	20,383	19,407	19,695
Theatre locations (at period end)	164	165	164	162	163	162	162	162
Theatre screens (at period end)	1,677	1,683	1,677	1,659	1,666	1,655	1,652	1,652

(i) As noted above in Section 9, Cineplex has reclassified certain prior period figures in order to conform to current period presentation

(ii) See Section 17, Non-GAAP measures

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

Summary of adjusted free cash flow by quarter

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

	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash (used in) provided by operating activities	$(14,675)	$131,414	$ 36,597	$ 21,304	$(23,301)	$156,346	$ 36,272	$ 54,434
Less: Total capital expenditures net of proceeds on sale of assets	(25,221)	(27,864)	(28,787)	(18,581)	(28,849)	(23,094)	(25,560)	(20,406)
Standardized free cash flow	(39,896)	103,550	7,810	2,723	(52,150)	133,252	10,712	34,028
Add/(Less):								
Changes in operating assets and liabilities	61,720	(80,385)	16,025	14,738	69,632	(92,482)	9,280	(7,920)
Changes in operating assets and liabilities of joint ventures	1,379	777	642	(1,997)	1,126	1,666	(2,135)	1,439
Tenant inducements	(309)	(1,235)	(1,291)	(2,163)	(231)	(811)	—	—
Principal component of financing lease obligations	(773)	(760)	(746)	(732)	(719)	(690)	(671)	(659)
Growth capital expenditures and other	20,310	16,480	22,621	12,510	25,307	11,041	16,797	12,615
Share of income of joint ventures, net of non-cash depreciation	52	50	44	110	48	84	1,436	1,180
Non-controlling interests of WGN and BSL	168	276	218	245	283	131	34	—
Net cash received from CDCP	684	684	1,568	120	682	680	407	329
Adjusted free cash flow	$ 43,335	$ 39,437	$ 46,891	$ 25,554	$ 43,978	$ 52,871	$ 35,860	$ 41,012
Average number of Shares outstanding	63,516,499	63,495,944	63,491,658	63,439,420	63,220,133	63,204,838	63,086,232	63,073,248
Adjusted free cash flow per Share	$ 0.682	$ 0.621	$ 0.739	$ 0.403	$ 0.696	$ 0.837	$ 0.568	$ 0.650

10. RELATED PARTY TRANSACTIONS

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

The Chief Executive Officer of RioCan Real Estate Investment Trust ("RioCan") serves as a member of the Board. During the three months ended March 31, 2017, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with RioCan in the amount of $11.2 million (2016 - $11.7 million).

11. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

Cineplex makes estimates and assumptions concerning the future that may not equal actual results. These estimates and assumptions are outlined in Section 12 of the Annual MD&A. These estimates and assumptions have not changed materially since December 31, 2016.

12. ACCOUNTING POLICIES

ACCOUNTING STANDARDS ADOPTED IN THE CURRENT YEAR

IAS 12 was amended to clarify the requirements for recognizing deferred income tax assets on unrealized losses, deferred income taxes where an asset is measured at fair value below the asset's tax base, and certain other aspects of accounting for deferred income tax assets. The amendments were adopted January 1, 2017, without significant impact on Cineplex's balance sheet and statement of operations.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

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

IFRS 9, Financial Instruments

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

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

Deliberations by the IASB have clarified upon the modification of debt, any previously incurred deferred financing fees will be expensed in the statement of operations. Previously with IAS 39, additional financing fees would be added to the unamortized financing fees and deferred over the term of the modified debt.

The final version of IFRS 9 was issued in July 2014, and includes a third measurement category for financial assets, "fair value through other comprehensive income"; a single, forward-looking "expected loss impairment model"; and a mandatory effective date for annual periods beginning on or after January 1, 2018. Cineplex is analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations.

IFRS 15, Revenue from Contracts with Customers

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15, *Revenue from Contracts with Customers,* which will replace IAS 11 *Construction Contracts,* IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfer of Assets from Customers,* and SIC 31 *Revenue - Barter Transactions Involving Advertising Services.* The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Earlier application is permitted. Cineplex is currently analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations.

Cineplex has identified all significant revenues from its various lines of business, and has begun analyzing the specific contracts with customers underlying those revenues. Cineplex has tentatively concluded that the implementation of IFRS 15 will not have a material effect on the balance sheet, statement of operations or cash flows from revenues derived through the Exhibition or Amusement and Leisure segments.

Cineplex has identified the following areas that are likely to be affected:

Digital place-based media – the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of revenue recognition. IFRS 15 outlines criteria to determine if a promised good or service in a contract is a distinct performance obligation in the contract. If a performance obligation is not distinct, it will be combined with other promised goods or services until an identified bundle of goods or services that is distinct. At the contract inception, Cineplex will determine whether the distinct performance obligations are transferred to the customer over time, or at a point in time. Depending on this assessment the timing and classification of revenue between various components that comprise digital placed-based media contracts may be affected, and;

Accounting for certain costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognized as an asset under IFRS 15, and amortized over the contractual term. Digital place-based media contracts with customers can extend over more than one reporting period; most other contracts with Cineplex customers do not.

At this stage, Cineplex is not able to estimate the impact of IFRS 15 on the consolidated financial statements or financial accounting systems, if any. Cineplex will make more detailed assessments and disclosures through 2017.

IFRS 17, Leases

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

13. RISKS AND UNCERTAINTIES

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

Cineplex conducts an annual enterprise risk management assessment which is overseen by Cineplex's executive management team and the audit committee of the Board, and is reported to the full Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across Cineplex. All members of senior management participate in a detailed review of enterprise risk in four major categories: environment risks, process risks, information risks and business unit risks. In addition Cineplex monitors risks and changing economic conditions on an ongoing basis and adapts its operating strategies as required.

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

General Economic Conditions

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

Customer Risk

In its consumer-facing entertainment businesses, Cineplex competes for the leisure time and disposable income of all potential customers. All other forms of entertainment including home and online consumption of content, sporting events, streaming services, live music concerts, live theatre and restaurants are substantial competitors to the movie-going experience. Cineplex aims to deliver value to its guests through a wide variety of entertainment experiences and price points. Cineplex monitors pricing in all markets to ensure that it offers a reasonably priced out of home experience compared to other entertainment alternatives. If Cineplex is too aggressive in raising ticket prices or concession prices, there may be an adverse effect on attendance and food service revenues.

In response to this risk, Cineplex offers the SCENE loyalty program, which rewards guests for their patronage with the ability to earn and redeem points, receive discounts on food service purchases and with special offers. Additionally, Cineplex monitors customer needs to ensure that the in-theatre experience meets the anticipated needs of key demographic groups. Cineplex is differentiating the movie-going experience by providing premium alternatives such as UltraAVX, VIP, 4DX, Barco Escape, D-BOX seating, by providing alternative programming which appeals to specific demographic groups and by including XSCAPE Entertainment Centres in select theatres. In addition, the advent of digital technology has allowed for more niche programming.

In the event that consumer preferences change, Cineplex may need to incur further capital expenditures to redevelop or upgrade existing locations. Cineplex continues to improve the quality of its theatre assets through ongoing theatre recliner retrofits. If Cineplex's execution of processes does not consistently meet or exceed customer expectations due to poor customer service or poor quality of assets, movie attendance may be adversely affected. Cineplex monitors customer satisfaction through surveys, mystery shops and focus groups, and maintains a guest services department to address customer concerns. Guest satisfaction is tied to performance measures for theatre management ensuring alignment between corporate and operational objectives.

There is the potential for misinformation to be spread virally through social media relating to Cineplex's theatre assets as well as the quality of its customer service. In response to this risk, Cineplex monitors commentary on social media in order to respond quickly to potential social media misinformation.

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

Regarding its media sales businesses, certain of Cineplex's media customers are signed to contracts of finite lengths or allow for early termination. There is a risk that these customers could choose not to renew these contracts at their maturity, or take steps to terminate them prior to maturity, which would have adverse effects on Cineplex's media revenues.

In its digital place-based media and amusement solutions businesses, Cineplex engages with multiple businesses where it provides products and services. These arrangements include the risk that businesses could decide to source the same products or similar services from a competitor, which would have a negative impact on Cineplex's results.

Film Entertainment and Content Risk

Cineplex's ability to operate successfully depends upon the availability, diversity and appeal of filmed content, 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. 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, any disruption in the production or release of films, the introduction of new delivery platforms for first run product, a strike or threat of a strike in film production, a reduction in the marketing efforts of film studios and distributors or a significant change in film release patterns, would have a negative effect on film attendance and adversely affect Cineplex's business and results of operations.

Cineplex box office revenues depend upon movie production and its relationships with film distributors, including a number of major Hollywood and Canadian distributors. In 2016, seven major film distributors accounted for approximately 90% of Cineplex's box office revenues, which is consistent with industry standards. Deterioration in Cineplex's relationships with any of the major film distributors could affect its ability to negotiate film licenses on favourable terms or its ability to obtain commercially successful films. Cineplex actively works on maintaining good relations with these distributors, as this affects its ability to negotiate commercially favourable licensing terms for first-run films or to obtain licenses at all. In addition, a change in the type and breadth of movies offered by studios may adversely affect the demographic base of moviegoers.

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

Exhibition Industry Risk

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

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

In response to risks to exhibition attendance, Cineplex continues to pursue other revenue opportunities including media in the form of in-theatre and out of home advertising, amusement and leisure, promotions and alternative uses of its theatres during non-peak hours. Amusement and leisure includes amusement solutions offered by P1AG, in-theatre gaming locations, XSCAPE Entertainment Centres, eSports gaming online through WGN and in-theatre at select Cineplex locations, and location based entertainment including *The Rec Room*, Cineplex's social entertainment destination which launched in 2016. Cineplex's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams.

Media Risk

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

Amusement and Leisure Risk

Cineplex's ability to procure new amusement offerings and games can have an impact on revenues from its amusement and leisure businesses. Cineplex's *The Rec Room* is a new concept in the Canadian marketplace, and as such there is a risk that consumers may not react as favourably to the concept as Cineplex's projections indicate. As part of Cineplex's vertical integration, P1AG is the primary supplier of games and amusement offerings for Cineplex's theatres, *The Rec Room* and *Playdium* locations, mitigating supplier risk.

Cineplex's amusement and leisure operations compete against other offerings for guests' entertainment spending. In each of the local markets Cineplex operates and will operate, it faces competition from local, national or international brands that also offer a wide variety of restaurant and/or amusement and gaming experiences, including sporting events, bowling alleys, entertainment centres, nightclubs and restaurants. Competition for guests entertainment spending also extend to in-home entertainment such as internet or video gaming and other in-home leisure activities. Cineplex's failure to compete favourably in these markets could have a material adverse effect on Cineplex's business, results of operations and financial condition.

To mitigate these risks, Cineplex leverages its core competencies in food service execution, its partnership in SCENE LP and its knowledge of the trends in amusement and gaming via its P1AG operations to continuously update its amusement and leisure offerings to provide guests with the most compelling offerings available in Canada.

P1AG competes with other providers of amusement and gaming services across North America. P1AG manages the risk of customers switching gaming providers by continually monitoring the performance of its amusement solutions and reacting quickly to replace underperforming solutions with newer or more relevant equipment. P1AG's expertise and experience in the industry and proven success maximizing revenue for its customers helps mitigate this switching risk.

Technology Risk

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

To mitigate these risks, Cineplex continues to enhance the out of home experience through the addition of new technologies and experiences including 3D, VIP, UltraAVX, D-BOX, 4DX, Barco Escape and digital projection in order to further differentiate the theatrical product from the home product. Cineplex has also diversified its offerings to customers by operating the Cineplex Store which sells VoD and DTO movies in order to participate in the in-home and on-the-go entertainment markets.

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

Cineplex relies on various information technology solutions to provide its services to guests and customers, as well in running its operations from its various office locations. Cineplex may be subject to information technology malfunctions, outages, thefts or other unlawful acts that could result in loss of communication, unauthorized access to data, change in data, or loss of data which could compromise Cineplex's operations and/or the privacy of Cineplex's guests, customers and suppliers.

Information Management Risk

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

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

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

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

Real Estate Risk

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

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

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

Sourcing Risk

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

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

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

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

Human Resources Risk

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

Cineplex employs approximately 13,000 people, of whom approximately 88% are hourly workers whose compensation is based on the prevailing provincial minimum wages with incremental adjustments as required to match market conditions. Any increase in these minimum wages will increase employee related costs. Approximately 6% of Cineplex's employees are represented by unions, located primarily in the province of Quebec. Because of the small percentage of employees represented by unions, the impact of labour disruption nationally is low.

Health and Safety Risk

Cineplex is subject to risks associated with food safety, alcohol consumption by guests, 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 places of public gathering, potentially including movie theatres, gaming centres, malls and dining locations. For those risks that it can control, Cineplex has programs in place to mitigate its exposure.

Environment/Sustainability Risk

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

Integration Risk

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

Financial Markets Risk

Cineplex requires efficient access to capital in order to fuel growth, execute strategies, and generate future financial returns. For this reason Cineplex entered into the Revolving Facility. Cineplex hedges interest rates on the Term Facility, thereby minimizing the impact of significant fluctuations in the market rates. Cineplex's exposure to currency and commodity risk is minimal as the majority of its transactions are in Canadian dollars and commodity costs are not a significant component of the overall cost structure. Counter party risk on the interest rate swap agreements is minimized through entering into these transactions with Cineplex's lenders.

Foreign Currency Risk

Cineplex is exposed to foreign currency risk related to transactions in its normal course of business that are denominated in currencies other than the Canadian dollar. Cineplex's largest foreign currency exposure is to the US dollar, as its amusement solutions, digital place-based media and eSports businesses all operate in the United States.

Interest Rate Risk

Cineplex is exposed to risk on the interest rates applicable on its Credit Facilities. To mitigate this risk, Cineplex has entered into interest rate swap agreements as outlined in Section 6.4, Credit Facilities.

Legal, Regulatory, Taxation and Accounting Risk

Changes to any of the various international, federal, provincial and municipal laws, rules and regulations related to Cineplex's business could have a material impact on its financial results. Compliance with any 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.

On an ongoing basis, Cineplex may be involved in various judicial, administrative, regulatory and litigation proceedings concerning matters arising in the ordinary course of business operations, including but not limited to, personal injury claims, landlord-tenant disputes, alcohol-related incidents, commercial disputes, tax disputes, employment disputes and other contractual matters. Many of these proceedings seek an indeterminate amount of damages.

To mitigate these risks, Cineplex promotes a strong ethical culture through its values and code of conduct. Cineplex employs in-house counsel and uses third party tax and legal experts to assist in structuring significant transactions and contracts. Cineplex also has systems and controls that ensure efficient and orderly operations. Cineplex also has systems and controls that ensure the timely production of financial information in order to meet contractual and regulatory requirements and has implemented disclosure controls and internal controls over financial reporting which are tested for effectiveness on an ongoing basis. In situations where management believes that a loss arising from a proceeding is probable and can be reasonably estimated, Cineplex records the amount of the probable loss. As additional information becomes available, any potential liability related to these proceedings is assessed and the estimates are revised, if necessary.

Business Continuity Risk

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

14. CONTROLS AND PROCEDURES

14.1 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.

14.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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.

15. SUBSEQUENT EVENTS

On April 1, 2017, Cineplex acquired all the operating assets of Dandy, for approximately $13.8 million in cash, financed through cash-on-hand and Cineplex's existing credit facilities. Dandy is a leading amusement gaming machine operator based in California with operations in western United States.

On April 13, 2017, Cineplex acquired the 20% of WGN that it did not already own for $4.0 million in cash. During the first quarter of 2017, Cineplex recognized a gain of $1.0 million, reflected in change in fair value of financial instrument.

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 13, Risks and uncertainties.

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

Box office revenues are and will remain highly dependent on the marketability, quality and appeal of the film product released by major motion picture studios. Looking forward to the balance of 2017 there is a strong slate of films scheduled for release including *The Fate of the Furious, Guardians of the Galaxy Vol. 2, Alien: Covenant, Pirates of the Caribbean: Dead Men Tell No Tales, Wonder Woman, Cars 3, Transformers: The Last Knight, Despicable Me 3, Spider-Man: Homecoming, War of the Planet of the Apes, Kingsman: The Golden Circle, Thor: Ragnarok, Justice League, Pitch Perfect 3* and *Star Wars: Episode VIII, The Last Jedi*.

Cineplex continues to focus on providing guests with a variety of premium viewing options through which to enjoy the theatre experience. These premium-priced offerings, which include UltraAVX, VIP Cinemas, IMAX, 3D, and 4DX generate higher revenues per patron and expand the customer base. Cineplex believes that these premium formats provide an enhanced guest experience and will continue to charge a ticket price premium for films and events presented in these formats.

In the next few years, Cineplex plans to open one to two new theatres per year. Cineplex is also focused on providing guests with a variety of premium viewing options, including recliner seating, through which to enjoy the theatre experience, and will continue to expand premium viewing options throughout its circuit in 2017 and beyond. VIP Cinemas and other premium viewing options are a key component to Cineplex's theatre exhibition strategy, and have been well received by audiences. Additionally, Cineplex is looking to expand its entertainment options and experiences in its theatres beyond filmed content.

Theatre Food Service

Cineplex reported record first quarter CPP in the current period. Although pricing impacts CPP, Cineplex's core focus is on operational execution, promotions and providing the optimal product mix to provide further growth in this area. As part of this strategy, Cineplex continues to expand its in-house brands *Outtakes, Poptopia* and *YoYo's* (in which Cineplex is a joint venture partner) across the circuit; as well as leveraging digital menu board technologies which provide guests with more interactive messaging during visits to the theatre food service locations, and expanding VIP menu offerings. In 2017 and beyond, Cineplex will leverage mobile technology to enhance the food service experience in its theatres.

Alternative Programming

Cineplex offers a wide variety of alternative programming, including international film programming, the popular Metropolitan Opera live in HD series, sports programming and various concert performances by popular recording artists. Live stage performances captured in London and New York is seeing increased growth with more productions. Cineplex continues to look for compelling content to offer as alternative content to attract a wider audience to its locations.

Digital Commerce

As at-home and on-the-go content distribution and consumption continues to grow and evolve, Cineplex believes it is well positioned to take advantage of this market with its digital commerce platform, the Cineplex Store, which offers enhanced device integration as well as download capabilities, supporting thousands of movies that can be rented or purchased and viewed on multiple devices. The Cineplex Store supports a wide range of devices in Canada on which to buy or rent movies, and continues to add new transactional storefronts on connected devices including Xbox 360, Xbox One and Android added in 2016. The wide range of device Store integration combined with the continued expansion of SuperTicket and other offerings, provides exciting opportunities for Cineplex in this market.

In addition to continuing to develop and improve the Cineplex Store user interface, Cineplex will continue to offer promotions to grow Cineplex Store revenues including tie-ins with the SCENE loyalty program through its digital delivery platform with an expanded device ecosystem for DTO and VoD sales.

MEDIA

Cinema 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. In addition to its successful Show-Time and pre-show advertising opportunities, in 2017 Cineplex believes its cinema media business will continue grow through its innovative media opportunities within Cineplex's theatres, including digital signage within theatre lobbies, the Interactive Media Zone in select theatres, and Timeplay, a third-party app that allows Cineplex to sell media integrated into real-time content with the big screen.

Digital Place-Based Media

Cineplex's digital place-based media business delivered record results in first quarter of 2017 due to an expanded client base and higher advertising sales revenues across its expanded network. Cineplex's digital place-based media business will continue to roll out its world-class solutions in quick service restaurants, financial service and retail sectors as well as immersive place-based digital ecosystems. Cineplex will continue to explore opportunities outside of Canada, in order to better service its current base customers and to attract new clients. Cineplex believes that the strengths of its digital place-based media business will make Cineplex a leader in the indoor digital signage industry and provide a platform for significant growth throughout Canada and the United States.

AMUSEMENT AND LEISURE

Amusement Solutions

The acquisition of 100% of P1AG in 2015 has allowed Cineplex to complete the vertical integration of its gaming business. P1AG 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* and other family entertainment centres. Cineplex extended this vertical integration in 2016 as P1AG sources the amusement and gaming equipment for *The Rec Room* locations.

Subsequent to the period end, P1AG expanded its presence in the United States through the acquisition of Dandy. P1AG will integrate this entity into its North American operations, recognizing synergies while expanding P1AG's brand presence throughout both Canada and the United States.

Location Based Entertainment

Cineplex's location based entertainment business features entertainment destination locations that cater to a wide range of guests. In 2016, Cineplex launched *The Rec Room*, a social entertainment destination featuring a wide range of entertainment options including an attractions area featuring recreational gaming, an auditorium-style live entertainment venue and a theatre-sized high definition screen for watching a wide range of entertainment programming. This entertainment is complemented with an upscale casual dining environment, as well as an expansive bar with a wide range of digital monitors and a large screen above the bar for watching events.

The first location opened in Edmonton, Alberta, with subsequent locations announced for Calgary, Alberta, a second location in Edmonton, Alberta, Toronto, Ontario and London, Ontario.

eSports

Cineplex and WGN have created a community that connects live online gaming with unique in-theatre tournament experiences held in Cineplex theatres across the country.

In 2017, Cineplex and WGN will invite gamers to compete in a number of online tournaments across the most popular gaming titles, leading to regional qualifiers at Cineplex locations, ending with a National Championship live finals at Scotiabank Toronto theatre, a Cineplex flagship location. During the first quarter of 2017, Cineplex and WGN hosted gamers at the *Call of Duty: Infinite Warfare* tournament, including online qualifiers and the regional and national final events hosted at Cineplex theatres. Cineplex will look to expand its eSports concepts outside of Canada, through Collegiate Star League's partnership with Riot Games as well as other opportunities as they arise.

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 8.3 million members at March 31, 2017. 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 database.

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

FINANCIAL OUTLOOK

During the 12 months ended March 31, 2017, Cineplex generated adjusted free cash flow per Share of $2.445, compared to $2.751 in the prior 12 month period. Cineplex declared dividends per Share of $1.615 and $1.555, respectively, in each 12 month period. The payout ratios for these periods were approximately 66.1% and 56.5% , respectively.

Subsequent to the period end, Cineplex announced a dividend increase to $1.68 per Share on an annual basis from the current $1.62 per Share. This increase will be effective with the May 2017 dividend which will be paid in June 2017. This increase represents Cineplex's seventh dividend increase since converting to a corporation on January 1, 2011.

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

17. NON-GAAP MEASURES

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

17.1 EBITDA AND ADJUSTED EBITDA

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

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

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

	Three months ended March 31,	
	2017	**2016**
Net income	**$ 22,965**	**$ 21,455**
Depreciation and amortization	28,267	25,005
Interest expense (i)	4,862	4,607
Interest income	(52)	(67)
Current income tax expense	4,586	4,136
Deferred income tax expense	577	1,348
EBITDA	**$ 61,205**	**$ 56,484**
Loss on disposal of assets	26	506
CDCP equity income (ii)	(967)	(375)
Foreign exchange (gain) loss (i)	(17)	219
Non-controlling interest EBITDA of WGN and BSL	168	283
Depreciation and amortization - joint ventures (iii)	9	10
Joint venture taxes and interest (iii)	12	13
Change in fair value of financial instrument	(987)	—
Adjusted EBITDA	**$ 59,449**	**$ 57,140**

(i) See Section 4, Results of Operations - Interest expense

(ii) 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.

(iii) Includes the joint ventures with the exception of CDCP (see (ii) above).

17.2 ADJUSTED FREE CASH FLOW

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

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

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

	Three months ended March 31,	
	2017	**2016**
Cash used in operating activities	$ (14,675)	$ (23,301)
Less: Total capital expenditures net of proceeds on sale of assets	(25,221)	(28,849)
Standardized free cash flow	(39,896)	(52,150)
Add/(Less):		
Changes in operating assets and liabilities (i)	61,720	69,632
Changes in operating assets and liabilities of joint ventures (i)	1,379	1,126
Tenant inducements (ii)	(309)	(231)
Principal component of finance lease obligations	(773)	(719)
Growth capital expenditures and other (iii)	20,310	25,307
Share of income of joint ventures, net of non-cash depreciation (iv)	52	48
Non-controlling interests of WGN and BSL	168	283
Net cash received from CDCP (iv)	684	682
Adjusted free cash flow	**$ 43,335**	**$ 43,978**
Average number of Shares outstanding	63,516,499	63,220,133
Adjusted free cash flow per Share	**$ 0.682**	**$ 0.696**
Dividends declared	**$ 0.405**	**$ 0.390**

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

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

(iii) Growth capital expenditures and other represent expenditures on Board approved projects, exclude maintenance capital expenditures, and are net of proceeds on asset sales. The Revolving Facility (discussed in Section 6.4, Credit Facilities) is available to Cineplex to fund Board approved projects.

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

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

	Three months ended March 31, 2017	2016
Net income	$ 22,965	$ 21,455
Adjust for:		
Depreciation and amortization	28,267	25,005
Loss on disposal of assets	26	506
Non-cash interest (i)	547	948
Foreign exchange on non-cash interest	(38)	(77)
Share of income of CDCP (ii)	(967)	(375)
Non-controlling interests of WGN and BSL	168	283
Non-cash depreciation of joint ventures	9	10
Deferred income tax expense	577	1,348
Joint venture interest and taxes	12	13
Maintenance capital expenditures	(4,911)	(3,542)
Principal component of finance lease obligations	(773)	(719)
Net cash received from CDCP (ii)	684	682
Non-cash items:		
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(2,653)	(1,978)
Change in the fair value of financial instrument	(987)	—
Non-cash Share-based compensation	409	419
Adjusted free cash flow	**$ 43,335**	**$ 43,978**

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

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

17.3 OTHER NON-GAAP MEASURES MONITORED BY MANAGEMENT

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

Earnings per Share Metrics

The three months ended March 31, 2017 include the gain associated with the change in fair value of financial instrument relating to the WGN put option. Cineplex has presented basic and diluted earnings per share net of this item to provide a more comparable earnings per share metric between the current periods and prior year periods. In the non-GAAP measure, earnings is defined as net income excluding the change in fair value of financial instrument.

Per Patron Revenue Metrics

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

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

BPP: Calculated as total box office revenues divided by total paid attendance for the period.

BPP excluding premium priced product: Calculated as total box office revenues for the period, less box office revenues from 3D, 4DX, UltraAVX, VIP and IMAX product; divided by total paid attendance for the period, less paid attendance for 3D, 4DX, UltraAVX, VIP and IMAX product.

CPP: Calculated as total theatre food service revenues divided by total paid attendance for the period.

Premium priced product: Defined as 3D, 4DX, UltraAVX, IMAX and VIP film product.

Theatre concession margin per patron: Calculated as total food service revenues less total food service cost, divided by attendance for the period.

Same Theatre Analysis

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

Same theatre metrics are calculated by removing the results for all theatres that have been opened, acquired, closed or otherwise disposed of during the periods. For the three months ended March 31, 2017, the impact of the four locations that have been opened or acquired and the two location that has been closed or otherwise disposed of have been excluded, resulting in 158 theatres being included in the same theatre metrics.

Cost of sales percentages

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

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

Theatre concession cost percentage: Calculated as total theatre food service costs divided by total theatre food service revenues for the period.

Cineplex Inc.
Interim Condensed Consolidated Balance Sheets
(Unaudited)

(expressed in thousands of Canadian dollars)

	March 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 41,414	$ 33,553
Trade and other receivables	78,759	115,903
Income taxes receivable	1,268	463
Inventories	23,026	21,412
Prepaid expenses and other current assets	15,017	10,856
	159,484	182,187
Non-current assets		
Property, equipment and leaseholds	572,303	564,879
Deferred income taxes	6,422	5,891
Fair value of interest rate swap agreements	507	756
Interests in joint ventures	37,180	35,487
Intangible assets	125,770	125,492
Goodwill	817,002	813,494
	$ 1,718,668	$ 1,728,186

Business acquisitions (note 2)

Subsequent events (note 10)

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

(expressed in thousands of Canadian dollars)

	March 31, 2017	December 31, 2016
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 161,857	$ 204,725
Share-based compensation (note 3)	6,482	8,958
Dividends payable	8,575	8,575
Income taxes payable	1,741	2,042
Deferred revenue	139,581	172,140
Finance lease obligations	3,256	3,180
Fair value of interest rate swap agreements	2,375	2,419
	323,867	402,039
Non-current liabilities		
Share-based compensation (note 3)	15,496	18,346
Long-term debt	372,640	297,496
Fair value of interest rate swap agreements	1,541	2,020
Finance lease obligations	8,040	8,871
Post-employment benefit obligations (note 5)	8,193	7,932
Other liabilities	122,603	125,560
Deferred income taxes	12,688	11,210
Convertible debentures	103,380	102,817
	644,581	574,252
Total liabilities	968,448	976,291
Equity		
Share capital (note 4)	859,383	859,351
Deficit	(109,784)	(108,342)
Hedging reserves and other	(3,111)	(3,170)
Contributed surplus	458	81
Cumulative translation adjustment	830	1,175
Total equity attributable to owners of Cineplex	747,776	749,095
Non-controlling interests	2,444	2,800
Total equity	750,220	751,895
	$ 1,718,668	$ 1,728,186

Approved by the Board of Directors

"Ian Greenberg"
Director

"Robert Steacy"
Director

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Operations
For the three months ended March 31, 2017 and 2016
(Unaudited)

(expressed in thousands of Canadian dollars, except per share amounts)	2017	2016 (note 11)
Revenues		
Box office	$ 195,354	$ 198,643
Food service	113,935	112,006
Media	33,912	33,058
Amusement	41,401	26,051
Other	9,641	9,155
	394,243	378,913
Expenses		
Film cost	103,289	107,386
Cost of food service	25,654	25,314
Depreciation and amortization	28,267	25,005
Loss on disposal of assets	26	506
Other costs (note 5)	206,071	189,404
Share of income of joint ventures	(998)	(400)
Interest expense	4,862	4,607
Interest income	(52)	(67)
Foreign exchange	(17)	219
Change in fair value of financial instrument (note 10)	(987)	—
	366,115	351,974
Income before income taxes	28,128	26,939
Provision for income taxes		
Current	4,586	4,136
Deferred	577	1,348
	5,163	5,484
Net income	$ 22,965	$ 21,455
Attributable to:		
Owners of Cineplex	$ 23,332	$ 21,906
Non-controlling interests	(367)	(451)
Net income	$ 22,965	$ 21,455
Basic net income per share attributable to owners of Cineplex (note 6)	$ 0.37	$ 0.35
Diluted net income per share attributable to owners of Cineplex (note 6)	$ 0.37	$ 0.34

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
For the three months ended March 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	2017	2016
Net income	$ 22,965	$ 21,455
Other comprehensive income (loss)		
Items that will be reclassified subsequently to net income:		
Income on hedging instruments	82	280
Associated deferred income taxes (expense)	(23)	(65)
Foreign currency translation adjustment	(334)	(1,490)
Items that will not be reclassified to net income:		
Actuarial gains of post-employment benefit obligations (note 5)	1,298	—
Associated deferred income taxes (expense)	(348)	—
Other comprehensive income (loss)	675	(1,275)
Comprehensive income	$ 23,640	$ 20,180
Attributable to:		
Owners of Cineplex	$ 23,996	$ 20,893
Non-controlling interests	(356)	(713)
Comprehensive income	$ 23,640	$ 20,180

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)
For the three months ended March 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	Share capital (note 4)	Contributed surplus	Hedging reserves and other	Cumulative translation adjustment	Deficit	Non-controlling interests	Total
Balance - January 1, 2017	$859,351	$ 81	$ (3,170)	$ 1,175	$(108,342)	$ 2,800	$ 751,895
Net income	—	—	—	—	23,332	(367)	22,965
Other comprehensive income (page 4)	—	—	59	(345)	950	11	675
Total comprehensive income	**—**	**—**	**59**	**(345)**	**24,282**	**(356)**	**23,640**
Dividends declared	—	—	—	—	(25,724)	—	(25,724)
Share option expense	—	409	—	—	—	—	409
Issuance of shares on exercise of options	32	(32)	—	—	—	—	—
Balance - March 31, 2017	$859,383	$ 458	$ (3,111)	$ 830	$(109,784)	$ 2,444	$ 750,220
Balance - January 1, 2016	$858,305	$ (491)	$ (4,979)	$ 934	$ (86,296)	$ 5,024	$ 772,497
Net income	—	—	—	—	21,906	(451)	21,455
Other comprehensive loss (page 4)	—	—	215	(1,228)	—	(262)	(1,275)
Total comprehensive income	**—**	**—**	**215**	**(1,228)**	**21,906**	**(713)**	**20,180**
Dividends declared	—	—	—	—	(24,721)	—	(24,721)
Share option expense	—	419	—	—	—	—	419
Issuance of shares on exercise of options	326	(326)	—	—	—	—	—
CSI non-controlling interests acquired	—	—	—	—	—	(336)	(336)
Balance - March 31, 2016	$858,631	$ (398)	$ (4,764)	$ (294)	$ (89,111)	$ 3,975	$ 768,039

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

Cineplex Inc.
Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)
For the three months ended March 31, 2017 and 2016

(expressed in thousands of Canadian dollars)	2017	2016
Cash (used in) provided by		
Operating activities		
Net income	$ 22,965	$ 21,455
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	28,267	25,005
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(2,653)	(1,978)
Accretion of debt issuance costs and other non-cash interest, net	121	83
Loss on disposal of assets	26	506
Deferred income taxes	577	1,348
Interest rate swap agreements - non-cash interest	(175)	262
Non-cash share-based compensation	409	419
Change in fair value of financial instrument (note 10)	(987)	—
Accretion of convertible debentures	563	526
Net change in interests in joint ventures	(2,377)	(1,526)
Tenant inducements	309	231
Changes in operating assets and liabilities (note 7)	(61,720)	(69,632)
Net cash used in operating activities	(14,675)	(23,301)
Investing activities		
Proceeds from sale of assets	232	108
Purchases of property, equipment and leaseholds	(25,453)	(28,957)
Acquisition of businesses, net of cash acquired (note 2)	(106)	(407)
Intangible assets additions	(1,322)	—
Net cash received from CDCP	684	682
Net cash used in investing activities	(25,965)	(28,574)
Financing activities		
Dividends paid	(25,724)	(24,715)
Borrowings under credit facilities, net	75,000	81,210
Payments under finance leases	(773)	(719)
Net cash provided by financing activities	48,503	55,776
Effect of exchange rate differences on cash	(2)	(509)
Increase in cash and cash equivalents	7,861	3,392
Cash and cash equivalents - Beginning of period	33,553	35,713
Cash and cash equivalents - End of period	$ 41,414	$ 39,105
Supplemental information		
Cash paid for interest	$ 5,743	$ 2,568
Cash paid for income taxes, net	$ 6,338	$ 35,748

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

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

1. General information

Cineplex Inc. ("Cineplex") an Ontario, Canada corporation, is Canada's largest film exhibition organization, with theatres in ten provinces. Cineplex operates primarily through its wholly owned subsidiaries, Cineplex Entertainment Limited Partnership (the "Partnership"), Famous Players Limited Partnership ("Famous Players"), Galaxy Entertainment Inc. ("GEI"), Cineplex Digital Media Inc. ("CDM"), Player One Amusement Group Inc. ("P1AG"), and its majority-owned subsidiary, WorldGaming Network LP ("WGN"). Cineplex is headquartered at 1303 Yonge Street, Toronto, Ontario, M4T 2Y9.

The Board of Directors approved these consolidated financial statements on May 1, 2017.

2. Business acquisitions and formations

a) SAW, LLC

On December 1, 2016, Cineplex acquired the operating assets of SAW, LLC ("SAW"), for $8,281 cash. SAW is a distributor and operator of amusement and gaming equipment operating principally in the southeastern United States. Immaterial transaction costs were expensed as incurred.

Recognized amounts of identifiable assets acquired are as follows:

Assets acquired		
Net working capital, including cash of $356	$	1,500
Customer relationships		3,156
Equipment		3,625
Net assets		8,281
Less: Cash from acquisition		(356)
	$	7,925
Consideration given - cash paid	$	8,291
Less: Receivable from vendor		(10)
Less: Cash from acquisition		(356)
	$	7,925

During the first quarter of 2017, the fair values were revised based on the post-acquisition review of the fair value of the customer relationships and equipment acquired, and liabilities assumed, resulting in the recognition of $3,156 in customer relationships, and a $3,156 reduction in the value of equipment, and a $10 decrease in working capital.

SAW has arrangements with customers to operate SAW's gaming equipment on a revenue share basis. The fair value of customer relationships recognized reflect annual renewal rates of approximately 88% for existing customers. They will be amortized on a straight-line basis over eight years.

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

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

b) Tricorp Amusements Inc.

On October 1, 2016, Cineplex acquired 100% of the issued and outstanding equity of Tricorp Amusements Inc. ("Tricorp") for approximately $28,271 cash, including $25,695 paid in the fourth quarter of 2016, and $2,576 to be paid in 2017. Tricorp is a distributor and operator of amusement and gaming equipment operating principally in the eastern United States. Immaterial transaction costs were expensed as incurred.

Cineplex recognized $8,905 of tax-deductible goodwill relating primarily to anticipated operational efficiencies.

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

Assets acquired and liabilities assumed		
Net working capital, including cash of $1,849	$	(1,019)
Equipment		16,066
Intangible assets - customer relationships		4,319
Goodwill		8,905
Net assets		28,271
Less: Cash from acquisition		(1,849)
	$	26,422
Consideration given - cash paid	$	25,695
Plus: Payable to vendor		2,576
Less: Cash from acquisition		(1,849)
	$	26,422

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

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

During the first quarter of 2017, the fair values were revised based on the post-acquisition review of the fair value of the assets acquired and liabilities assumed, and goodwill relating to tax elections, resulting in a decrease of $928 working capital, and additional consideration to be paid in 2017.

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

3. Share-based compensation

Option plan

Cineplex recorded $409 in employee benefits expense with respect to share options during the three months ended March 31, 2017 (2016 - $419).

Cineplex granted options in 2017 and 2016 as follows:

	2017	2016
Number of options granted	544,992	501,270
Share price	$ 51.25	$ 47.86
Exercise price	$ 51.25	$ 47.86
Expected option life (years)	4.0	4.0
Volatility	16%	15%
Dividend yield	3.15%	3.26%
Annual risk-free rate	98%	0.82%
Fair value of options granted	$ 4.07	$ 3.36

Upon cashless exercises, the options exercised in excess of shares issued are cancelled and returned to the pool available for future grants. At March 31, 2017, 1,972,741 options are available for grant.

A summary of option activities in 2017 and 2016 is as follows:

		2017		2016	
	Weighted average remaining contractual life (years)	Number of underlying shares	Weighted average exercise price	Number of underlying shares	Weighted average exercise price
Options outstanding, January 1	7.72	1,705,338	$ 43.21	1,550,521	$ 38.60
Granted		544,992	51.25	501,270	47.86
Cancelled		—	—	(3,944)	46.74
Exercised		(9,009)	41.34	(96,245)	28.90
Options outstanding, March 31	8.06	2,241,321	$ 45.17	1,951,602	$ 41.44

Long-term incentive plan ("LTIP")

For the three-year service period beginning on January 1, 2017, the LTIP award consists of a "phantom" stock plan, awarding 129,136 share equivalents (2016 - 112,804), which, subject to certain performance and market conditions, may decrease approximately 61% or increase by 83%. 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 annual consolidated financial statements by the Board of Directors.

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

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the year of change. Forfeitures are estimated at $nil. Cineplex recognized compensation costs of $3,449 under the LTIP for the three months ended March 31, 2017 (2016 - $2,840). At March 31, 2017, $9,128 (2016 - $10,697) was included in share-based compensation liability.

Deferred equity units

Members of the Board of Directors and certain officers of Cineplex may elect to defer a portion of their compensation in the form of deferred equity units. For the three months ended March 31, 2017, Cineplex recognized $88 of compensation recovery associated with the deferred equity units (2016 - $813 expense). At March 31, 2017, $12,851 (2016 - $12,495) was included in share-based compensation liability.

4. Share capital

Cineplex is authorized to issue an unlimited number of common shares, and 10,000,000 preferred shares of which none are outstanding. Share capital at March 31, 2017 and 2016 and transactions during the periods are as follows:

2017				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance - December 31, 2016	63,515,875	$ 854,880	$ 4,471	$ 859,351
Issuance of shares on exercise of options	1,728	32	—	32
Balance - March 31, 2017	63,517,603	$ 854,912	$ 4,471	$ 859,383

2016				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance - December 31, 2015	63,370,059	$ 853,834	$ 4,471	$ 858,305
Issuance of shares on exercise of options	40,631	326	—	326
Balance - March 31, 2016	63,410,690	$ 854,160	$ 4,471	$ 858,631

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

5. Other costs

	2017	2016
Employee salaries and benefits	$ 73,209	$ 67,563
Rent	37,345	35,733
Realty and occupancy taxes and maintenance fees	17,793	18,047
Utilities	8,463	7,962
Purchased services	15,491	14,272
Other inventories consumed, including amusement and digital place-based media	15,606	13,721
Venue revenue share	8,750	3,785
Repairs and maintenance	6,766	6,377
Office and operating supplies	3,658	3,703
Licences and franchise fees	3,813	2,997
Insurance	853	933
Advertising and promotion	6,191	6,981
Professional and consulting fees	2,047	1,981
Telecommunications and data	1,475	1,343
Bad debts	172	217
Equipment rental	766	761
Other costs	3,673	3,028
	$ 206,071	$ 189,404

During the first quarter of 2017, Cineplex revised the terms of its supplemental executive retirement plan, resulting in the recognition of $1,615 pension expense included in employee salaries and benefits, and other comprehensive income of $1,298. The pension benefit obligation included in post-employment benefit obligations increased $317.

6. Net income per share

Basic

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

	2017	2016
Net income attributable to owners of Cineplex	$ 23,332	$ 21,906
Weighted average number of shares outstanding	63,516,499	63,220,133
Basic EPS	$ 0.37	$ 0.35

Diluted

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

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

	2017	2016
Net income attributable to shareholders of Cineplex	$ 23,332	$ 21,906
Weighted average number of shares outstanding	63,516,499	63,220,133
Adjustments for stock options	272,040	292,810
Weighted average number of shares for diluted EPS	63,788,539	63,512,943
Diluted EPS	$ 0.37	$ 0.34

7. Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	2017	2016
Trade and other receivables	$ 37,146	$ 53,699
Inventories	(1,415)	(825)
Prepaid expenses and other current assets	(4,269)	(4,009)
Accounts payable and accrued liabilities	(54,556)	(49,028)
Income taxes payable	(1,106)	(31,613)
Deferred revenue	(32,559)	(31,128)
Post-employment benefit obligations	261	(71)
Share-based compensation	(4,595)	(6,111)
Other liabilities	(627)	(546)
	$ (61,720)	$ (69,632)
Non-cash investing activities:		
Property, equipment and leasehold purchases financed through accounts payable and accrued liabilities	$ 28,017	$ 10,727

8. Operating segments

As at January 1, 2017, Cineplex has three reportable segments, Film Entertainment and Content, Media, and Amusement and Leisure. Prior to this date, the Amusement and Leisure segment was grouped with the Film Entertainment and Content segment. The reportable segments are business units offering differing products and services, and managed separately due to their distinct natures. These three reportable segments have been determined by Cineplex's chief operating decision makers. The Film Entertainment and Content reporting segment does not charge an access fee to the Media reporting segment. All other inter-segment transactions are eliminated in the Corporate and other category, which includes all corporate general and administrative costs not directly associated with a segment.

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

Film Entertainment and Content

The Film Entertainment and Content reporting segment includes all direct and ancillary revenues from theatre attendance, including box office and food service revenues, and the associated costs to provide those products and services. Also included in the Film Entertainment and Content segment are in-theatre amusement, theatre rentals and digital commerce rental and sales, and associated costs.

Media

The Media reporting segment is comprised of the aggregation of two operating segments, cinema media and digital place-based media. Cinema media consists of all in-theatre advertising revenues and costs, including pre-show, showtime, magazine and lobby advertising. Digital place-based media is comprised of revenues and costs associated with the design, installation and operations of digital signage networks, along with advertising on certain networks. Aggregation of these operating segments is based on the segments having similar economic characteristics.

Amusement and Leisure

The Amusement and Leisure reporting segment is comprised of the aggregation of three operating segments, amusement solutions, location-based entertainment and eSports. Amusement solutions is comprised of revenues and costs associated with operating and distributing amusement, gaming and vending equipment. Location-based entertainment is comprised of the social entertainment destinations featuring gaming, entertainment and dining. eSports is comprised of the revenues and costs related to facilitating tournaments, leagues and gaming ladders for the competitive gaming community.

In accordance with IFRS 8, Operating Segments, Cineplex discloses information about its reportable segments based upon the measures used by management in assessing the performance of those reportable segments. Cineplex uses EBITDA to measure the performance of its reportable segments.

Management defines EBITDA as earnings before interest income and expense (including foreign exchange effects), income taxes and amortization expense. EBITDA is a non-GAAP measure generally used as an indicator of financial performance and should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with Canadian GAAP. Cineplex's EBITDA may differ from similar calculations as reported by other entities and accordingly may not be comparable to EBITDA as reported by other entities.

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

Three months ended March 31, 2017	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Box office	$ 195,354	$ —	$ —	$ —	$ 195,354
Food service	111,827	—	2,108	—	113,935
Media	—	32,596	1,316	—	33,912
Amusement	2,930	—	38,471	—	41,401
Other	9,532	—	109	—	9,641
Total revenues	$ 319,643	$ 32,596	$ 42,004	$ —	$ 394,243
EBITDA (i)	64,031	16,014	3,268	(22,108)	61,205
Depreciation and amortization	21,490	2,383	4,394	—	28,267
Interest expense					4,862
Interest income					(52)
Income taxes expense					5,163
Net income					$ 22,965

Three months ended March 31, 2016	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Box office	$ 198,643	$ —	$ —	$ —	$ 198,643
Food service	112,006	—	—	—	112,006
Media	—	32,580	478	—	33,058
Amusement	2,791	—	23,260	—	26,051
Other	8,902	—	253	—	9,155
Total revenues	$ 322,342	$ 32,580	$ 23,991	$ —	$ 378,913
EBITDA (i)	57,378	17,427	739	(19,060)	56,484
Depreciation and amortization	20,342	2,240	2,423	—	25,005
Interest expense					4,607
Interest income					(67)
Income taxes expense					5,484
Net income					$ 21,455

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

(ii) Corporate and other represents the cost of centralized corporate overhead in that is not allocated to the other operating segments.

Though Cineplex's Media and Amusement and Leisure segments have sales and operations in the United States, total revenues outside Canada are not material.

9. Basis of presentation and accounting standards changes

Basis of preparation and measurement

Cineplex prepares its unaudited interim condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), defined as International Financial Reporting Standards ("IFRS") as set out in the CPA Canada Handbook. The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also

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

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, 2016. 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, 2016.

Accounting standards adopted in the current year

IAS 12 was amended to clarify the requirements for recognizing deferred income tax assets on unrealized losses, deferred income taxes where an asset is measured at fair value below the asset's tax base, and certain other aspects of accounting for deferred income tax assets. The amendments were adopted January 1, 2017, without significant impact on Cineplex's balance sheet and statement of operations.

Accounting standards issued but not yet applied

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

IFRS 9, Financial Instruments

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

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

Deliberations by the IASB have clarified upon the modification of debt, any previously incurred deferred financing fees will be expensed in the statement of operations. Previously with IAS 39, additional financing fees would be added to the unamortized financing fees and deferred over the term of the modified debt.

The final version of IFRS 9 was issued in July 2014, and includes a third measurement category for financial assets, "fair value through other comprehensive income"; a single, forward-looking "expected loss impairment model"; and a mandatory effective date for annual periods beginning on or after January 1, 2018. Cineplex is analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations.

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

IFRS 15, Revenue from Contracts with Customers

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15, *Revenue from Contracts with Customers,* which will replace IAS 11 *Construction Contracts,* IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfer of Assets from Customers,* and SIC 31 *Revenue - Barter Transactions Involving Advertising Services.* The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Earlier application is permitted. Cineplex is currently analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations.

Cineplex has identified all significant revenues from its various lines of business, and has begun analyzing the specific contracts with customers underlying those revenues. Cineplex has tentatively concluded that the implementation of IFRS 15 will not have a material effect on the balance sheet, statement of operations or cash flows from revenues derived through the Exhibition or Amusement and Leisure segments.

Cineplex has identified the following areas that are likely to be affected:

> Digital place-based media – the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of revenue recognition. IFRS 15 outlines criteria to determine if a promised good or service in a contract is a distinct performance obligation in the contract. If a performance obligation is not distinct, it will be combined with other promised goods or services until an identified bundle of goods or services that is distinct. At the contract inception, Cineplex will determine whether the distinct performance obligations are transferred to the customer over time, or at a point in time. Depending on this assessment the timing and classification of revenue between various components that comprise digital placed-based media contracts may be affected, and;
>
> Accounting for certain costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognized as an asset under IFRS 15, and amortized over the contractual term. Digital place-based media contracts with customers can extend over more than one reporting period; most other contracts with Cineplex customers do not.

At this stage, Cineplex is not able to estimate the impact of IFRS 15 on the consolidated financial statements or financial accounting systems, if any. Cineplex will make more detailed assessments and disclosures through 2017.

IFRS 17, Leases

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

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

10. Subsequent events

On April 1, 2017, Cineplex acquired all the operating assets of Dandy Amusement International Inc. ("Dandy"), for approximately $13,736 in cash, financed through cash-on-hand and Cineplex's existing credit facilities. Dandy is a leading amusement gaming machine operator based in California with operations in western United States.

On April 13, 2017, Cineplex acquired the 20% of WGN that it did not already own for $4,000 in cash. During the first quarter of 2017, Cineplex recognized a gain of $987, reflected in change in fair value of financial instrument.

11. Financial statement presentation

Cineplex has reclassified box office, amusement and other revenues to reflect the growth of its Amusement and Leisure business and to enhance comparability with exhibition peers in the United States. Certain revenues from Cineplex's enhanced guest experience initiatives were previously included in other revenues and are now included with box office revenues. This presentation is consistent with other exhibitors and better reflects how Cineplex management measures and operates the business.

Other revenues also previously contained all amusement revenue. Due to the growth of Cineplex's amusement solutions and location-based entertainment businesses, these revenues are now separately reported as amusement revenues.

Interest expense previously included foreign exchange gains and losses, which are now reported separately.

Prior period financial statement figures have been reclassified to conform to current period presentation. The following tables present revised figures for the three months ended March 31, 2016:

	2016
Box office - previous presentation	$ 192,639
Reclassification from other revenues	6,004
Box office - new presentation	198,643
Other revenues - previous presentation	$ 41,210
Reclassification to box office revenues	(6,004)
Reclassification to amusement revenues	(26,051)
Other revenues - new presentation	9,155
Interest expense - previous presentation	$ 4,826
Reclassification to foreign exchange	(219)
Interest expense - new presentation	4,607