2018

THIRD QUARTER

September 30, 2018

LETTER TO SHAREHOLDERS

Dear fellow shareholders,

The film exhibition business continued to show growth during the third quarter of 2018. A strong film slate, including films like *Mission: Impossible Fallout*, *Ant-Man and the Wasp*, *Jurassic World: Fallen Kingdom*, and *Crazy Rich Asians*, resulted in a 5.3% increase in box office revenue and a 2.6% increase in Cineplex theatre attendance. We were also pleased to announce third quarter records for Box Office per Patron ("BPP") of $10.07 and Concession per Patron ("CPP") of $6.25 and a record quarterly store-level adjusted EBITDA margin percentage at *The Rec Room*.

However, despite growth in box office, adjusted EBITDA decreased 9.3% to $53.4 million primarily as a result of an $8.4 million increase in share-based compensation and restructuring expenses, a $2.1 million non-recurring charge at Player One Amusement Group ("P1AG") and declines in cinema media.

Media revenue decreased 16.0% to $33.5 million, primarily due to the above-mentioned decline in cinema advertising due to a shift in a few key campaigns and less budget allocation from specific advertisers versus the prior year. Amusement revenue increased 10.0% to $53.8 million, primarily due to increases at *The Rec Room* and an increase in Player One Amusement Group's revenue in the United States.

Key accomplishments during the third quarter included the opening of two new theatres—*Cineplex Cinemas Pickering and VIP* in Ontario and *Cineplex Cinemas Seton and VIP* in Calgary, Alberta—and the addition of VIP Cinemas to *Cineplex Cinemas North Edmonton and VIP*. We announced plans to roll out additional 4DX locations across Canada; launched a new Cineplex mobile app; and Cineplex Digital Media was selected to deploy, maintain and operate a network of digital menu boards for Subway locations across Europe. On the Virtual Reality ("VR") front, we announced an exclusive expansion agreement with The VOID and made an investment in a partnership with VRstudios as we continue to increase our VR footprint within Canada. Finally, our SCENE loyalty program continued to grow as we reached 9.4 million members during the quarter.

Subsequent to quarter end, Cineplex entered into amended and extended credit facilities. The amendment includes an increased and extended five-year term revolving component, an extended seven-year non-revolving portion and additional flexibility in the permitted use of funds. The amended facilities total $800.0 million comprised of a $150.0 million seven-year senior secured non-revolving term credit facility and a $650.0 million five-year senior secured revolving credit facility.

We are encouraged by the outlook for the remainder of the year. Coupled with our focus on cost control and strategic spending to grow, we are confident that we are positioning the company for success in the future.

Sincerely,

Ellis Jacob, President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 13, 2018

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 September 30, 2018 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, 2017 ("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 film exhibitor, Cineplex welcomes over 70 million guests annually through its circuit of 165 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), amusement solutions (Player One Amusement Group "P1AG") and an online eSports platform for competitive and passionate gamers (WorldGaming.com "WGN"). Additionally, Cineplex operates a location-based entertainment business through Canada's newest destination for 'Eats & Entertainment' (*The Rec Room*), and will also be opening new complexes specially designed for teens and families (*Playdium*) as well as exciting new sports and entertainment venues across Canada (*Topgolf*). 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 September 30, 2018, Cineplex owned, leased or had a joint venture interest in 1,696 screens in 165 theatres from coast to coast.

Cineplex
Theatre locations and screens at September 30, 2018

Province	Theatres	Screens	3D Screens	Ultra AVX	IMAX (i)	VIP	D-BOX	Recliner Screens
Ontario	68	736	361	41	13	43	45	99
Quebec	20	250	98	10	3	4	6	—
British Columbia	25	232	123	15	3	11	14	32
Alberta	19	210	111	18	2	11	14	32
Nova Scotia	12	91	44	1	1	—	2	—
Saskatchewan	6	54	28	2	1	3	2	10
Manitoba	5	49	26	1	1	3	2	—
New Brunswick	5	41	20	2	—	—	2	—
Newfoundland & Labrador	3	20	9	—	1	—	1	—
Prince Edward Island	2	13	6	—	—	—	1	—
TOTALS	**165**	**1,696**	**826**	**90**	**25**	**75**	**89**	**173**
Percentage of screens			49%	5%	1%	4%	5%	10%

(i) All IMAX are 3D enabled. Total 3D screens including IMAX and screens is 851 screens or 50% of the circuit.

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

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Theatres	165	164	163	163	163	164	164	165
Screens	1,696	1,683	1,676	1,676	1,676	1,677	1,677	1,683
3D Screens	826	816	811	811	811	799	799	801
UltraAVX Screens	90	88	87	87	86	85	85	85
IMAX Screens	25	25	24	24	23	23	23	23
VIP Auditoriums	75	63	63	63	63	63	63	63
D-BOX Auditoriums	89	86	82	82	81	80	78	77
Recliner Screens	173	155	149	130	108	82	42	5

Cineplex - Location-based entertainment - at September 30, 2018

Province	*The Rec Room*	*Playdium*
Ontario	2	1
Alberta	3	—
TOTALS	**5**	**1**

1.1 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of dollars, except theatre attendance in thousands of patrons and per Share and per patron amounts)	Third Quarter			Year to Date		
	2018	2017	Change (i)	2018	2017	Change (i)
Total revenues	$ 386,715	$ 370,448	4.4%	$1,186,640	$1,128,774	5.1%
Theatre attendance	17,208	16,766	2.6%	52,280	52,843	-1.1%
Net income	$ 10,209	$ 17,219	-40.7%	$ 49,802	$ 41,560	19.8%
Box office revenues per patron ("BPP") (ii)	$ 10.07	$ 9.81	2.7%	$ 10.37	$ 10.04	3.3%
Concession revenues per patron ("CPP") (ii)	$ 6.25	$ 6.01	4.0%	$ 6.31	$ 5.90	6.9%
Adjusted EBITDA (ii)	$ 53,356	$ 58,811	-9.3%	$ 174,728	$ 156,315	11.8%
Adjusted EBITDA margin (ii)	13.8%	15.9%	-2.1%	14.7%	13.8%	0.9%
Adjusted free cash flow (ii)	$ 36,509	$ 37,915	-3.7%	$ 118,709	$ 99,258	19.6%
Adjusted free cash flow per common share of Cineplex ("Share") (ii)	$ 0.576	$ 0.597	-3.5%	$ 1.874	$ 1.563	19.9%
Earnings per Share ("EPS") - basic	$ 0.16	$ 0.27	-40.7%	$ 0.79	$ 0.66	19.7%
EPS excluding change in fair value of financial instrument - basic (ii)	$ 0.16	$ 0.24	-33.3%	$ 0.79	$ 0.62	27.4%
EPS - diluted	$ 0.16	$ 0.27	-40.7%	$ 0.79	$ 0.66	19.7%
EPS excluding change in fair value of financial instrument - diluted (ii)	$ 0.16	$ 0.24	-33.3%	$ 0.79	$ 0.62	27.4%

(i) Throughout this MD&A, changes in percentage amounts are calculated as 2018 value less 2017 value.
(ii) See Section 17, Non-GAAP measures.

Total revenues for the third quarter of 2018 increased 4.4%, or $16.3 million to a third quarter record of $386.7 million as compared to the prior year period. Box office revenues increased 5.3% compared to the prior year to $173.3 million as a result of a 2.6% increase in theatre attendance and a record third quarter BPP of $10.07. Food service revenues increased to a third quarter record of $115.6 million due to a third quarter record CPP of $6.25 combined with the increased results from *The Rec Room* arising from the rollout of additional locations. Amusement revenues in the third quarter increased 10.0% to an all-time quarterly record of $53.8 million due to increased route revenue in the United States and the growth in the results from *The Rec Room*. Media decreased 16.0% to $33.5 million as a result of a decrease of in-theatre advertising due to the timing of campaigns and the cyclical nature of the business. This was partially offset by an increase in digital place-based media revenues arising from higher project installation and increased other digital services revenue due to an expanded client base and project revenue. Despite the increase in total revenue, adjusted EBITDA decreased $5.5 million (9.3%) to $53.4 million, mainly due to an increase in the share-based compensation cost as compared to the prior year ($8.4 million) due to the decline in the share price in 2017 compared to the increase in the share price in 2018. Adjusted free cash flow per Share decreased 3.5% to $0.576 in the current period from $0.597 in 2017.

Total revenues for the nine months ended September 30, 2018 increased 5.1%, or $57.9 million compared to the prior year period primarily due to a $30.3 million increased contribution from The Rec Room as a result of new location openings and stronger revenues from the exhibition business. The increase in revenues from the exhibition business were as a result of a $17.7 million (5.7%) increase in theatre food service revenue due to the $0.41 (6.9%) growth in the CPP to $6.31 and an $11.3 million (2.1%) increase in box office revenue due to a 3.3% increase in BPP to $10.37. These increases more than offset the impact of a 1.1% decrease in theatre attendance. Adjusted EBITDA increased 11.8% to $174.7 million compared to the prior year period. Adjusted free cash flow per Share increased 19.9% to $1.874 in the current period from $1.563 in 2017.

During the second quarter, Cineplex announced its plans to undertake a cost reduction program designed to optimize and integrate the overall cost structure and technology of the business. The program, once fully implemented, is expected to realize annualized corporate savings of $25 million. Costs of $1.0 million ($4.8 million year to date) incurred during the third quarter with respect to the plan are included in general and administrative costs.

1.2 KEY DEVELOPMENTS IN THE THIRD QUARTER OF 2018

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

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

- Reported third quarter box office revenues of $173.3 million, an increase of $8.8 million (5.3%) from the $164.5 million reported in the prior year period due to a 2.6% increase in theatre attendance and the growth in BPP.
- BPP was $10.07, a third quarter record for Cineplex, $0.26 (2.7%) higher than $9.81 reported during the prior year period.
- Opened *Cineplex Cinemas Pickering and VIP* in Pickering, Ontario, an 11 screen theatre featuring all recliner seating as well as an UltraAVX screen, D-BOX Motion Seats, 4 VIP auditoriums and Ontario's first location of the *Cineplex Clubhouse*, an auditorium designed for children and their families.
- Opened *Cineplex Cinemas Seton and VIP* in Calgary, Alberta, an 11 screen theatre featuring all recliner seating as well as an UltraAVX screen and D-BOX Motion Seats along with 4 VIP auditoriums.
- Opened the second VIP cinema in Edmonton, Alberta featuring 4 VIP auditoriums at *Cineplex Cinemas North Edmonton and VIP*.
- Cineplex, in partnership with CJ 4DPLEX, announced a new agreement that will expand the 4DX experience to as many as 13 additional Cineplex locations across Canada.

Theatre Food Service

- Reported third quarter theatre food service revenues of $107.5 million, an increase of $6.8 million (6.7%) from the prior year period as a result of the increase in theatre attendance and higher CPP.
- CPP was $6.25, a third quarter record for Cineplex, $0.24 (4.0%) higher than $6.01 reported during the prior year period.
- During the quarter, Cineplex added alcohol beverage service to an additional 4 theatres now totalling 20 excluding VIP.

Alternative Programming

- Alternative Programming (Cineplex Events) featured André Rieu's 2018 Maastricht Concert, the stage musical *An American In Paris* and the documentary *Rachel Hollis presents: Made for More*.
- Featured numerous strong performing international films, including Hindi, Punjabi and Filipino films with *The Hows Of Us* becoming the highest grossing Filipino title in Cineplex history.

Digital Commerce

- Cineplex.com registered a 2.2% increase in visits during the third quarter of 2018 compared to the same prior year period.
- Online and mobile ticketing represented 24.8% of total admission during the third quarter, up from 20.2% in in the prior year period.
- Cineplex Store registered a 90% increase in device activations over the prior year period, and a 37% increase in registered users.
- Cineplex launched the new Cineplex mobile app which improves customer experience through simplified ticket purchases, digital tickets for paperless entry and mobile food and beverage ordering in VIP auditoriums.

MEDIA

- Reported third quarter total media revenues of $33.5 million, a decrease of $6.4 million (16.0%) compared to the prior year period.

Cinema Media

- Reported third quarter revenues of $20.3 million, compared to $27.4 million in the prior year period, a decrease of 26.0% primarily due to decreases in Show-time and pre-show advertising as a result of the timing of corporate campaigns in the beverage and electronic and technology industries. Declines in the automotive industry and the government sector also contributed to the decrease.

Digital Place-Based Media

- Reported third quarter revenues of $13.2 million, an increase of $0.7 million (6.0%) compared to the prior year period due to an expanded client base which contributed to increased project installation and other digital services revenues primarily due to A&W and Citizen's Bank.
- Chosen to deploy, maintain and operate a complex merchandising network of digital menu boards for Subway Europe ("Subway") at locations across Europe. Cineplex will work with Subway to provide ongoing strategic content, consulting services and marketing initiatives to over 5,400 locations.

AMUSEMENT AND LEISURE

- Announced a strategic partnership with VRstudios Inc. ("VRstudios"), the largest provider of turn-key, location-based virtual reality solutions. Cineplex acquired a 34.7% interest in VRstudios for $4.7 million. The agreement also includes a commercial partnership which will provide expansion opportunities in North America and internationally.
- Announced a new exclusive expansion agreement with The VOID that provides Cineplex with the exclusive rights to operate The VOID concept in Canada. Cineplex plans to open a minimum of five VOID Experience Centres over the coming years, with the second location in Canada opened in the West Edmonton mall location of *The Rec Room* featuring *Star Wars: Secrets of the Empire*.

Amusement Solutions

- Reported an all-time quarterly record with revenues of $45.7 million, an increase of $1.0 million (2.3%) over the prior year period as a result of an increase in route revenues in the United States.

Location-based Entertainment

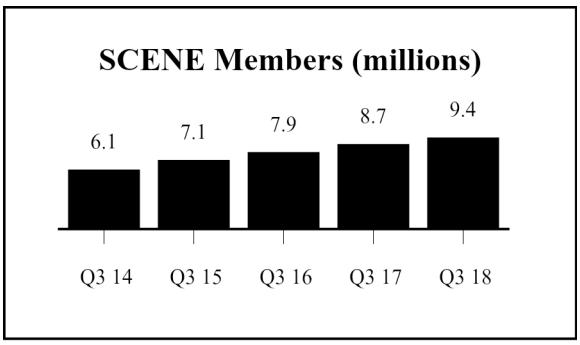
- *The Rec Room* reported third quarter revenue of $16.8 million which included food service revenues of $8.0 million and amusement revenues of $8.1 million.

eSports

- WGN held the Rocket League Canadian Challenge Finals on August 19 at the *Scotiabank Theatre* in Toronto, Ontario.
- WGN announced it will be hosting the national World Electronic Sports Games ("WESG") events, the world's only Olympic-style eSports tournament, via online qualifiers and will host live finals for both the United States and Canada. The Canadian WESG qualifying finals will be held on October 26-28 at the Metro Toronto Convention Centre. The US finals will be held on November 9-11 in Huntington Beach, California.

LOYALTY

- Membership in the SCENE loyalty program increased by 0.2 million members in the period, reaching 9.4 million at September 30, 2018.
- SCENE and Maple Leaf Sports & Entertainment Ltd. ("MLSE") recently launched the first campaign to bring MLSE's iconic Toronto Maple Leafs and Toronto Raptors teams to SCENE members, with access to "money can't buy" experiences and tickets that will engage sports-loving SCENE members.



CORPORATE

- Continued to execute the cost reduction program which was announced during the second quarter, incurring an additional $1.0 million during the third quarter ($4.8 million year to date).
- Cineplex was once again the entertainment sponsor for WE Day and WE Day Family which was held at the *Scotiabank Arena* in Toronto, Ontario.

1.3 BUSINESS ACQUISITIONS AND FORMATIONS

a) VRstudios Inc.

On September 12, 2018, Cineplex acquired a 34.7% interest in VRstudios for $4.7 million. VRstudios is based in Seattle, Washington and is a worldwide provider of turn-key location-based virtual reality solutions. Cineplex will recognize revenue in the Exhibition and Amusement and Leisure segments for installations that occur in the theatre network and location-based entertainment network respectively. Cineplex accounts for its investment in VRstudios as an associate using the equity method.

b) Topgolf

On July 25, 2017, Cineplex formed TG-CPX Limited Partnership ("TGLP"), a joint venture with Topgolf Canada Holding ("Topgolf"). Cineplex contributed an immaterial amount of cash totaling $37.5 thousand for an initial 75% interest in TGLP and has 75% of the voting rights. Cineplex will recognize revenue from the joint venture in the Amusement and Leisure segment. Cineplex consolidates TGLP's financial results from the inception date and recognizes a non-controlling interest for the portion of the joint venture it does not own. Topgolf has the right to require Cineplex to acquire the interest owned by Topgolf under certain circumstances at any time after July 25, 2022.

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.

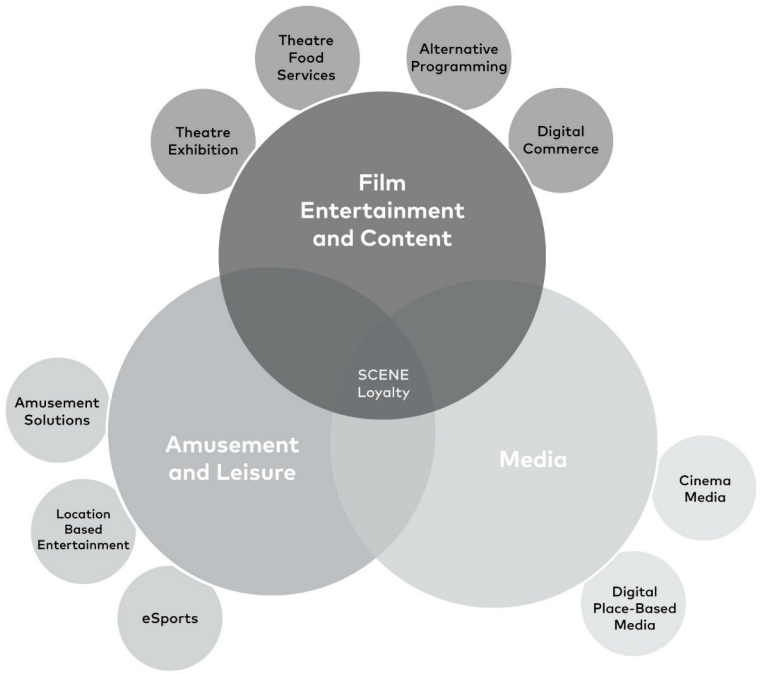
Cineplex's operations are primarily conducted in three main areas: film entertainment and content, media and amusement and leisure, all supported by the SCENE loyalty program. Cineplex's key strategic areas of focus include the following:

- 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;

- Drive value within businesses by leveraging opportunities to optimize value, synergies and data across the Cineplex ecosystems; 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.

Diversified Entertainment and Media Company



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.

A detailed discussion of Cineplex's businesses and business strategy can be found in Cineplex's most recent Annual MD&A. These have not changed materially during the third quarter of 2018.

3. OVERVIEW OF OPERATIONS

Revenues

Cineplex generates revenues primarily from box office and concession sales. These revenues are affected primarily by theatre attendance levels and by changes in BPP and CPP. Box office revenue represented 44.8% of revenue in the third quarter of 2018 and continues to represent Cineplex's largest revenue component.

Revenue mix % by period	Q3 2018	Q3 2017	Q3 2016	Q3 2015	Q3 2014
Box office	**44.8%**	44.4%	49.4%	53.9%	55.4%
Food service	**29.9%**	28.9%	29.1%	32.1%	30.8%
Media	**8.7%**	10.8%	11.9%	10.4%	10.7%
Amusement	**13.9%**	13.2%	7.2%	0.8%	0.6%
Other	**2.7%**	2.7%	2.4%	2.8%	2.5%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

Cineplex has three reportable segments, film entertainment and content, media and amusement and leisure. 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.

Revenue mix % by period	Third Quarter		Year to date	
	2018	2017	2018	2017
Film Entertainment and Content	76.0%	75.0%	76.6%	78.0%
Media	8.5%	10.5%	8.8%	9.5%
Amusement and Leisure	15.5%	14.5%	14.6%	12.5%
Total	100.0%	100.0%	100.0%	100.0%

A key component of Cineplex's business strategy is to position itself as the leading exhibitor in the Canadian market by focusing on providing customers with an exceptional entertainment experience. Cineplex's share of the Canadian theatre exhibition market was approximately 76% based on Canadian industry box office revenues for the quarter and period ended September 30, 2018. As a result of Cineplex's focus on diversifying the 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 theatre 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 theatre 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 and the issuance and redemption of SCENE points on the purchases of food and beverages at theatres. 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 SCENE points issued and redeemed on theatre food service purchases decreases food service revenues on individual purchases. Cineplex believes the program drives incremental

purchase incidence, increasing overall revenues. Cineplex focuses primarily on growing CPP by optimizing the product offerings, improving operational excellence and strategic pricing 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 venues.

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.* Additionally, cinema media sells media placements throughout Cineplex's circuit including digital poster cases, the Interactive Media Zone ("IMZ") in select Cineplex theatre lobbies, as well as sponsorship and advertising for eSports, events both in-theatre and online, and in *The Rec Room*. Cinema media also sells digital advertising for cineplex.com, the Cineplex mobile app and on third party networks operated by Cineplex Digital Media. Digital place-based media designs, installs, maintains and operates digital signage networks in four verticals including digital out of home (in public spaces such as shopping malls and office towers), 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. Additionally, included in amusement revenues are 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 with stronger performing films having a higher film cost percentage.

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. 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 theatre 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"), 50% interest in *YoYo's Yogurt Cafe* ("YoYo's") and a 34.7% interest in VRstudios are classified as joint ventures or associates. Through equity accounting, Cineplex's share of the results of operations for these joint ventures and associates are reported as a single item in the statements of operations, 'Share of income of joint ventures and associates'. Theatre attendance for the IMAX auditorium held in a joint venture is not reported in Cineplex's consolidated theatre 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 and nine months ended September 30, 2018 and 2017 (in thousands of dollars except Shares outstanding, per Share data and per patron data, unless otherwise noted):

	Three months ended September 30, 2018	Three months ended September 30, 2017	Variance (%)	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Variance (%)
Box office revenues	$ 173,278	$ 164,493	5.3%	$ 541,892	$ 530,557	2.1%
Food service revenues	115,557	107,029	8.0%	354,775	322,362	10.1%
Media revenues	33,487	39,862	-16.0%	106,791	110,355	-3.2%
Amusement revenues	53,838	48,940	10.0%	152,320	136,041	12.0%
Other revenues	10,555	10,124	4.3%	30,862	29,459	4.8%
Total revenues	386,715	370,448	4.4%	1,186,640	1,128,774	5.1%
Film cost	90,213	83,268	8.3%	287,763	278,025	3.5%
Cost of food service	24,257	23,669	2.5%	74,053	72,503	2.1%
Depreciation and amortization	33,599	30,613	9.8%	97,053	88,526	9.6%
Loss on disposal of assets	783	275	184.7%	1,633	337	384.6%
Other costs (a)	218,944	204,762	6.9%	650,170	622,289	4.5%
Costs of operations	367,796	342,587	7.4%	1,110,672	1,061,680	4.6%
Net income	$ 10,209	$ 17,219	-40.7%	$ 49,802	$ 41,560	19.8%
Adjusted EBITDA	$ 53,356	$ 58,811	-9.3%	$ 174,728	$ 156,315	11.8%
(a) Other costs include:						
Theatre occupancy expenses	53,161	52,320	1.6%	157,847	156,897	0.6%
Other operating expenses	147,750	143,375	3.1%	438,319	414,310	5.8%
General and administrative expenses	18,033	9,067	98.9%	54,004	51,082	5.7%
Total other costs	$ 218,944	$ 204,762	6.9%	$ 650,170	$ 622,289	4.5%
EPS - basic	$ 0.16	$ 0.27	-40.7%	$ 0.79	$ 0.66	19.7%
EPS excluding change in fair value of financial instrument - basic (i)	$ 0.16	$ 0.27	-40.7%	$ 0.79	$ 0.62	27.4%
EPS - diluted	$ 0.16	$ 0.27	-40.7%	$ 0.79	$ 0.66	19.7%
EPS excluding change in fair value of financial instrument - diluted (i)	$ 0.16	$ 0.27	-40.7%	$ 0.79	$ 0.62	27.4%
Total assets	$ 1,777,986	$ 1,751,582	1.5%	$ 1,777,986	$ 1,751,582	1.5%
Total long-term financial liabilities (ii)	$ 616,500	$ 632,500	-2.5%	$ 616,500	$ 632,500	-2.5%
Shares outstanding at period end	63,332,946	63,384,746	-0.1%	63,332,946	63,384,746	-0.1%
Cash dividends declared per Share	$ 0.435	$ 0.420	3.6%	$ 1.285	$ 1.240	3.6%
Adjusted free cash flow per Share (i)	$ 0.576	$ 0.597	-3.5%	$ 1.874	$ 1.563	19.9%
Box office revenue per patron (i)	$ 10.07	$ 9.81	2.7%	$ 10.37	$ 10.04	3.3%
Concession revenue per patron (i)	$ 6.25	$ 6.01	4.0%	$ 6.31	$ 5.90	6.9%
Film cost as a percentage of box office revenues	52.1%	50.6%	1.5%	53.1%	52.4%	0.7%
Theatre attendance (in thousands of patrons) (i)	17,208	16,766	2.6%	52,280	52,843	-1.1%
Theatre locations (at period end)	165	163	1.2%	165	163	1.2%
Theatre screens (at period end)	1,696	1,676	1.2%	1,696	1,676	1.2%

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

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

4.2 OPERATING RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

Total revenues

Total revenues for the three months ended September 30, 2018, increased $16.3 million (4.4%) to $386.7 million as compared to the prior year period. Total revenues for the nine months ended September 30, 2018 increased $57.9 million (5.1%) to $1.2 billion as compared to the prior year period. 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 store level EBITDA, adjusted free cash flow, theatre 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, theatre attendance and BPP for the quarter and the year to date (in thousands of dollars, except theatre attendance reported in thousands of patrons and per patron amounts, unless otherwise noted):

Box office revenues	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Box office revenues	$ 173,278	$ 164,493	5.3%	$ 541,892	$ 530,557	2.1%
Theatre attendance (i)	17,208	16,766	2.6%	52,280	52,843	-1.1%
Box office revenue per patron (i)	$ 10.07	$ 9.81	2.7%	$ 10.37	$ 10.04	3.3%
BPP excluding premium priced product (i)	$ 8.72	$ 8.40	3.8%	$ 8.85	$ 8.52	3.9%
Canadian industry revenues (ii)			7.2%			3.5%
Same theatre box office revenues (i)	$ 170,322	$ 164,055	3.8%	$ 537,549	$ 529,121	1.6%
Same theatre attendance (i)	16,962	16,707	1.5%	51,896	52,662	-1.5%
% Total box from premium priced product (i)	41.2%	43.8%	-2.6%	43.9%	46.7%	-2.8%

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

(ii) Source: Gross box office receipts (inclusive of all taxes) from The Movie Theatre Association of Canada industry data adjusted for calendar quarter dates.

Box office continuity	Third Quarter		Year to Date	
	Box Office	Theatre Attendance	Box Office	Theatre Attendance
2017 as reported	$ 164,493	16,766	$ 530,557	52,843
Same theatre attendance change	2,503	255	(7,704)	(766)
Impact of same theatre BPP change	3,764	—	16,132	—
New and acquired theatres (i)	2,961	245	3,603	297
Disposed and closed theatres (i)	(443)	(58)	(696)	(94)
2018 as reported	$ 173,278	17,208	$ 541,892	52,280

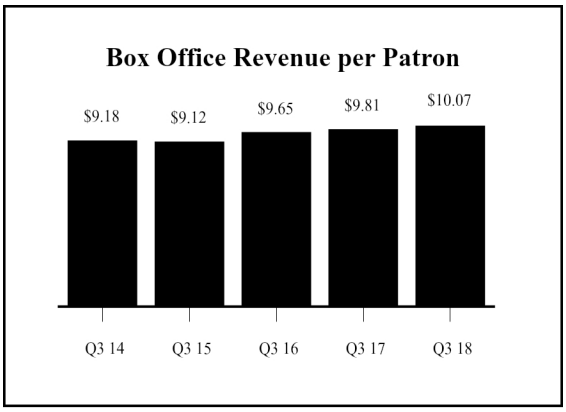
(i) See Section 17, Non-GAAP measures. Represents theatres opened, acquired, disposed or closed subsequent to the start of the prior year comparative period.

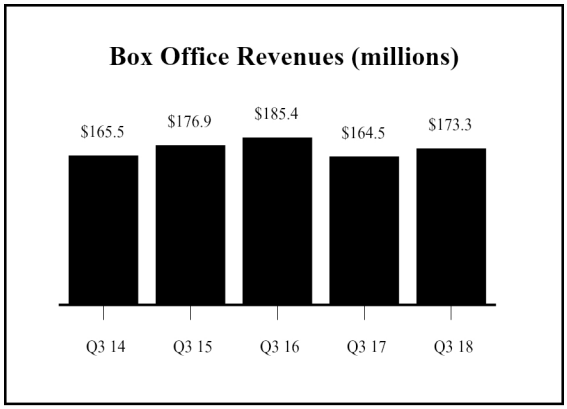
Third Quarter

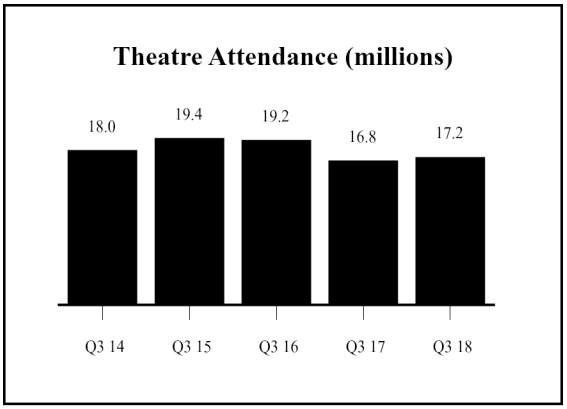
	Third Quarter 2018 Top Cineplex Films	3D	% Box		Third Quarter 2017 Top Cineplex Films	3D	% Box
1	Mission: Impossible Fallout	✔	11.9%	1	Spider-Man: Homecoming	✔	13.8%
2	Ant-Man And The Wasp	✔	7.6%	2	It		10.1%
3	Jurassic World: Fallen Kingdom	✔	6.9%	3	Despicable Me 3	✔	9.1%
4	Crazy Rich Asians		6.8%	4	Dunkirk		9.1%
5	Hotel Transylvania 3: Summer Vacation	✔	6.7%	5	War For The Planet Of The Apes	✔	5.4%

Box office revenues increased $8.8 million, or 5.3%, to $173.3 million during the period, compared to $164.5 million reported in the third quarter in 2017. The increase was due to a 2.6% increase in theatre attendance to 17.2 million guests and the higher BPP. The theatre attendance increase was due to the stronger film slate in the third quarter of 2018 compared the third quarter of 2017.

BPP for the three months ended September 30, 2018 was $10.07, a $0.26 increase (2.7%) from the prior year period, setting a third quarter record for Cineplex. The increase in BPP was due to price increases in selective markets as compared to the prior year.







Year to Date

	Year to Date 2018 Top Cineplex Films	3D	% Box		Year to Date 2017 Top Cineplex Films	3D	% Box
1	Avengers: Infinity War	✔	8.3%	1	Beauty and the Beast	✔	6.5%
2	Black Panther	✔	8.1%	2	Guardians Of The Galaxy Vol. 2	✔	5.3%
3	Incredibles 2	✔	5.4%	3	Wonder Woman	✔	4.7%
4	Jurassic World: Fallen Kingdom	✔	4.5%	4	Spider-Man: Homecoming	✔	4.3%
5	Deadpool 2		4.1%	5	Logan		3.2%

Box office revenues for the nine months ended September 30, 2018 were $541.9 million, an increase of $11.3 million or 2.1% over the prior year due to the higher BPP in the current year period compared to the 2017 period more than offsetting the 1.1% decrease in theatre attendance period over period.

Cineplex's BPP for the period increased $0.33, or 3.3%, from $10.04 in the prior year period to $10.37 in the current period. This increase was due to price increases in selective markets as compared to the prior year period.

Food service revenues

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

Food service revenues	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Food service - theatres	$ 107,519	$ 100,737	6.7%	$ 329,718	$ 311,978	5.7%
Food service - *The Rec Room*	8,038	6,292	27.7%	25,057	10,384	141.3%
Total food service revenues	$ 115,557	$ 107,029	8.0%	$ 354,775	$ 322,362	10.1%
Theatre attendance (i)	17,208	16,766	2.6%	52,280	52,843	-1.1%
CPP (i) (ii)	$ 6.25	$ 6.01	4.0%	$ 6.31	$ 5.90	6.9%
Same theatre food service revenues (i)	$ 105,150	$ 100,468	4.7%	$ 326,466	$ 311,163	4.9%
Same theatre attendance (i)	16,962	16,707	1.5%	51,896	52,662	-1.5%

(i) See Section 17, Non-GAAP Measures.
(ii) Food service revenue from *The Rec Room* is not included in the CPP calculation.

Theatre food service revenue continuity	Third Quarter		Year to Date	
	Theatre Food Service	Theatre Attendance	Theatre Food Service	Theatre Attendance
2017 as reported	$ 100,737	16,766	$ 311,978	52,843
Same theatre attendance change	1,533	255	(4,531)	(766)
Impact of same theatre CPP change	3,149	—	19,834	—
New and acquired theatres (i)	2,365	245	2,817	297
Disposed and closed theatres (i)	(265)	(58)	(380)	(94)
2018 as reported	$ 107,519	17,208	$ 329,718	52,280

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

Third Quarter

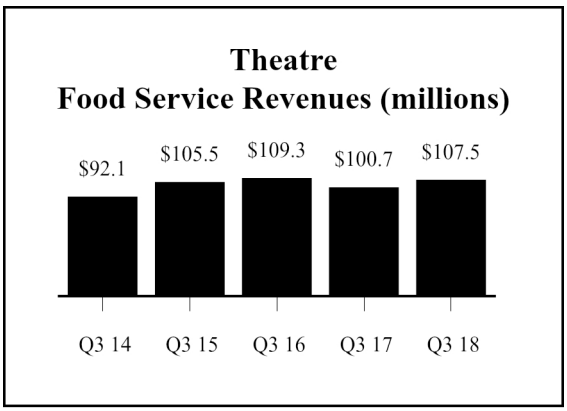
Food service revenues are comprised primarily of concession revenues, which includes food service sales at theatre locations and food and beverage sales at *The Rec Room*. Food service revenues increased $8.5 million or 8.0% in part as a result of the operations of *The Rec Room* which contributed $8.0 million and an increase of $6.8 million (6.7%) to $107.5 million in theatre food service revenues, a third quarter record. The increase in theatre food service revenues was due to the 2.6% increase in theatre attendance and the higher CPP.

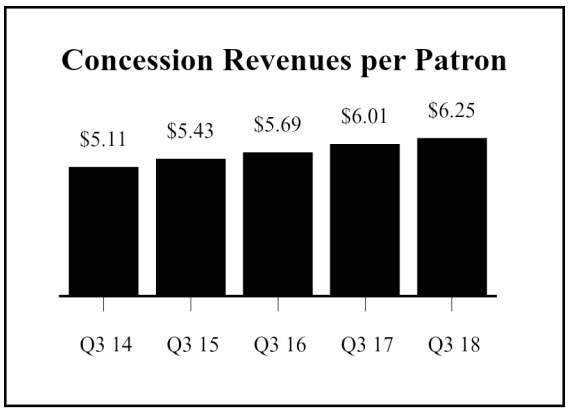
CPP increased 4.0% to $6.25, a third quarter record for Cineplex. Expanded offerings outside of core food service products, including offerings at Cineplex's VIP Cinemas and Outtakes locations, increased alcohol beverage service and price increases have resulted in higher average transaction values, resulting in the higher CPP in the period. In addition, the CPP was positively impacted by the program change to offer SCENE points instead of the 10% discount in the fourth quarter of 2017.

Year to Date

Food service revenues increased $32.4 million, or 10.1% as compared to the prior year, due to the 6.9% increase in CPP and $25.1 million contributed by *The Rec Room* partially offset by the impact of a 1.1% decrease in theatre attendance. The CPP of $6.31 is the highest CPP Cineplex has reported through the first nine months of any year.

While programs including the SCENE offers provided on food service purchases reduce individual CPP, Cineplex believes that this loyalty program drives incremental visits and food service purchases, resulting in higher overall food service revenues.





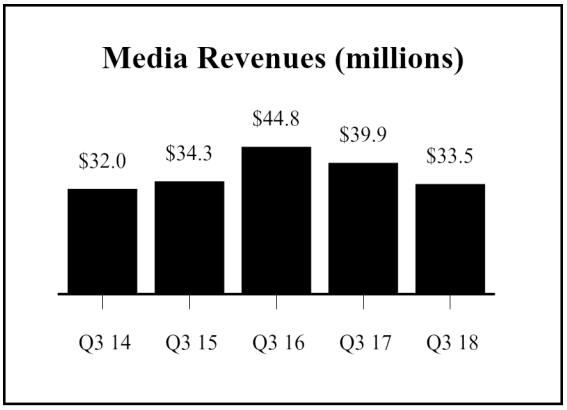
Media revenues

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

Media revenues	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Cinema media	$ 20,292	$ 27,409	-26.0%	$ 68,545	$ 72,965	-6.1%
Digital place-based media	13,195	12,453	6.0%	38,246	37,390	2.3%
Total media revenues	$ 33,487	$ 39,862	-16.0%	$ 106,791	$ 110,355	-3.2%

Third Quarter

Total media revenues decreased $6.4 million (16.0%) to $33.5 million in the third quarter of 2018 compared to the prior year period. The decrease was primarily due to decreases in Show-time and pre-show advertising as a result of declines in the automotive industry and the government sector. Timing of corporate campaigns in the beverage and electronic and technology industries also contributed to the decline. The decrease to cinema media was partially offset by higher digital place-based media revenue as a result of increased project installation and other digital services revenues.



Year to Date

Total media revenues decreased $3.6 million for the nine months ended September 30, 2018 as compared to the prior year period. The decrease resulted from a $4.4 million decrease in Cinema media due to lower Show-time and pre-show theatre advertising partially offset by a $0.9 million increase in digital place-based media revenues due to higher project installation revenue.

Year to date, digital place-based media added 498 new locations (an increase of 3.9%) for a total of 13,424 locations as at September 30, 2018.

Amusement revenues

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

Amusement revenues	**Third Quarter**			**Year to Date**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Amusement - P1AG excluding Cineplex exhibition and *The Rec Room* (i)	$ 42,820	$ 41,986	2.0%	$ 122,179	$ 120,049	1.8%
Amusement - Cineplex exhibition (i)	2,880	2,681	7.4%	7,967	8,087	-1.5%
Amusement - *The Rec Room*	8,138	4,273	90.5%	22,174	7,905	180.5%
Total amusement revenues	$ 53,838	$ 48,940	10.0%	$ 152,320	$ 136,041	12.0%

(i) 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.

Third Quarter

Amusement revenues increased 10.0%, or $4.9 million, to $53.8 million in the third quarter of 2018 compared to the prior year period due to an increase in route revenue in the United States as a result of the Cinemark agreement signed in the second quarter of 2018 and strong growth in revenue from the additional *The Rec Room* locations.

Year to Date

For the year to date period, amusement revenues increased 12.0% or $16.3 million, to $152.3 million compared to the prior year period due to the acquisition of Dandy Amusements International Inc. ("Dandy") in the second quarter of 2017 and the agreement signed with Cinemark in the second quarter of 2018 resulting in increased route revenue in the United States and strong growth in revenue from the additional locations of *The Rec Room* as compared to the prior year period.

The following table presents the adjusted EBITDA for the quarter and year to date for P1AG (in thousands of dollars):

P1AG Summary	**Third Quarter**			**Year to Date**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Amusement revenues	$ 42,820	$ 41,986	2.0%	$ 122,179	$ 120,049	1.8%
Operating Expenses	38,583	36,197	6.6%	110,400	103,695	6.5%
P1AG adjusted EBITDA (i)	$ 4,237	$ 5,789	-26.8%	$ 11,779	$ 16,354	-28.0%

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

Margins for P1AG decreased during the third quarter and year to date compared to the prior year periods as a result of a $2.1 million non-recurring charge.

The following table presents the adjusted store level EBITDA for the quarter and year to date for *The Rec Room* (in thousands of dollars):

***The Rec Room* Summary**	**Third Quarter**			**Year to Date**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Food service revenues	$ 8,038	$ 6,292	27.7%	$ 25,057	$ 10,384	141.3%
Amusement revenues	8,138	4,273	90.5%	22,174	7,905	180.5%
Media and other revenues	616	—	NM	1,386	—	NM
Total revenues	16,792	10,565	58.9%	48,617	18,289	165.8%
Cost of food service	2,264	1,972	14.8%	6,857	3,331	105.9%
Operating expenses (i)	11,011	7,835	40.5%	32,903	13,516	143.4%
Total costs	13,275	9,807	35.4%	39,760	16,847	136.0%
Adjusted store level EBITDA (ii)	3,517	758	364.0%	8,857	1,442	514.2%
Adjusted store level EBITDA margin (ii)	20.9%	7.2%	13.7%	18.2%	7.9%	10.3%

(i) Includes operating costs of *The Rec Room* locations. Pre-opening costs relating to *The Rec Room* locations and overhead relating to management of *The Rec Room* portfolio are not included.

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

Margins for *The Rec Room* in the third quarter and year-to-date compared to the prior year periods are a result of the strong summer months and the continued improvement and optimization of operations.

Other revenues

The following table highlights the other revenues which includes revenues from the Cineplex Store, promotional activities, screenings, private parties, corporate events, breakage on gift card sales and revenues from management fees for the quarter and the year to date (in thousands of dollars):

Other revenues	**Third Quarter**			**Year to Date**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Other revenues	$ 10,555	$ 10,124	4.3%	$ 30,862	$ 29,459	4.8%

Film cost

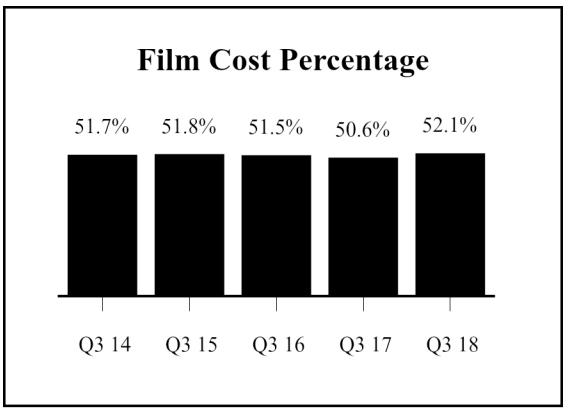
The following table highlights the movement in film cost and the film cost percentage for the quarter and the year to date (in thousands of dollars, except film cost percentage):

Film cost	**Third Quarter**			**Year to Date**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Film cost	$ 90,213	$ 83,268	8.3%	$ 287,763	$ 278,025	3.5%
Film cost percentage (i)	52.1%	50.6%	1.5%	53.1%	52.4%	0.7%

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

Third Quarter

Film cost varies primarily with box office revenues and can vary from quarter to quarter usually 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 third quarter of 2018 was 52.1%, a 1.5% increase from the prior year period due to the top films in the third quarter of 2018 having higher settlement rates compared to the historically low prior year period.



Year to Date

The year to date increase in film cost expense was due to a combination of the 0.7% increase in the film cost percentage and the higher box office revenues in the current period compared to the prior year period. The increase in film cost percentage is attributable to the top films in the current period having higher settlement rates compared to the prior year period.

Cost of food service

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

Cost of food service	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Cost of food service - theatre	$ 21,993	$ 21,697	1.4%	$ 67,196	$ 69,172	-2.9%
Cost of food service - *The Rec Room*	2,264	1,972	14.8%	6,857	3,331	105.9%
Total cost of food service	$ 24,257	$ 23,669	2.5%	$ 74,053	$ 72,503	2.1%
Theatre concession cost percentage (i)	20.5%	21.5%	-1.0%	20.4%	22.2%	-1.8%
The Rec Room food cost percentage (i)	28.2%	31.3%	-3.1%	27.4%	32.1%	-4.7%
Theatre concession margin per patron (i)	$ 4.97	$ 4.71	5.5%	$ 5.02	$ 4.59	9.4%
(i) See Section 17, Non-GAAP measures						

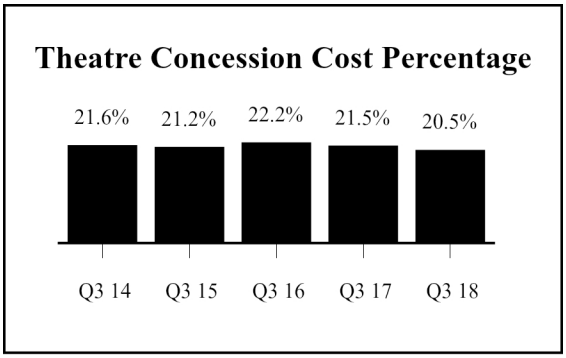
Third Quarter

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 between food and beverage items sold.

The increase in the theatre cost of food service as compared to the prior year period was primarily due to the higher food service revenues in the third quarter of 2018, partially offset by a decrease in the theatre concession cost percentage from 21.5% in the prior year period to 20.5% in 2018.

The theatre concession margin per patron increased 5.5% from $4.71 in the third quarter of 2017 to $4.97 in the same period in 2018, reflecting the impact of the higher CPP during the period and the lower concession cost percentage.

The increase in *The Rec Room* cost of food service as compared to the prior year period was due to the higher food service revenues as a result of the increase in operating locations. The decrease of 3.1% in *The Rec Room* food cost percentage during the quarter compared to the prior period was due to improved cost management as new locations opened.



Year to Date

The decrease in the theatre cost of food service as compared to the prior year period was due to the decrease in the concession cost percentage partially offset by the higher theatre food service revenues. The theatre concession margin per patron increased from $4.59 in the prior year period to $5.02 in the current period, reflecting the impact of the higher CPP in the current period and lower concession cost percentage.

The increase in *The Rec Room* cost of food service as compared to the prior year period was due to the higher food service revenues as a result of the increase in operating locations. The 4.7% decrease in the *The Rec Room* food cost percentage was due to improved cost management with the rollout of new locations.

Depreciation and amortization

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

Depreciation and amortization expenses	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Depreciation of property, equipment and leaseholds	$ 29,434	$ 26,110	12.7%	$ 84,924	$ 75,663	12.2%
Amortization of intangible assets and other	4,165	4,503	-7.5%	12,129	12,863	-5.7%
Depreciation and amortization expenses as reported	$ 33,599	$ 30,613	9.8%	$ 97,053	$ 88,526	9.6%

The quarterly and year to date increase in depreciation of property, equipment and leaseholds of $3.3 million and $9.3 million respectively was primarily due to the investments in amusement and leisure businesses, including *The Rec Room*.

The quarterly and year to date decrease in amortization of intangible assets and other as compared to the prior year periods is due to certain assets being fully amortized net of the impact of amortization of additions to intangible assets.

Loss on disposal of assets

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

Loss on disposal of assets	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Loss on disposal of assets	$ 783	$ 275	184.7%	$ 1,633	$ 337	384.6%

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, as well as amusement and leisure; and general and administrative expenses, which includes costs related to managing Cineplex's operations, including head office expenses. Please see the discussions below for more details on these categories.

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

Other costs	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Theatre occupancy expenses	$ 53,161	$ 52,320	1.6%	$ 157,847	$ 156,897	0.6%
Other operating expenses	147,750	143,375	3.1%	438,319	414,310	5.8%
General and administrative expenses	18,033	9,067	98.9%	54,004	51,082	5.7%
Total other costs	$ 218,944	$ 204,762	6.9%	$ 650,170	$ 622,289	4.5%

Theatre occupancy expenses

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

Theatre occupancy expenses	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Rent	$ 35,023	$ 34,882	0.4%	$ 104,216	$ 103,853	0.3%
Other occupancy	18,484	17,802	3.8%	55,857	54,273	2.9%
One-time items (i)	(346)	(364)	-4.9%	(2,226)	(1,229)	81.1%
Total	$ 53,161	$ 52,320	1.6%	$ 157,847	$ 156,897	0.6%

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

Theatre occupancy continuity	Third Quarter Occupancy	Year to Date Occupancy
2017 as reported	$ 52,320	$ 156,897
Impact of new and acquired theatres	308	518
Impact of disposed theatres	(226)	(214)
Same theatre rent change (i)	228	310
One-time items	17	(997)
Other	514	1,333
2018 as reported	$ 53,161	$ 157,847

(i) See Section 17, Non-GAAP measures

Third Quarter

Theatre occupancy expenses increased $0.8 million (1.6%) during the third quarter of 2018 compared to the prior year period. This increase was primarily due to the impact of new theatres net of disposed theatres and other charges.

Year to Date

For the year to date period, theatre occupancy expenses increased $1.0 million (0.6%) compared to the prior year. The increase was due to an increase in other charges ($1.3 million) and the impact of new and acquired theatres ($0.5 million) partially offset by an increase in one-time credits of $1.0 million related to real estate taxes.

Other operating expenses

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

Other operating expenses	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Theatre payroll	$ 38,003	$ 32,944	15.4%	$ 113,802	$ 104,021	9.4%
Theatre operating expenses	29,152	29,006	0.5%	87,484	86,042	1.7%
Media	14,223	16,612	-14.4%	47,908	51,793	-7.5%
P1AG	38,583	36,197	6.6%	110,400	103,695	6.5%
The Rec Room (i)	11,011	7,835	40.5%	32,903	13,516	143.4%
SCENE	3,168	4,370	-27.5%	10,456	11,475	-8.9%
Marketing	5,393	5,235	3.0%	13,296	13,763	-3.4%
Business interruption insurance proceeds	—	—	NM	(3,700)	—	NM
Other (ii)	8,217	11,176	-26.5%	25,770	30,005	-14.1%
Other operating expenses	$ 147,750	$ 143,375	3.1%	$ 438,319	$ 414,310	5.8%

(i) Includes operating costs of *The Rec Room* locations. 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.

(ii) Other category includes pre-opening and overhead costs related to *The Rec Room*, operating costs of WGN and other Cineplex internal departments.

Other operating continuity	Third Quarter Other Operating	Year to Date Other Operating
2017 as reported	$ 143,375	$ 414,310
Impact of new and acquired theatres	1,845	2,198
Impact of disposed theatres	(224)	(359)
Same theatre payroll change (i)	3,883	8,430
Same theatre operating expenses change (i)	(254)	994
Media operating expenses change	(2,389)	(3,885)
P1AG operating expenses change	2,386	6,705
The Rec Room operating expenses change	3,176	19,387
SCENE change	(1,201)	(1,019)
Marketing change	158	(467)
Business interruption insurance proceeds change	—	(3,700)
Other	(3,005)	(4,275)
2018 as reported	$ 147,750	$ 438,319

(i) See Section 17, Non-GAAP measures

Third Quarter

Other operating expenses during the third quarter of 2018 increased $4.4 million or 3.1% compared to the prior year period. The increase is primarily due to higher amusement and leisure costs related to new locations of *The Rec Room*. Same theatre payroll also increased as a result of higher business volumes during the quarter and the minimum wage increases in Ontario, Quebec and Alberta. These increases were partially offset by a $2.4 million decrease in media due to a decrease in business volumes and improved cost management, a $1.2 million decrease in SCENE due to timing of expenses and lower *The Rec Room* pre-opening costs due to the timing of several openings in the prior year period compared to no openings in the current year period.

Year to Date

For the nine months ended September 30, 2018, other operating expenses increased $24.0 million or 5.8% compared to the prior year period. The increase is primarily due to higher amusement and leisure costs, including higher P1AG costs due to the acquisition of Dandy in the second quarter of 2017, as well as costs related to new locations of *The Rec Room*. Same theatre payroll also increased as a result of the minimum wage increases in Ontario, Quebec and Alberta which more than offset any labor efficiencies achieved during the period. Media expenses decreased as a result of the reduction in business volumes and improved cost management during the year to date. Other expenses decreased due to lower *The Rec Room* pre-opening costs as there were three openings in the prior year compared to one opening in the current year.

During the second quarter, Cineplex recognized business interruption insurance proceeds of $3.7 million, as a result of a fire at *Cineplex Seton and VIP*.

General and administrative expenses

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

G&A expenses	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
G&A excluding LTIP and option plan expense	$ 14,587	$ 15,021	-2.9%	$ 47,132	$ 49,404	-4.6%
Restructuring	1,021	—	NM	4,820	—	NM
LTIP (i)	2,020	(6,424)	NM	729	323	125.7%
Option plan	405	470	-13.8%	1,323	1,355	-2.4%
G&A expenses as reported	$ 18,033	$ 9,067	98.9%	$ 54,004	$ 51,082	5.7%

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

Third Quarter

G&A expenses increased $9.0 million during the third quarter of 2018 compared to the prior year period. This was primarily due to an $8.4 million increase in LTIP expense as a result of the decrease in the Share price from $52.86 at June 30, 2017 to $39.04 at September 30, 2017, compared to the increase in Cineplex's Share price at June 30, 2018 of $29.18 to $35.00 at September 30, 2018. Restructuring costs of $1.0 million were due to Cineplex's cost reduction initiative implemented in the second quarter. This initiative is focused on achieving $25.0 million in annualized cost savings, a component of which will be realized in G&A. Decreases in G&A in part reflect the initial impact of the rollout of the initiative.

Year to Date

G&A expenses for the year to date period increased $2.9 million compared to the prior year period primarily due to restructuring costs of $4.8 million which were due to Cineplex's cost reduction initiative implemented in the second quarter of 2018, partially offset by a reduction to G&A expenses in part reflecting the initial impact of the rollout of the initiative.

Share of income of joint ventures and associates

Cineplex's joint ventures and associates include its 78.2% interest in CDCP, 50% interest in one IMAX screen in Ontario, 50% interest in YoYo's and 34.7% in VRstudios.

The following table highlights the components of share of income of joint ventures and associates during the quarter and the year to date (in thousands of dollars):

Share of income of joint ventures and associates	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Share of income of CDCP	$ (1,131)	$ (342)	230.7%	$ (2,875)	$ (2,469)	16.4%
Share of loss (income) of other joint ventures and associates	13	(40)	NM	25	(104)	NM
Total income of joint ventures and associates	$ (1,118)	$ (382)	192.7%	$ (2,850)	$ (2,573)	10.8%

Interest expense

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

Interest expense	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Long-term debt interest expense	$ 4,656	$ 3,784	23.0%	$ 13,409	$ 9,989	34.2%
Convertible debenture interest expense	1,219	1,220	-0.1%	3,618	3,619	—%
Finance lease interest expense	126	186	-32.3%	425	603	-29.5%
Sub-total - cash interest expense	$ 6,001	$ 5,190	15.6%	$ 17,452	$ 14,211	22.8%
Deferred financing fee accretion and other non-cash interest, net	100	156	-35.9%	301	474	-36.5%
Convertible debenture accretion	606	565	7.3%	1,815	1,697	7.0%
Interest rate swap - non-cash	185	62	198.4%	393	(244)	NM
Sub-total - non-cash interest expense	891	783	13.8%	2,509	1,927	30.2%
Total interest expense	$ 6,892	$ 5,973	15.4%	$ 19,961	$ 16,138	23.7%

Interest expense increased $0.9 million for the quarter and $3.8 million for the year to date compared to the prior year period. For both the third quarter and year to date periods, cash interest is higher due to higher average borrowings on Cineplex's revolving facility (See section 6.4, Credit Facilities).

Interest income

Interest income during the third quarter of 2018 and the nine months ended September 30, 2018 was as follows (in thousands of dollars):

Interest income	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Interest income	$ 60	$ 60	—%	$ 205	$ 163	25.8%

Foreign exchange

The following table highlights the movement in foreign exchange during the third quarter of 2018 and the nine months ended September 30, 2018 (in thousands of dollars):

Foreign exchange	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Foreign exchange loss (gain)	391	$ 282	38.7%	(441)	$ 857	NM

The increase in foreign exchange loss during the quarter is due to a decrease in the CAD/USD foreign exchange month end rate from 1.3168 at June 30, 2018 to 1.2945 at September 30, 2018.

For the nine months ended September 30, 2018, the increase in foreign exchange (gain) is due to the increase in the CAD/USD foreign exchange month end rate from 1.2545 at December 31, 2017 to 1.2945 at September 30, 2018.

Change in fair value of financial instrument

The following table highlights the movement in change in fair value of financial instrument during the quarter and the year to date (in thousands of dollars):

Change in fair value of financial instrument	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Gain on change in fair value of financial instrument	$ —	$ (1,750)	NM	$ —	$ (2,737)	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 thousand change in fair value of financial instrument. On April 13, 2017, the put liability was settled for $4.0 million in cash.

Income taxes

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

Income taxes	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Current income tax expense	$ 5,821	$ 5,235	11.2%	$ 18,001	$ 13,380	34.5%
Deferred income tax (recovery) expense	$ (3,216)	$ 1,344	NM	$ (8,300)	$ 632	NM
Provision for income taxes	$ 2,605	$ 6,579	-60.4%	$ 9,701	$ 14,012	-30.8%

Third Quarter

The decrease in the third quarter provision for income taxes is due to the impact of a difference in the timing of deductions for tax as compared to accounting purposes in the current period as compared to the prior year period. This was partially offset by an increase in the current income tax expense due to higher taxable income versus the prior year period.

Year to Date

The year to date decrease in the provision for income taxes in spite of higher income before income taxes as compared to 2017 is primarily due to an increase to deferred income tax recovery resulting from Cineplex recognizing a deferred tax asset of $5.0 million at June 30, 2018 and an additional $1.2 million at September 30, 2018, related to its joint venture in SCENE. This conclusion and the resulting recognition of the deferred tax asset is based on management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized.

Cineplex's blended federal and provincial statutory tax rate at September 30, 2018 was 26.9% (2017 - 26.8%).

Net income

Net income during the third quarter of 2018 and the nine months ended September 30, 2018 was as follows (in thousands of dollars):

Net income	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Net income	$ 10,209	$ 17,219	-40.7%	$ 49,802	$ 41,560	19.8%

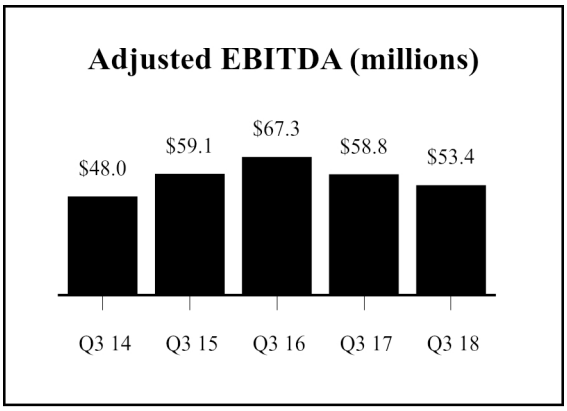
4.3 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (see Section 17, Non-GAAP measures)

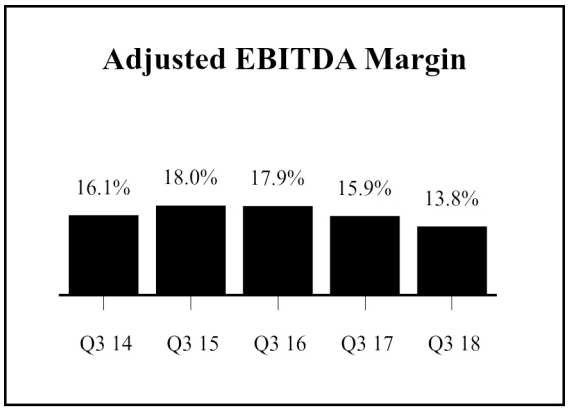
The following table presents EBITDA and adjusted EBITDA for the three and nine months ended September 30, 2018 as compared to the prior year periods (in thousands of dollars, except adjusted EBITDA margin):

EBITDA	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
EBITDA	$ 53,245	$ 60,324	-11.7%	$176,312	$160,073	10.1%
Adjusted EBITDA	$ 53,356	$ 58,811	-9.3%	$174,728	$156,315	11.8%
Adjusted EBITDA margin	13.8%	15.9%	-2.1%	14.7%	13.8%	0.9%

Adjusted EBITDA for the third quarter of 2018 decreased $5.5 million (9.3%) compared to the prior year period. The decrease was mainly due to an increase of $8.4 million in share-based compensation costs, as compared to the same quarter a year ago resulting from the impact of the 2017 decline in the share price compared to the increase in the share price in 2018. The decrease in media revenues and $1.0 million in restructuring costs also contributed to the decline. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 13.8% in the current period.

Adjusted EBITDA for the nine months ended September 30, 2018 increased $18.4 million, or 11.8%, as compared to the prior year period. The increase was due to higher BPP and CPP amounts resulting in higher box office and food service revenues compared to the prior year. The growth in results from expanded locations of *The Rec Room* coupled with lower startup costs have also contributed to the year to date increase for adjusted EBITDA, partially offset by restructuring costs of $4.8 million. Adjusted EBITDA margin for the period was 14.7%, an increase of 0.9% from 13.8% in the prior year period.





5. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the nine months ended September 30, 2018 as compared to December 31, 2017 (in thousands of dollars):

	September 30, 2018	Restated December 31, 2017 (i)	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 32,562	$ 40,597	$ (8,035)	-19.8%
Trade and other receivables	87,469	160,938	(73,469)	-45.7%
Income taxes receivable	1,235	1,344	(109)	-8.1%
Inventories	31,331	28,966	2,365	8.2%
Prepaid expenses and other current assets	17,941	13,013	4,928	37.9%
Fair value of interest rate swap agreements	1,313	314	999	318.2%
	171,851	245,172	(73,321)	-29.9%
Non-current assets				
Property, equipment and leaseholds	624,922	628,129	(3,207)	-0.5%
Deferred income taxes	9,358	7,134	2,224	31.2%
Fair value of interest rate swap agreements	4,138	3,880	258	6.6%
Interests in joint ventures and associates	40,216	35,353	4,863	13.8%
Intangible assets	110,740	119,011	(8,271)	-6.9%
Goodwill	816,761	816,489	272	—%
	$ 1,777,986	$ 1,855,168	$ (77,182)	-4.2%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$ 150,381	$ 189,929	$ (39,548)	-20.8%
Share-based compensation	2,286	4,732	(2,446)	-51.7%
Dividends payable	9,183	8,866	317	3.6%
Income taxes payable	5,673	9,157	(3,484)	-38.0%
Deferred revenue	155,721	195,808	(40,087)	-20.5%
Finance lease obligations	3,612	3,420	192	5.6%
Fair value of interest rate swap agreements	262	1,332	(1,070)	-80.3%
Convertible debentures	106,895	105,080	1,815	1.7%
	434,013	518,324	(84,311)	-16.3%
Non-current liabilities				
Share-based compensation	12,914	13,816	(902)	-6.5%
Long-term debt	508,123	467,867	40,256	8.6%
Finance lease obligations	2,718	5,451	(2,733)	-50.1%
Post-employment benefit obligations	9,386	9,227	159	1.7%
Other liabilities	119,422	117,589	1,833	1.6%
Deferred income taxes	8,638	14,031	(5,393)	-38.4%
	1,095,214	1,146,305	(51,091)	-4.5%
Equity attributable to owners of Cineplex (i)	682,832	708,863	(26,031)	-3.7%
Non-controlling interests	(60)	—	(60)	NM
Total equity	682,772	708,863	(26,091)	-3.7%
	$ 1,777,986	$ 1,855,168	$ (77,182)	-4.2%

(i) See Section 12, Accounting Policies, for the changes in equity due to the adoption of *IFRS 9 Financial Instruments* and *IFRS 15 Revenue from Contracts with Customer,*

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 2017 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.

Inventories. The increase in inventories is primarily due to higher amusement solutions inventories as a result of the growth in the business.

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

Property, equipment and leaseholds. The increase in property, equipment and leaseholds is due to new build and other capital expenditures ($69.4 million) and maintenance capital expenditures ($14.7 million), offset by amortization expenses ($84.9 million) and asset dispositions ($2.4 million).

Interests in joint ventures and associates. The increase in interest in joint ventures and associates is primarily due to the acquisition of the 34.7% interest in VRstudios for $4.7 million.

Intangible assets. The decrease in intangible assets is primarily due to amortization of intangible assets with finite lives partially offset by the capitalization of costs associated with internally generated software.

Goodwill. The increase in goodwill is due to the impact of foreign exchange.

Accounts payable and accrued expenses. The decrease in accounts payable and accrued expenses principally 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 2015 LTIP, which vested in the first quarter of 2018.

Income taxes payable. The decrease in income taxes payable represents the final installment made by Cineplex during 2018 for taxes due based on its 2017 return, and the net of the 2018 installments payments and the current income tax recorded up to the third quarter of 2018.

Deferred revenue. Deferred revenue decreased mainly due to the redemption of gift cards and vouchers sold during the 2017 holiday season.

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

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 certain cash revenues are normally collected in advance of the payment of certain expenses. Box office revenues are directly related to the success and appeal of the film product produced and distributed by the studios. The following table highlights the movements in cash from operating activities for the three and nine months ended September 30, 2018 and 2017 (in thousands of dollars):

Cash flows provided by operating activities	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Net income	$ 10,209	$ 17,219	$ (7,010)	$ 49,802	$ 41,560	$ 8,242
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts (i)	31,290	28,326	2,964	88,452	81,467	6,985
Loss on disposal of assets	783	275	508	1,633	337	1,296
Deferred income taxes	(3,216)	1,344	(4,560)	(8,300)	632	(8,932)
Interest rate swap agreements - non-cash interest	185	62	123	393	(244)	637
Non-cash Share-based compensation	405	470	(65)	1,323	1,355	(32)
Accretion of convertible debentures	606	565	41	1,815	1,697	118
Change in fair value of financial instruments	—	(1,750)	1,750	—	(2,737)	2,737
Net change in interests in joint ventures and associates	(2,130)	1,275	(3,405)	(3,759)	(2,612)	(1,147)
Tenant inducements	3,481	2,594	887	11,729	2,992	8,737
Changes in operating assets and liabilities	234	(12,675)	12,909	(19,526)	(88,928)	69,402
Net cash provided by operating activities	$ 41,847	$ 37,705	$ 4,142	$ 123,562	$ 35,519	$ 88,043

(i) Includes amortization of property, equipment and leaseholds and intangible assets, amortization of tenant inducements and rent averaging liabilities, and other non-cash interest costs and non-cash foreign exchange gain/loss.

Third Quarter

Cash provided by operating activities increased $4.1 million in the third quarter of 2018 compared to the prior year period primarily due to an increase of $12.9 million in changes in operating assets and liabilities, including the timing of the settlement of accounts receivable and payable balances which was partially offset by the net change in joint ventures and associates.

Year to Date

For the nine months ended September 30, 2018, cash provided in operating activities increased $88.0 million compared to the prior year period due to an $8.2 million increase in net income, an $8.7 million increase in tenant inducements and an increase of $69.4 million of changes in operating assets and liabilities as a result of the timing and settlement of accounts receivable and payable balances.

6.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the three and nine months ended September 30, 2018 and 2017 (in thousands of dollars):

Cash flows used in investing activities	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Proceeds from disposal of assets, including asset-related insurance recoveries	$ 44	$ —	$ 44	$ 1,830	$ 310	$ 1,520
Purchases of property, equipment and leaseholds	(30,582)	(47,869)	17,287	(85,573)	(123,640)	38,067
Acquisition of businesses, net of cash acquired	(4,685)	(735)	(3,950)	(4,685)	(30,422)	25,737
Intangible assets additions	(1,207)	(1,160)	(47)	(3,575)	(3,742)	167
Net cash received from joint ventures and associates	2,606	2,246	360	3,582	3,615	(33)
Net cash used in investing activities	$ (33,824)	$ (47,518)	$ 13,694	$ (88,421)	$ (153,879)	$ 65,458

Third Quarter

Cash used in investing activities during the third quarter of 2018 decreased by $13.7 million compared to the prior year period. The change was primarily due to the higher additions to property, equipment and leaseholds and business acquisitions in the prior year period, including spending on the construction of *The Rec Room* locations, recliner seating conversions, theatre construction and the remaining consideration for Tricorp Amusements Inc. ("Tricorp").

Year to Date

For the year to date period, cash used in investing activities was $65.5 million lower than the prior year period. The variance was primarily due to increased spending in the prior year period on the construction of *The Rec Room* locations, recliner seating conversions, theatre construction and acquisitions. Acquisitions included Dandy for net $13.2 million, the non-controlling interest in WGN for $4.0 million, $10.0 million deferred consideration payment for EK3 Technologies Inc. and $3.1 million of remaining consideration for Tricorp. Insurance proceeds of $1.5 million received during the second quarter with the respect to a fire at *Cineplex Cinemas Seton and VIP* in 2017 are included in proceeds from disposal of assets, including asset-related insurance recoveries.

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

Capital expenditures	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Gross capital expenditures	$ 30,582	$ 47,869	$ (17,287)	$ 85,573	$ 123,640	$ (38,067)
Less: tenant inducements	(3,481)	(2,594)	(887)	(11,729)	(2,992)	(8,737)
Net capital expenditures	$ 27,101	$ 45,275	$ (18,174)	$ 73,844	$ 120,648	$ (46,804)
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 14,341	$ 20,811	$ (6,470)	$ 52,369	$ 61,168	$ (8,799)
Tenant inducements	(3,481)	(2,594)	(887)	(11,729)	(2,992)	(8,737)
Media growth capital expenditures	132	1,243	(1,111)	890	4,427	(3,537)
Premium formats (ii)	1,325	7,720	(6,395)	4,906	30,164	(25,258)
Amusement gaming & leisure growth capital expenditures (excluding *The Rec Room* expenditures)	7,659	2,635	5,024	10,012	5,317	4,695
Maintenance capital expenditures	4,433	9,720	(5,287)	14,673	23,846	(9,173)
Other (iii)	2,692	5,740	(3,048)	2,723	(1,282)	4,005
	$ 27,101	$ 45,275	$ (18,174)	$ 73,844	$ 120,648	$ (46,804)

(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 capital expenditure projects including theatre, *The Rec Room, Playdium* and *Topgolf*.

6.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the three and nine months ended September 30, 2018 and 2017 (in thousands of dollars):

Cash flows (used in) provided by financing activities	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Dividends paid	$ (27,549)	$ (26,688)	$ (861)	$ (81,064)	$ (78,454)	$ (2,610)
Borrowings under credit facility, net	19,000	41,000	(22,000)	40,000	191,000	(151,000)
Payments under finance leases	(863)	(802)	(61)	(2,542)	(2,363)	(179)
Deferred financing fees	—	(183)	183	—	(183)	183
Shares repurchased and canceled	—	(6,007)	6,007	—	(6,007)	6,007
Options exercised for cash	—	—	—	68	—	68
Net cash (used in) provided by financing activities	$ (9,412)	$ 7,320	$ (16,732)	$ (43,538)	$ 103,993	$ (147,531)

Third Quarter

Cash flows used in financing activities were $9.4 million in the third quarter of 2018, as compared to the cash flow of $7.3 million provided by financing activities in the prior year period, primarily due to lower net borrowings in the current period partially offset by the $6.0 million spent on Shares repurchased through Cineplex's normal course issuer bid ("NCIB") in the prior year period.

Year to Date

Net cash used in financing activities was $43.5 million year to date in 2018, as compared to the cash flow provided by financing activities of $104.0 million in the prior year period. This was due to $151.0 million of higher borrowings in the prior year period to fund acquisitions, new build capital expenditures, and recliner seating conversions partially offset by $2.6 million in additional dividend payments during the current period and the $6.0 million spent on Shares repurchased through Cineplex's NCIB in the prior year period.

Cineplex believes that it will be able to meet its future cash obligations with its cash and cash equivalents, cash flows from operations and funds available under the Credit Facilities as described in Section 6.4, Credit Facilities.

6.4 CREDIT FACILITIES

Subsequent to the period end, Cineplex increased and extended its bank credit facilities (the "Credit Facilities"), with the same lenders (see Section 15, Subsequent events).

Cineplex entered into certain credit facilities effective May 2, 2016 (the "Credit Facilities"). At September 30, 2018, the Credit Facilities consisted of the following (in millions of Canadian dollars):

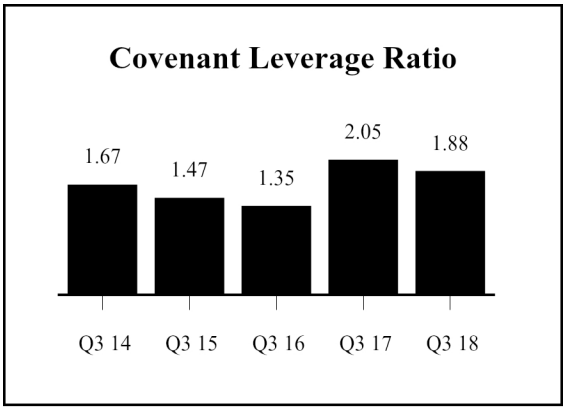
	Available	Drawn	Reserved	Remaining
(i) a five-year senior secured revolving credit facility ("Revolving Facility")	$ 475.0	$ 359.0	$ 8.4	$ 107.6
(ii) a five-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at September 30, 2018 of $8.4 million are reserved against the Revolving Facility.				

There are provisions to increase the Revolving Facility commitment amount by an additional $75.0 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 September 30, 2018, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 1.88x, as compared to a covenant of 3.50x. The definition of debt in the Credit Facility includes long-term debt (excluding any convertible debentures), financing leases and letters of credit but does not include a reduction for cash on hand. For the purposes of the Credit Facility definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres or acquisitions.



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 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 matured on October 24, 2018, the maturity of the Credit Facilities at that time. Under these agreements, Cineplex paid a fixed rate of 2.62% 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.

During the second quarter of 2016, Cineplex entered into four interest rate swap agreements which commenced April 26, 2016 for an aggregate notional principal amount of $50.0 million, and matured on October 24, 2018. Under these agreements, Cineplex paid a fixed rate of 1.07% 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.

Also during the second quarter of 2016, Cineplex entered into four interest rate swap agreements which commenced 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 IFRS 9, *Financial Instruments.* Under the provisions of IFRS 9, 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 September 30, 2018 Cineplex's effective cost of borrowing on the $200.0 million hedged borrowings was 3.783% (September 30, 2017 - $200.0 million hedged borrowings - 3.783%).

6.5 FUTURE OBLIGATIONS

Cineplex has aggregate gross capital commitments of $235.1 million ($186.7 million net of tenant inducements) related to the completion of construction of 24 operating locations, including theatres, *The Rec Room, Playdium,* and *Topgolf* 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 theatre 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.

At September 30, 2018, Cineplex had $107.5 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2018. At September 30, 2018, the convertible debentures were recorded on Cineplex's balance sheet at $106.9 million. The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by IFRS 9, *Financial Instruments.* 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. Cineplex intends to settle the convertible debentures in cash at maturity on December 31, 2018. 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 and nine months ended September 30, 2018 and 2017:

Adjusted free cash flow	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Adjusted free cash flow per Share	$ 0.576	$ 0.597	-3.5%	$ 1.874	$ 1.563	19.9%
Dividends declared per Share	$ 0.435	$ 0.420	3.6%	$ 1.285	$ 1.240	3.6%
Payout ratio - twelve months ended September 30				63.5%	75.3%	-11.8%

Adjusted free cash flow per Share is 3.5% lower than the prior year period due to the weaker operating results as compared to the prior year period. For the year to date period, adjusted free cash flow per Share is 19.9% higher than the prior year period.

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

	Third Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Cash flows provided by operations	$ 41,847	$ 37,705	11.0%	$ 123,562	$ 35,519	247.9%
Net income	$ 10,209	$ 17,219	-40.7%	$ 49,802	$ 41,560	19.8%
Standardized free cash flow	$ 11,309	$ (10,164)	NM	$ 39,819	$ (87,811)	NM
Adjusted free cash flow	$ 36,509	$ 37,915	-3.7%	$ 118,709	$ 99,258	19.6%
Cash dividends declared	$ 27,233	$ 26,666	2.1%	$ 81,381	$ 78,753	3.3%
Average number of Shares outstanding	63,332,946	63,508,418	-0.3%	63,331,829	63,515,158	-0.3%

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 September 30, 2018 and 2017, Cineplex declared dividends totaling $0.435 per Share and $0.420 per Share, respectively.

The following table outlines 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
May 2017	$0.1400
May 2018	$0.1450
(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.	

8. SHARE ACTIVITY

Share capital at September 30, 2018 and the transactions during the nine month 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, 2017	63,330,446	$ 852,290	$ 4,471	$ 856,761
Issuance of shares on exercise of options	2,500	74	—	74
Balance - September 30, 2018	63,332,946	$ 852,364	$ 4,471	$ 856,835

Officers and key employees are eligible to participate in the LTIP. Beginning with the 2018 awards, each annual LTIP grant is for a three-year service period beginning October 1. The LTIP award consists of a restricted stock unit plan ("RSU") awarding base Share equivalents which may decrease or increase subject to certain market conditions and a phantom share unit plan ("PSU") awarding Share equivalents which may decrease by approximately 0% or increase by 200% 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.

LTIP awards granted in 2017 and 2016 consist of a PSU awarding Share equivalents which may decrease by approximately 61% or increase by 83% 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:

	PSU Share equivalents	RSU Share equivalents
2018 LTIP award	79,089	39,549
2017 LTIP award	129,136	—
2016 LTIP award	112,804	—

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 September 30, 2018, 2.5 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 and are available for future grants. At September 30, 2018, 1.7 million Share options were available for grant under the plan.

A summary of option activities for the nine months ended September 30, 2018 and 2017 is as follows:

	2018			2017	
	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	7.37	2,157,589	$ 45.50	1,705,338	43.21
Granted		559,703	33.59	544,992	51.25
Forfeited		(233,847)	45.17	(11,395)	47.71
Exercised		(2,500)	27.33	(81,346)	35.38
Options outstanding – end of period	7.17	2,480,945	$ 42.86	2,157,589	$ 45.50

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. 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. Cineplex intends to settle the convertible debentures in cash at maturity on December 31, 2018.

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 theatre attendance, affecting theatre exhibition reported results. The seasonality of theatre attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. Cineplex's diversification into other businesses such as digital media and amusement 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 lower revenue quarters, Cineplex can draw upon the Revolving Facility, which had $359.0 million drawn as of September 30, 2018, leaving $107.6 million available.

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

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues								
Box office revenues	$ 173,278	$187,234	$181,380	$185,048	$164,493	$170,710	$195,354	$183,413
Food service revenues	115,557	122,270	116,948	119,514	107,029	101,398	113,935	105,535
Media revenues	33,487	40,791	32,513	61,519	39,862	36,581	33,912	52,720
Amusement revenues	53,838	48,577	49,905	49,300	48,940	45,700	41,401	33,737
Other revenues	10,555	10,181	10,126	10,912	10,124	9,694	9,641	10,031
	386,715	409,053	390,872	426,293	370,448	364,083	394,243	385,436
Expenses								
Film cost	90,213	102,346	95,204	98,734	83,268	91,468	103,289	96,068
Cost of food service	24,257	25,020	24,776	26,935	23,669	23,180	25,654	24,786
Depreciation and amortization	33,599	32,260	31,194	31,390	30,613	29,646	28,267	28,254
Loss on disposal of assets	783	640	210	369	275	36	26	168
Other costs	218,944	213,772	217,454	220,930	204,762	211,456	206,071	198,067
	367,796	374,038	368,838	378,358	342,587	355,786	363,307	347,343
Income from operations	18,919	35,015	22,034	47,935	27,861	8,297	30,936	38,093
Adjusted EBITDA (i)	53,356	67,840	53,532	79,614	58,811	38,055	59,449	66,841
Net income	$ 10,209	$ 24,367	$ 15,226	$ 28,786	$ 17,219	$ 1,376	$ 22,965	$ 23,328
EPS -basic	$ 0.16	$ 0.38	$ 0.24	$ 0.45	$ 0.27	$ 0.02	$ 0.37	$ 0.37
EPS - diluted (ii)	$ 0.16	$ 0.38	$ 0.24	$ 0.45	$ 0.27	$ 0.02	$ 0.37	$ 0.37
Cash provided by (used in) operating activities	$ 41,847	$ 35,289	$ 46,426	$118,833	$ 37,705	$ 12,489	$(14,675)	$131,414
Cash used in investing activities	(33,824)	(28,597)	(26,000)	(45,668)	(47,518)	(80,396)	(25,965)	(60,176)
Cash (used in) provided by financing activities	(9,412)	(12,695)	(21,431)	(51,461)	7,320	48,170	48,503	(61,475)
Effect of exchange rate differences on cash	(173)	589	(54)	146	(184)	(253)	(2)	105
Net change in cash	$ (1,562)	$ (5.414)	$ (1,059)	$ 21,850	$ (2,677)	$(19,990)	$ 7,861	$ 9,868
BPP (i)	$ 10.07	$ 10.82	$ 10.21	$ 10.54	$ 9.81	$ 10.36	$ 9.97	$ 10.23
CPP (i)	$ 6.25	$ 6.59	$ 6.09	$ 6.29	$ 6.01	$ 6.03	$ 5.71	$ 5.75
Film cost percentage (i)	52.1%	54.7%	52.5%	53.4%	50.6%	53.6%	52.9%	52.4%
Theatre attendance (in thousands of patrons) (i)	17,208	17,307	17,765	17,551	16,766	16,484	19,593	17,934
Theatre locations (at period end)	165	164	163	163	163	164	164	165
Theatre screens (at period end)	1.696	1.683	1.676	1.676	1.676	1.677	1.677	1.683

(i) See Section 17, Non-GAAP measures

(ii) Excludes the conversion of convertible debentures as such conversion would be anti-dilutive for all quarters.

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) (in thousands of dollars except per Share data and number of Shares outstanding):

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash provided by (used in) operating activities	$ 41,847	$ 35,289	$ 46,426	$ 118,833	$ 37,705	$ 12,489	$ (14,675)	$ 131,414
Less: Total capital expenditures net of proceeds on sale of assets	(30,538)	(27,876)	(25,329)	(44,205)	(47,869)	(50,240)	(25,221)	(27,864)
Standardized free cash flow	11,309	7.413	21,097	74,628	(10,164)	(37,751)	(39,896)	103,550
Add/(Less):								
Changes in operating assets and liabilities	(234)	20,679	(919)	(60,319)	12,675	14,533	61,720	(80,385)
Changes in operating assets and liabilities of joint ventures and associates	1,012	(411)	308	506	(1,657)	317	1,379	777
Tenant inducements	(3,481)	(6,372)	(1,876)	(682)	(2,594)	(89)	(309)	(1,235)
Principal component of financing lease obligations	(863)	(847)	(832)	(817)	(802)	(788)	(773)	(760)
Growth capital expenditures and other	26,105	22,923	20,042	37,553	38,149	41,025	20,310	16,480
Share of income of joint ventures and associates, net of non-cash depreciation	2	(75)	94	(80)	62	55	52	50
Non-controlling interest EBITDA of WGN	—	—	—	—	—	21	168	276
Non-controlling interest EBITDA of TGLP	53	—	—	—	—	—	—	—
Net cash received from CDCP	2,606	292	684	550	2,246	685	684	684
Adjusted free cash flow	$ 36,509	$ 43,602	$ 38,598	$ 51,339	$ 37,915	$ 18,008	$ 43,335	$ 39,437
Average number of Shares outstanding	63,332,946	63,332,067	63,330,446	63,350,216	63,508,418	63,520,645	63,516,499	63,495,944
Adjusted free cash flow per Share	$ 0.576	$ 0.688	$ 0.609	$ 0.810	$ 0.597	$ 0.283	$ 0.682	$ 0.621

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 and nine months ended September 30, 2018, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of $11.3 million and $33.7 million, (2017 - $11.1 million and $33.6 million, respectively).

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, 2017.

12. ACCOUNTING POLICIES

Cineplex prepares its unaudited interim condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), defined as International Financial Reporting Standards ("IFRS") as set out in the CPA Canada Handbook. The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires that management exercise judgment in applying Cineplex's accounting policies. The unaudited interim condensed consolidated financial statements are presented in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The disclosures contained in the 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, 2017. The 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, 2017, with the exception of the accounting standards adopted in the current year as referenced in the interim condensed consolidated financial statements for the three months ended March 31, 2018.

ACCOUNTING STANDARDS ADOPTED IN THE CURRENT YEAR

IFRS 9 Financial Instruments

Following the adoption of IFRS 9, Cineplex will no longer defer and amortize the deferred financing fees associated with the previous amended bank credit facilities. Under IAS 39, when Cineplex extended its bank credit facilities in 2016, it was considered a renegotiation of debt and the financing fees related to the transaction were added to the previous unamortized deferred financing fees and amortized over the remaining term on a straight-line basis. The adjustments below were made to the amounts recognized in the balance sheet and statement of changes in equity. The impact on the statement of operations is not material.

IFRS 15 Revenue from Contracts with Customers

Following the adoption of IFRS 15, Cineplex defers unused cash balances on rechargeable game cards.

The following table shows the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub totals and totals disclosed cannot be recalculated from the numbers provided.

Consolidated Statement of Changes in Equity:

	January 1, 2017 as originally presented	Adjustment	January 1, 2017 Restated
Equity			
Deficit	$ (108,342)	$ (2,913)	$ (111,255)
Total Equity	$ 751,895	$ (2,913)	$ 748,982

Consolidated Balance Sheet:

	January 1, 2017 as originally presented	Adjustment	January 1, 2017 Restated
Current liabilities			
Deferred revenue	$ 172,140	$ 3,000	$ 175,140
Non-current liabilities			
Long-term debt	297,496	976	298,472
Deferred income taxes	11,210	(1,063)	10,147
Total Liabilities	$ 976,291	$ 2,913	$ 979,204

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

On January 13, 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. The new standard is mandatorily effective for fiscal years beginning on or after January 1, 2019. Under the new standard, all leases will be reported on lessees' balance sheets, except those that meet limited exception criteria. Cineplex is reviewing its analysis of the new standard and has made policy decisions to determine its impact on Cineplex's balance sheet and statement of operations. Cineplex will apply IFRS 16 using the modified retrospective approach and as a result comparative information will not be restated and will continue to be reported under IAS 17 and IFRIC 4. Additional disclosure will include a reconciliation between operating lease commitments at December 31, 2018 under IAS 17 and the opening lease liabilities at January 1, 2019 under IFRS 16. Cineplex has also identified and reviewed all contracts from all lines of its business to assess if they fall within the scope of IFRS 16, in whole or in part and to quantify lease and non-lease components.

As Cineplex has significant contractual obligations classified as operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard, and material changes to the timing of recognition and presentation of expenses associated with the lease arrangements. Cineplex will recognize a lease liability and right-of-use asset at the date of adoption. The lease liability will be measured at the present value of the future lease payments at the date of adoption, discounted using Cineplex's incremental borrowing rate at the date of adoption. Cineplex is in the process of assessing the methodology and the deemed commencement date for the calculation of the right-of-use assets.

In general, the right-of-use asset will be depreciated using the straight line method from the date of adoption to the end of the lease term. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the liability. As a result of these changes, there will be a material increase in interest expense and depreciation, as well as a material reduction in Other Costs on the Statement of Operations due to the decrease in rent expense and all lease related non-cash components being removed. Cineplex is

currently in the process of upgrading its existing accounting systems, processes and internal controls to account for IFRS 16.

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. 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 companies 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 theatre attendance has not been negatively affected by economic downturns over the past 25 years. Further, to mitigate this risk, 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 are substantial competitors to the movie-going experience including home and online consumption of content, sporting events, streaming services, gaming, live music concerts, live theatre, other entertainment venues and restaurants. 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 theatre attendance and food service revenues.

To mitigate this risk, Cineplex offers the SCENE loyalty program, which rewards guests for their patronage with special offers as well as the ability to earn and redeem points. However, loyalty programs also carry risk in that customers may not be satisfied with the offering or any change in offerings. There also exists a risk of saturation of loyalty programs in a market or the inability to further grow membership such that the program may generate costs in excess of the benefits. Cineplex monitors customer needs to try and ensure that its entertainment experiences meet the anticipated needs of key demographic groups. Cineplex is differentiating the movie-going experience by providing premium alternatives such as UltraAVX, VIP, 4DX and D-BOX seating. Cineplex also includes XSCAPE Entertainment Centres in select theatres and provides alternative

programming with appeals to specific demographic groups. In addition, the advent of digital technology has allowed for more niche programming.

In the event that consumer preferences change, Cineplex may need to incur further capital expenditures to redevelop or upgrade existing locations. Cineplex continues to improve the quality of its theatre assets through ongoing renovations and 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 theatre 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 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 or service issues.

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 Transactional Video on Demand ("TVoD") 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. To mitigate this risk, 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 movie theatre 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 2017, seven major film distributors accounted for approximately 85% of Cineplex's box office revenues, which is consistent with industry standards. Deterioration in Cineplex's relationships with any of the major film distributors or an increase in studio concentration or consolidation 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 DVD, over the top internet streaming, pay television and SVOD is at the discretion of each distributor and day and date release or earlier release windows for these or new alternative channels including the potential premium video on demand ("PVOD") models 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 theatre attendance levels at Cineplex's theatres.

In response to this risk, management continually reviews and upgrades its existing locations including recliner seating. 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 significant 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 theatre 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*, *Playdium* and *Topgolf*. 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 and digital place based 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 location-based entertainment concepts are new concepts in the Canadian marketplace, and as such there is a risk that consumers may not react as favourably to the concepts, entertainment options or food service options 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 in which 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 time and spending also extends 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.

Cineplex's new location-based entertainment locations may not meet or exceed the performance of our existing locations or our performance targets. New locations may even operate at a loss, which could have a significant adverse effect on our overall operating results.

Cineplex's results of operations are subject to fluctuations due to the timing of location-based entertainment openings which may result in significant fluctuations in our quarterly performance. Cineplex typically incurs most cash pre-opening costs for a new location within the two months immediately preceding, and the month of, the location's opening. In addition, the labor and operating costs for a newly opened store during the first three to six months of operation are materially greater than what can be expected after that time, both in aggregate dollars and as a percentage of revenues. Additionally, a portion of a current fiscal year new location capital expenditures is related to locations that are not expected to open until the following fiscal year.

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 in order to provide guests with the most compelling offerings available in Canada.

P1AG's procurement of games and amusement offerings is dependent upon a few suppliers, the ability to continue to procure new games, amusement offerings and other entertainment-related equipment. To the extent that the number of suppliers declines, P1AG could be subject to the risk of distribution delays, pricing pressure, lack of innovation and other associated risks. In addition, any increase in cost or decrease in availability of new amusement offerings that appeal to customers could have a negative impact on Cineplex's revenues from its amusement and leisure businesses.

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. Certain of P1AG's revenue is dependent on the customer traffic of the venues in which they operate. Any reduction in traffic could have a material impact on their business.

Technology Risk

Technological advances have made it easier to create, transmit and electronically share unauthorized high quality copies of films during 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 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. To mitigate this risk, 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. To mitigate this risk, 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 and its subsidiary and joint venture partners store 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 on their customers and employees. Further, Cineplex regularly works with third party suppliers in the delivery of services to their customers and employees where such data is provided in the normal course of the commercial relationship. The secure processing, maintenance and transmission of this information is critical to Cineplex's operations and business strategies. 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 of the information systems of Cineplex or any one of its third-party suppliers could compromise this information and expose Cineplex to liability, which could cause their businesses or reputations to suffer. Despite security measures, 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 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 operations and the services provided to customers, damage reputation and cause a loss of confidence in products and services, which could adversely affect business, financial condition, results of operations and cash flows. In response to this risk, Cineplex has employees whose role 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 with favorable economic terms in both new and existing markets, while competing with other entertainment and non-entertainment companies for site locations. 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 location's chance of success. In addition, building 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 these 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 its 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 and undertakes a comprehensive succession planning program.

Cineplex employs approximately 13,000 people, of whom approximately 87% 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. Any increase in minimum wages will impact employee-related costs. In order to mitigate the impact of the proposed increases, Cineplex plans to expand automation, take advantage of technological efficiencies and review pricing.

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 significant 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 assurance 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 and 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. Upon the maturity of the Credit Facilities, there is a risk that Cineplex may not be able to renegotiate under favorable terms in the then current economic environment. 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.

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 and which represent 7.3% of Cineplex's revenues.

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, tariffs, treaties, 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. Our business results could be significantly impacted by a terrorist threat, severe weather incidents, the outbreak of a pandemic or general fear of community gatherings that may cause people to stay away from public places including movie theatres, malls and amusement and leisure locations. Cineplex operates in locations spread throughout North America 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 large-scale threat or occurrence, 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

Subsequent to September 30, 2018, Cineplex increased and extended its bank credit facilities (the "Amended Credit Facilities"), with the same lenders.

The Amended Credit Facilities consist of the following:

a) a five-year, $650.0 million, senior, secured, revolving, credit facility (the "Amended Revolving Facility"); and
b) a seven-year, $150.0 million, senior, secured, non-revolving, credit facility.

The Amended Revolving Facility was increased $175.0 million from the prior Revolving Facility. The financial covenants and nominal variable interest rates of the Amended Credit Facilities are substantially similar to the prior Credit Facilities.

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

Cineplex box office revenues increased 5.3% in the third quarter as compared to the prior year due to increased theatre attendance and a record third quarter BPP. 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 2018 there is a strong slate of films scheduled for release including *A Star is Born, Venom, Halloween, Bohemian Rhapsody, Fantastic Beasts: The Crimes of Grindelwald, Creed II, Green Book, Ralph Breaks the Internet: Wreck-It Ralph 2, Spider-Man: Into the Spider-Verse, Bumblebee, Aquaman, Mary Poppins Returns* and *Holmes & Watson*.

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 2018, Cineplex entered into an exclusive expansion agreement that allows Cineplex to expand the 4DX experience across Canada.

Over the next few years, Cineplex plans to open on average 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 2018 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.

Cineplex has also installed Virtual Reality ("VR") experiences in theatre locations and expects to expand VR offerings in the future.

Theatre Food Service

Cineplex reported a third quarter record 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 product offering through its in-house brands 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 cinema menu offerings. Cineplex will also leverage mobile technology to enhance the food service experience in its theatres and has launched VIP in seat ordering with the release of new Cineplex mobile app. In provinces where legislation allows, Cineplex continues to expand its alcohol offerings throughout entire 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 are 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 thousands of movies that can be rented or purchased digitally 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. The wide range of device integration combined with the continued expansion of SuperTicket and other offerings including any future potential PVOD offering, 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 and Uber Eats digital combos 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, Cineplex believes its cinema media business will continue to grow through its innovative media opportunities within Cineplex's theatres, including digital signage within theatre lobbies, the IMZs in select theatres and Timeplay, a third-party app that allows Cineplex to sell media integrated into real-time content on the big screen. Cineplex also sells media for Cineplex Digital Media clients, *The Rec Room* and sponsorship for eSports.

Digital Place-Based Media

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 customer base 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 will provide a platform for significant growth throughout Canada, United States and internationally.

AMUSEMENT AND LEISURE

Amusement Solutions

The acquisition 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 centres, bowling alleys, amusement parks and theatre circuits, in addition to owning and operating family entertainment centres. Cineplex extended this vertical integration in 2017 as P1AG sources the amusement and gaming equipment for location-based entertainment venues.

In 2017, P1AG expanded its presence in the United States through the acquisition of Dandy. P1AG continues to integrate its acquisitions into its North American operations, recognizing synergies while expanding P1AG's brand presence throughout both Canada and the United States.

In 2018, Cineplex entered into a partnership with VRstudios and acquired a 34.7% interest in the largest provider of turn-key, location-based virtual reality solutions. The VRstudios agreement will allow Cineplex to supply virtual reality solutions in Cineplex's theatres and location-based entertainment locations, and to provide expansion opportunities in other third-party locations throughout North America and internationally using P1AG as a distributor. Cineplex also announced a new exclusive expansion agreement with The VOID, a state-of-the-art VR experience which combines VR technology with physical stages and multi-sensory effects. The VOID agreement will allow Cineplex to open new VOID experiences across Canada.

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 targeting millennials 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 of *The Rec Room* opened in Edmonton, Alberta in 2016 with subsequent openings in 2017 at the Roundhouse in Toronto, Ontario, the West Edmonton Mall in Edmonton, Calgary, Alberta and in 2018, London, Ontario. Additional locations will open in 2019 in Mississauga, Ontario, Burnaby, British Columbia, Winnipeg, Manitoba and St. John's, Newfoundland.

Cineplex has announced its plans to relaunch the *Playdium* brand concept targeting families and teens, rolling them out in mid-sized communities across Canada, with locations planned in Whitby and Brampton, Ontario which are scheduled to open in 2019.

With the recent announcement of Cineplex's joint venture with *Topgolf*, Cineplex intends to open multiple venues in markets across the country during the next several years.

eSports

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

In 2018, WGN will invite gamers to compete in a number of online tournaments featuring the most popular gaming titles, leading to regional qualifiers at Cineplex and third party locations throughout North America.

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 9.4 million members at September 30, 2018. Cineplex continues to integrate SCENE elements into various film and other promotional campaigns, applying the data accumulated in the SCENE database to provide members targeted offers. Cineplex expects these programs to encourage increased frequency of visitation and spend by SCENE members and additional revenue opportunities through the use of the database. In addition, SCENE is implementing programs to drive consumer behavior through marketing automation initiatives.

As SCENE continues to grow its membership and reach, it continually works to develop strategic marketing partnerships.

FINANCIAL OUTLOOK

During the 12 months ended September 30, 2018, Cineplex generated adjusted free cash flow per Share of $2.685, compared to $2.184 in the prior year period. Cineplex declared dividends per Share of $1.705 and $1.645, respectively, in each 12 month period. The payout ratios for these periods were approximately 63.5% and 75.3%, respectively.

Subsequent to period end, Cineplex announced an increase and extension of its Credit Facilities. Under Cineplex's Amended Credit Facilities, Cineplex has a $150.0 million Term Facility, which matures in November 2025 and a $650.0 million Revolving Facility, which matures in November 2023. The Amended Credit Facilities are available to finance acquisitions, new construction, media growth projects, working capital and dividends. As defined under the Credit Facilities, as at September 30, 2018, Cineplex reported a leverage ratio of 1.88x as compared to a covenant of 3.50x.

During the second quarter of 2018, Cineplex announced a dividend increase to $1.74 per Share on an annual basis from $1.68 per Share. This increase became effective with the May 2018 dividend which was paid in June 2018. This increase represents Cineplex's eighth 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.

During the second quarter, Cineplex announced its plans to undertake a cost reduction program designed to optimize and integrate the overall cost structure and technology of the business. The program, once fully implemented, is expected to realize annualized corporate savings of $25 million. Costs of $1.0 million ($4.8 million year to date) incurred during the third quarter with respect to the plan are included in general and administrative costs.

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 gain, the equity income of CDCP, the non-controlling interests' share of adjusted EBITDA of WGN and TGLP, and depreciation, amortization, interest and taxes of Cineplex's other joint ventures and associates. 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 (in thousands of dollars):

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income	**$ 10,209**	**$ 17,219**	**$ 49,802**	**$ 41,560**
Depreciation and amortization	33,599	30,613	97,053	88,526
Interest expense	6,892	5,973	19,961	16,138
Interest income	(60)	(60)	(205)	(163)
Current income tax expense	5,821	5,235	18,001	13,380
Deferred income tax (recovery) expense	(3,216)	1,344	(8,300)	632
EBITDA	**$ 53,245**	**$ 60,324**	**$ 176,312**	**$ 160,073**
Loss on disposal of assets	783	275	1,633	337
CDCP equity income (i)	(1,131)	(342)	(2,875)	(2,469)
Foreign exchange loss (gain)	391	282	(441)	857
Non-controlling interest EBITDA of WGN	—	—	—	189
Non-controlling interest EBITDA of TGLP	53	—	53	—
Depreciation and amortization - joint ventures and associates (ii)	2	9	7	27
Taxes and interest of joint ventures and associates (ii)	13	13	39	38
Change in fair value of financial instrument	—	(1,750)	—	(2,737)
Adjusted EBITDA	**$ 53,356**	**$ 58,811**	**$ 174,728**	**$ 156,315**

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

17.2 ADJUSTED FREE CASH FLOW

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Cash provided by operating activities	$ 41,847	$ 37,705	$ 123,562	$ 35,519
Less: Total capital expenditures net of proceeds on sale of assets	(30,538)	(47,869)	(83,743)	(123,330)
Standardized free cash flow	11,309	(10,164)	39,819	(87,811)
Add/(Less):				
Changes in operating assets and liabilities (i)	(234)	12,675	19,526	88,928
Changes in operating assets and liabilities of joint ventures and associates (i)	1,012	(1,657)	909	39
Tenant inducements (ii)	(3,481)	(2,594)	(11,729)	(2,992)
Principal component of finance lease obligations	(863)	(802)	(2,542)	(2,363)
Growth capital expenditures and other (iii)	26,105	38,149	69,070	99,484
Share of income of joint ventures and associates, net of non-cash depreciation (iv)	2	62	21	169
Non-controlling interests of WGN	—	—	—	189
Non-controlling interests of TGLP	53	—	53	—
Net cash received from CDCP (iv)	2,606	2,246	3,582	3,615
Adjusted free cash flow	**$ 36,509**	**$ 37,915**	**$ 118,709**	**$ 99,258**
Average number of Shares outstanding	63,332,946	63,508,418	63,331,829	63,515,158
Adjusted free cash flow per Share	**$ 0.576**	**$ 0.597**	**$ 1.874**	**$ 1.563**
Dividends declared	**$ 0.435**	**$ 0.420**	**$ 1.285**	**$ 1.240**

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

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

(iii) Growth capital expenditures and other represent expenditures on Board approved projects, exclude maintenance capital expenditures and are net of proceeds on asset sales. The Revolving Facility (discussed above in Section 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 September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 10,209	$ 17,219	$ 49,802	$ 41,560
Adjust for:				
Depreciation and amortization	33,599	30,613	97,053	88,526
Loss on disposal of assets	783	275	1,633	337
Non-cash interest (i)	891	783	2,509	1,927
Non-cash foreign exchange	175	—	(119)	(33)
Share of income of CDCP (ii)	(1,131)	(342)	(2,875)	(2,469)
Non-controlling interest of WGN	—	—	—	189
Non-controlling interest of TGLP	53	—	53	—
Non-cash depreciation of joint ventures and associates	2	9	7	27
Deferred income tax (recovery) expense	(3,216)	1,344	(8,300)	632
Taxes and interest of joint ventures and associates	13	13	39	38
Maintenance capital expenditures	(4,433)	(9,720)	(14,673)	(23,846)
Principal component of finance lease obligations	(863)	(802)	(2,542)	(2,363)
Net cash received from CDCP (ii)	2,606	2,246	3,582	3,615
Non-cash items:				
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(2,584)	(2,443)	(8,783)	(7,500)
Change in fair value of financial instruments	—	(1,750)	—	(2,737)
Non-cash Share-based compensation	405	470	1,323	1,355
Adjusted free cash flow	**$ 36,509**	**$ 37,915**	**$ 118,709**	**$ 99,258**

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

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

17.3 OTHER NON-GAAP MEASURES MONITORED BY MANAGEMENT

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

Earnings per Share Metrics

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:

Theatre attendance: Theatre 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 theatre 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 theatre attendance for the period, less paid theatre attendance for 3D, 4DX, UltraAVX, VIP and IMAX product.

CPP: Calculated as total theatre food service revenues divided by total paid theatre 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 theatre food service revenues less total theatre food service cost, divided by theatre 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 subsequent to the start of the prior year comparative period. For the three months ended September 30, 2018 the impact of the three locations that have been opened or acquired and two locations that have been closed have been excluded, resulting in 162 theatres being included in the same theatre metrics. For the nine months ended September 30, 2018 the impact of the three locations that have been opened or acquired and three locations that have been closed have been excluded, resulting in 162 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 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.

***The Rec Room* food cost percentage:** Calculated as total *The Rec Room* food costs divided by total *The Rec Room* food service revenues for the period.

P1AG Adjusted EBITDA

P1AG adjusted EBITDA is calculated as amusement revenues of P1AG less the total operating expenses of P1AG, which excludes foreign exchange.

Adjusted Store Level EBITDA Metrics

Cineplex reviews and reports adjusted EBITDA at the location level for the *The Rec Room* which is calculated as total *The Rec Room* revenues from all locations less the total operating expenses of The *Rec Room,* which excludes pre-opening costs and overhead relating to the management of *The Rec Room*.

Adjusted Store Level EBITDA Margin

Calculated as adjusted store level EBITDA divided by total revenues for *The Rec Room* for the period.

Cineplex Inc.

Interim Condensed Consolidated Balance Sheets
(Unaudited)

(expressed in thousands of Canadian dollars)

	September 30, 2018	Restated December 31, 2017 (note 10)
Assets		
Current assets		
Cash and cash equivalents	$ 32,562	$ 40,597
Trade and other receivables	87,469	160,938
Income taxes receivable	1,235	1,344
Inventories	31,331	28,966
Prepaid expenses and other current assets	17,941	13,013
Fair value of interest rate swap agreements	1,313	314
	171,851	245,172
Non-current assets		
Property, equipment and leaseholds	624,922	628,129
Deferred income taxes	9,358	7,134
Fair value of interest rate swap agreements	4,138	3,880
Interests in joint ventures and associates	40,216	35,353
Intangible assets	110,740	119,011
Goodwill	816,761	816,489
	$ 1,777,986	$ 1,855,168

Business acquisitions and formations (note 2)
Subsequent events (note 11)

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

(expressed in thousands of Canadian dollars)

	September 30, 2018	Restated December 31, 2017 (note 10)
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 150,381	$ 189,929
Share-based compensation (note 3)	2,286	4,732
Dividends payable	9,183	8,866
Income taxes payable	5,673	9,157
Deferred revenue (note 4)	155,721	195,808
Finance lease obligations	3,612	3,420
Fair value of interest rate swap agreements	262	1,332
Convertible debentures	106,895	105,080
	434,013	518,324
Non-current liabilities		
Share-based compensation (note 3)	12,914	13,816
Long-term debt	508,123	467,867
Finance lease obligations	2,718	5,451
Post-employment benefit obligations	9,386	9,227
Other liabilities	119,422	117,589
Deferred income taxes	8,638	14,031
	661,201	627,981
Total liabilities	1,095,214	1,146,305
Equity		
Share capital (note 5)	856,835	856,761
Deficit	(179,567)	(148,060)
Hedging reserves and other	3,267	1,332
Contributed surplus	2,964	1,647
Cumulative translation adjustment	(667)	(2,817)
Total equity attributable to owners of Cineplex	682,832	708,863
Non-controlling interests (note 2)	(60)	—
Total equity	682,772	708,863
	$ 1,777,986	$ 1,855,168

Approved by the Board of Directors

"Ian Greenberg"
Director

"Janice Fukakusa"
Director

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Operations
(Unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenues (note 4)				
Box office	$ 173,278	$ 164,493	$ 541,892	$ 530,557
Food service	115,557	107,029	354,775	322,362
Media	33,487	39,862	106,791	110,355
Amusement	53,838	48,940	152,320	136,041
Other	10,555	10,124	30,862	29,459
	386,715	370,448	1,186,640	1,128,774
Expenses				
Film cost	90,213	83,268	287,763	278,025
Cost of food service	24,257	23,669	74,053	72,503
Depreciation and amortization	33,599	30,613	97,053	88,526
Loss on disposal of assets	783	275	1,633	337
Other costs (note 6)	218,944	204,762	650,170	622,289
Share of income of joint ventures and associates	(1,118)	(382)	(2,850)	(2,573)
Interest expense	6,892	5,973	19,961	16,138
Interest income	(60)	(60)	(205)	(163)
Foreign exchange	391	282	(441)	857
Change in fair value of financial instruments	—	(1,750)	—	(2,737)
	373,901	346,650	1,127,137	1,073,202
Income before income taxes	12,814	23,798	59,503	55,572
Provision for income taxes				
Current	5,821	5,235	18,001	13,380
Deferred	(3,216)	1,344	(8,300)	632
	2,605	6,579	9,701	14,012
Net income	$ 10,209	$ 17,219	$ 49,802	$ 41,560
Attributable to:				
Owners of Cineplex	$ 10,281	$ 17,219	$ 49,874	$ 41,977
Non-controlling interests	(72)	—	(72)	(417)
Net income	$ 10,209	$ 17,219	$ 49,802	$ 41,560
Basic net income per share attributable to owners of Cineplex (note 7)	$ 0.16	$ 0.27	$ 0.79	$ 0.66
Diluted net income per share attributable to owners of Cineplex (note 7)	$ 0.16	$ 0.27	$ 0.79	$ 0.66

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 10,209	$ 17,219	$ 49,802	$ 41,560
Other comprehensive (loss) income				
Items that will be reclassified subsequently to net income:				
Income on hedging instruments	1,418	3,088	2,585	5,135
Associated deferred income taxes expense	(332)	(825)	(650)	(1,374)
Foreign currency translation adjustment	(1,193)	(2,203)	2,150	(4,193)
Items that will not be reclassified to net income:				
Actuarial gains of post-employment benefit obligations	—	—	—	1,298
Associated deferred income taxes expense	—	—	—	(348)
Other comprehensive (loss) income	(107)	60	4,085	518
Comprehensive income	$ 10,102	$ 17,279	$ 53,887	$ 42,078
Attributable to:				
Owners of Cineplex	$ 10,174	$ 17,279	$ 53,959	$ 42,484
Non-controlling interests	(72)	—	(72)	(406)
Comprehensive income	$ 10,102	$ 17,279	$ 53,887	$ 42,078

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)

(expressed in thousands of Canadian dollars)

	Share capital (note 5)	Contributed surplus	Hedging reserves and other	Cumulative translation adjustment	Restated Deficit (note 10)	Non-controlling interests	Total
January 1, 2018	$ 856,761	$ 1,647	$ 1,332	$ (2,817)	$ (148,060)	$ —	$ 708,863
Net income	—	—	—	—	49,874	(72)	49,802
Other comprehensive income (page 4)	—	—	1,935	2,150	—	—	4,085
Total comprehensive income	**—**	**—**	**1,935**	**2,150**	**49,874**	**(72)**	**53,887**
Dividends declared	—	—	—	—	(81,381)	—	(81,381)
Share option expense	—	1,323	—	—	—	—	1,323
Issuance of shares on exercise of options	74	(6)	—	—	—	—	68
TGLP non-controlling interests recognized on formation (note 2 b)	—	—	—	—	—	12	12
September 30, 2018	$ 856,835	$ 2,964	$ 3,267	$ (667)	$ (179,567)	$ (60)	$ 682,772
January 1, 2017	$ 859,351	$ 81	$ (3,170)	$ 1,175	$ (111,255)	$ 2,800	$ 748,982
Net income	—	—	—	—	41,977	(417)	41,560
Other comprehensive income (page 4)	—	—	3,761	(4,204)	950	11	518
Total comprehensive income	**—**	**—**	**3,761**	**(4,204)**	**42,927**	**(406)**	**42,078**
Dividends declared	—	—	—	—	(78,753)	—	(78,753)
Share option expense	—	1,355	—	—	—	—	1,355
Issuance of shares on exercise of options	256	(256)	—	—	—	—	—
Shares repurchased and cancelled	(2,115)	—	—	—	(3,892)	—	(6,007)
WGN non-controlling interests recognized on acquisition	—	—	—	(63)	2,457	(2,394)	—
September 30, 2017	$ 857,492	$ 1,180	$ 591	$ (3,092)	$ (148,516)	$ —	$ 707,655

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Cash provided by (used in)				
Operating activities				
Net income	$ 10,209	$ 17,219	$ 49,802	$ 41,560
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	33,599	30,613	97,053	88,526
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(2,584)	(2,443)	(8,783)	(7,500)
Other non-cash interest and non-cash foreign exchange, net	275	156	182	441
Loss on disposal of assets	783	275	1,633	337
Deferred income taxes	(3,216)	1,344	(8,300)	632
Interest rate swap agreements - non-cash interest	185	62	393	(244)
Non-cash share-based compensation	405	470	1,323	1,355
Change in fair value of financial instruments	—	(1,750)	—	(2,737)
Accretion of convertible debentures	606	565	1,815	1,697
Net change in interests in joint ventures and associates	(2,130)	1,275	(3,759)	(2,612)
Tenant inducements	3,481	2,594	11,729	2,992
Changes in operating assets and liabilities (note 8)	234	(12,675)	(19,526)	(88,928)
Net cash provided by operating activities	41,847	37,705	123,562	35,519
Investing activities				
Proceeds from disposal of assets, including asset-related insurance recoveries	44	—	1,830	310
Purchases of property, equipment and leaseholds	(30,582)	(47,869)	(85,573)	(123,640)
Acquisition of businesses, net of cash acquired	(4,685)	(735)	(4,685)	(30,422)
Intangible assets additions	(1,207)	(1,160)	(3,575)	(3,742)
Net cash received from CDCP	2,606	2,246	3,582	3,615
Net cash used in investing activities	(33,824)	(47,518)	(88,421)	(153,879)
Financing activities				
Dividends paid	(27,549)	(26,688)	(81,064)	(78,454)
Borrowings under credit facilities, net	19,000	41,000	40,000	191,000
Options exercised for cash	—	—	68	—
Payments under finance leases	(863)	(802)	(2,542)	(2,363)
Deferred financing fees	—	(183)	—	(183)
Shares repurchased and cancelled	—	(6,007)	—	(6,007)
Net cash (used in) provided by financing activities	(9,412)	7,320	(43,538)	103,993
Effect of exchange rate differences on cash	(173)	(184)	362	(439)
Decrease in cash and cash equivalents	(1,562)	(2,677)	(8,035)	(14,806)
Cash and cash equivalents - Beginning of period	34,124	21,424	40,597	33,553
Cash and cash equivalents - End of period	$ 32,562	$ 18,747	$ 32,562	$ 18,747
Supplemental information				
Cash paid for interest	$ 7,402	$ 4,401	$ 18,808	$ 16,232
Cash paid for income taxes, net	$ 4,225	$ 588	$ 22,267	$ 14,986

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

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

1. General information

Cineplex Inc. ("Cineplex") an Ontario, Canada corporation, is one of Canada's largest entertainment organizations, 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 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 November 13, 2018.

2. Business acquisitions and formations

a) VRstudios Inc.

On September 12, 2018, Cineplex acquired a 34.7% interest in VRstudios Inc. ("VRstudios") for $4,685. VRstudios is based in Seattle, Washington and is a worldwide provider of turn-key location-based virtual reality solutions. Cineplex will recognize revenue in the Exhibition and Amusement and Leisure segments for installations that occur in the theatre network and location-based entertainment network respectively. Cineplex accounts for its investment in VRstudios as an associate using the equity method.

b) Topgolf

On July 25, 2017, Cineplex formed TG-CPX Limited Partnership ("TGLP"), a joint venture with Topgolf Canada Holding ("Topgolf"). Cineplex contributed an immaterial amount of cash totaling $38 for an initial 75% interest in TGLP and has 75% of the voting rights. Cineplex will recognize revenue from the joint venture in the Amusement and Leisure segment. Cineplex consolidates TGLP's financial results from the inception date and recognizes a non-controlling interest for the portion of the joint venture it does not own. Topgolf has the right to require Cineplex to acquire the interest owned by Topgolf under certain circumstances at any time after July 25, 2022.

3. Share-based compensation

Option plan

Cineplex recorded $405 and $1,323 in employee benefits expense with respect to share options during the three and nine months ended September 30, 2018 (2017 - $470 and $1,355, respectively).

Upon cashless exercises, the options exercised in excess of shares issued are cancelled and returned to the pool available for future grants. At September 30, 2018, 1,706,282 options are available for grant.

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

A summary of option activities in 2018 and 2017 is as follows:

		2018		2017	
	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	7.37	2,157,589	$ 45.50	1,705,338	$ 43.21
Granted		559,703	33.59	544,992	51.25
Forfeited		(233,847)	45.17	(11,395)	47.71
Exercised		(2,500)	27.33	(81,346)	35.38
Options outstanding, September 30	7.17	2,480,945	$ 42.86	2,157,589	$ 45.50
Options vested and exercisable, September 30		1,300,065	$ 42.95	1,009,650	$ 40.91

Long-term incentive plan ("LTIP")

Phantom Share Unit Plan

For the 2018 grant, for the three-year service period ending on September 30, 2020, 79,089 share equivalents were awarded and subject to certain performance and market conditions, may decrease approximately 0% or increase by 200%. 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.

For the three-year service period ending on September 30, 2019, granted in 2017, 129,136 share equivalents were awarded and subject to certain performance and market conditions, which 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.

Restricted Share Unit Plan

For the three-year service period ending on September 30, 2020, granted in 2018, 39,549 share equivalents were awarded and subject to certain market conditions. The base share equivalents attract compounding notional dividends at the same rate as outstanding common shares, which are notionally reinvested as additional base share equivalents. The awards will be settled in cash at the end of service periods, within 30 days of the approval of the annual consolidated financial statements by the Board of Directors.

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the year of change. Forfeitures are estimated at $nil. Cineplex recognized compensation costs of $340 and $884 under the LTIP for the three and nine months ended September 30, 2018 (2017 - (recovery)

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

costs of $(3,193) and $2,945, respectively). At September 30, 2018, $5,630 (2017 - $8,617) 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 and nine months ended September 30, 2018, Cineplex recognized compensation costs (recovery) of $1,680 and $(155) respectively, associated with the deferred equity units, respectively (2017 - $3,232 and $2,623 of expense recoveries, respectively). At September 30, 2018, $9,570 (2017 - $10,085) was included in share-based compensation liability.

4. Revenue

The following tables disclose the changes in deferred revenue for the three and nine months ended September 30, 2018:

	June 30, 2018	Additions	Revenue Recognized	September 30, 2018
Gift cards	$ 122,476	$ 27,473	$ 34,827	$ 115,122
SCENE loyalty program	24,090	11,571	10,941	24,720
Advances and deposits	14,676	15,879	14,676	15,879
	$ 161,242	$ 54,923	$ 60,444	$ 155,721

	December 31, 2017	Additions	Revenue Recognized	September 30, 2018
Gift cards	$ 157,169	$ 81,320	$ 123,367	$ 115,122
SCENE loyalty program	22,465	34,634	32,379	24,720
Advances and deposits	16,174	39,504	39,799	15,879
	$ 195,808	$ 155,458	$ 195,545	$ 155,721

The following tables provide the disaggregation of revenue into categories by nature for the three and nine months ended September 30, 2018 and 2017:

Box office revenues	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Box office revenues	$ 173,278	$ 164,493	$ 541,892	$ 530,557

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

Food service revenues	**Three months ended September 30,**		**Nine months ended September 30,**	
	2018	**2017**	**2018**	**2017**
Food service - theatres	$ 107,519	$ 100,737	$ 329,718	$ 311,978
Food service - location-based entertainment	8,038	6,292	25,057	10,384
Total food service revenues	$ 115,557	$ 107,029	$ 354,775	$ 322,362

Media revenues	**Three months ended September 30,**		**Nine months ended September 30,**	
	2018	**2017**	**2018**	**2017**
Cinema media	$ 20,292	$ 27,409	$ 68,545	$ 72,965
Digital place-based media	13,195	12,453	38,246	37,390
Total media revenues	$ 33,487	$ 39,862	$ 106,791	$ 110,355

Amusement revenues	**Three months ended September 30,**		**Nine months ended September 30,**	
	2018	**2017**	**2018**	**2017**
Amusement solutions excluding exhibition	$ 42,820	$ 41,986	$ 122,179	$ 120,049
Amusement solutions - exhibition	2,880	2,681	7,967	8,087
Amusement solutions - location based entertainment	8,138	4,273	22,174	7,905
Total amusement revenues	$ 53,838	$ 48,940	$ 152,320	$ 136,041

Other revenues	**Three months ended September 30,**		**Nine months ended September 30,**	
	2018	**2017**	**2018**	**2017**
Other revenues	$ 10,555	$ 10,124	$ 30,862	$ 29,459

5. Share capital

Cineplex is authorized to issue an unlimited number of common shares and 10,000,000 preferred shares of which none are outstanding. Share capital at September 30, 2018 and 2017 and transactions during the periods are as follows:

2018				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance - December 31, 2017	63,330,446	$ 852,290	$ 4,471	$ 856,761
Issuance of shares on exercise of options	2,500	74	—	74
Balance - September 30, 2018	63,332,946	$ 852,364	$ 4,471	$ 856,835

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

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	26,063	256	—	256
Shares repurchased and cancelled under the normal course issuer bid	(157,192)	(2,115)	—	(2,115)
Balance - September 30, 2017	63,384,746	$ 853,021	$ 4,471	$ 857,492

6. Other costs

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Employee salaries and benefits	$ 74,681	$ 62,584	$ 229,519	$ 209,284
Rent	39,148	38,666	116,040	114,003
Realty and occupancy taxes and maintenance fees	18,643	17,919	54,891	54,116
Utilities	8,930	8,931	25,124	24,535
Purchased services	15,853	15,090	45,980	44,933
Other inventories consumed, including amusement and digital place-based media	16,519	17,214	50,791	51,153
Venue revenue share	13,249	11,348	34,925	30,245
Repairs and maintenance	8,067	8,371	23,967	22,936
Office and operating supplies	2,807	4,098	10,671	11,671
Licences and franchise fees	4,026	2,908	12,538	10,575
Insurance	1,406	1,195	3,949	3,123
Advertising and promotion	6,782	7,282	18,363	19,808
Professional and consulting fees	1,817	2,032	5,147	5,729
Telecommunications and data	1,747	2,109	5,603	5,102
Bad debts	916	168	1,448	380
Equipment rental	786	748	2,400	2,286
Business interruption insurance proceeds	—	—	(3,700)	—
Other costs	3,567	4,099	12,514	12,410
	$ 218,944	$ 204,762	$ 650,170	$ 622,289

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

7. Net income per share

Basic

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income attributable to owners of Cineplex	$ 10,281	$ 17,219	$ 49,874	$ 41,977
Weighted average number of shares outstanding	63,332,946	63,508,418	63,331,829	63,515,158
Basic EPS	$ 0.16	$ 0.27	$ 0.79	$ 0.66

Diluted

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income attributable to shareholders of Cineplex	$ 10,281	$ 17,219	$ 49,874	$ 41,977
Weighted average number of shares outstanding	63,332,946	63,508,418	63,331,829	63,515,158
Adjustments for stock options	10,069	102,324	9,794	177,018
Weighted average number of shares for diluted EPS	63,343,015	63,610,742	63,341,623	63,692,176
Diluted EPS	$ 0.16	$ 0.27	$ 0.79	$ 0.66

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

8. Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Trade and other receivables	$ 13,814	$ 811	$ 72,960	$ 33,691
Inventories	604	(9)	(1,807)	(4,622)
Prepaid expenses and other current assets	1,819	1,078	(5,037)	(8,505)
Accounts payable and accrued liabilities	(12,904)	(3,909)	(35,698)	(58,507)
Income taxes payable	1,571	4,648	(3,376)	(959)
Deferred revenue	(5,521)	(7,727)	(40,087)	(39,894)
Post-employment benefit obligations	163	1,440	159	1,833
Share-based compensation	1,491	(8,005)	(4,490)	(9,949)
Other liabilities	(803)	(1,002)	(2,150)	(2,016)
	$ 234	$ (12,675)	$ (19,526)	$ (88,928)

Property, equipment and leasehold purchases that are included in accounts payable and accrued liabilities as at September 30, 2018, are $11,775 (2017 - $19,579).

9. Operating segments

Cineplex has three reportable segments, Film Entertainment and Content, Media and Amusement and Leisure. 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.

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.

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

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.

Three months ended September 30, 2018	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Major product and service lines					
Box office	$ 173,278	$ —	$ —	$ —	$ 173,278
Food service	107,519	—	8,038	—	115,557
Media	—	32,970	517	—	33,487
Amusement	2,880	—	50,958	—	53,838
Other	10,130	—	425	—	10,555
Total revenues	$ 293,807	$ 32,970	$ 59,938	$ —	$ 386,715
Primary geographical markets					
Canada	$ 293,807	$ 30,204	$ 31,169	$ —	$ 355,180
United States and other countries	—	2,766	28,769	—	31,535
Total revenues	$ 293,807	$ 32,970	$ 59,938	$ —	$ 386,715
Timing of revenue recognition					
Transferred at a point in time	$ 293,807	$ 6,038	$ 59,938	$ —	$ 359,783
Transferred over time	—	26,932	—	—	26,932
Total revenues	$ 293,807	$ 32,970	$ 59,938	$ —	$ 386,715
EBITDA (i)	48,312	18,627	4,339	(18,033)	53,245
Depreciation and amortization	22,333	2,819	8,447	—	33,599
Interest expense					6,892
Interest income					(60)
Income taxes expense					2,605
Net income					$ 10,209

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

Three months ended September 30, 2017	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Major product and service lines					
Box office	$ 164,493	$ —	$ —	$ —	$ 164,493
Food service	100,738	—	6,291	—	107,029
Media	—	38,794	1,068	—	39,862
Amusement	2,681	—	46,259	—	48,940
Other	10,041	—	83	—	10,124
Total revenues	$ 277,953	$ 38,794	$ 53,701	$ —	$ 370,448
Primary geographical markets					
Canada	$ 277,953	$ 37,053	$ 28,249	$ —	$ 343,255
United States and other countries	—	1,741	25,452	—	27,193
Total revenues	$ 277,953	$ 38,794	$ 53,701	$ —	$ 370,448
Timing of revenue recognition					
Transferred at a point in time	$ 277,953	$ 6,159	$ 53,701	$ —	$ 337,813
Transferred over time	—	32,635	—	—	32,635
Total revenues	$ 277,953	$ 38,794	$ 53,701	$ —	$ 370,448
EBITDA (i)	47,612	21,798	(19)	(9,067)	60,324
Depreciation and amortization	21,665	2,543	6,405	—	30,613
Interest expense					5,973
Interest income					(60)
Income taxes expense					6,579
Net income					$ 17,219

Nine months ended September 30, 2018	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Major product and service lines					
Box office	$ 541,892	$ —	$ —	$ —	$ 541,892
Food service	329,718	—	25,057	—	354,775
Media	—	104,366	2,425	—	106,791
Amusement	7,967	—	144,353	—	152,320
Other	29,856	—	1,006	—	30,862
Total revenues	$ 909,433	$ 104,366	$ 172,841	$ —	$ 1,186,640
Primary geographical markets					
Canada	$ 909,433	$ 95,789	$ 89,040	$ —	$ 1,094,262
United States and other countries	—	8,577	83,801	—	92,378
Total revenues	$ 909,433	$ 104,366	$ 172,841	$ —	$ 1,186,640
Timing of revenue recognition					
Transferred at a point in time	$ 909,433	$ 19,240	$ 172,841	$ —	$ 1,101,514
Transferred over time	—	85,126	—	—	85,126
Total revenues	$ 909,433	$ 104,366	$ 172,841	$ —	$ 1,186,640
EBITDA (i)	162,689	56,563	11,064	(54,004)	176,312
Depreciation and amortization	64,717	8,461	23,875	—	97,053
Interest expense					19,961
Interest income					(205)
Income taxes expense					9,701
Net income					$ 49,802

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

Nine months ended September 30, 2017	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Major product and service lines					
Box office	$ 530,557	$ —	$ —	$ —	$ 530,557
Food service	311,978	—	10,384	—	322,362
Media	—	107,474	2,881	—	110,355
Amusement	8,087	—	127,954	—	136,041
Other	29,212	—	247	—	29,459
Total revenues	$ 879,834	$ 107,474	$ 141,466	$ —	$ 1,128,774
Primary geographical markets					
Canada	$ 879,834	$ 102,651	$ 63,901	$ —	$ 1,046,386
United States and other countries	—	4,823	77,565	—	82,388
Total revenues	$ 879,834	$ 107,474	$ 141,466	$ —	$ 1,128,774
Timing of revenue recognition					
Transferred at a point in time	$ 879,834	$ 19,369	$ 141,466	$ —	$ 1,040,669
Transferred over time	—	88,105	—	—	88,105
Total revenues	$ 879,834	$ 107,474	$ 141,466	$ —	$ 1,128,774
EBITDA (i)	152,553	56,213	2,389	(51,082)	160,073
Depreciation and amortization	64,609	7,398	16,519	—	88,526
Interest expense					16,138
Interest income					(163)
Income taxes expense					14,012
Net income					$ 41,560

(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 and includes the change in fair value of financial instruments.

Cineplex's cash management and other treasury functions are centralized; interest expense and income are not allocated to segments. Income taxes are accounted for by entity, and cannot be attributable to individual segments.

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

10. Basis of presentation and accounting standards changes

Basis of preparation and measurement

Cineplex prepares its unaudited interim condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), defined as International Financial Reporting Standards ("IFRS") as set out in the CPA Canada Handbook. The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires that management 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, 2017. These unaudited interim condensed consolidated financial statements follow the same accounting policies and methods of application as the audited financial statements

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

for the year ended December 31, 2017, with the exception of the accounting standards adopted in the current year as referenced in the interim condensed consolidated financial statements for the three months ended March 31, 2018.

Accounting standards adopted in the current year

IFRS 9 Financial Instruments

Following the adoption of IFRS 9, Cineplex will no longer defer and amortize the deferred financing fees associated with the previous amended bank credit facilities. Under IAS 39, when Cineplex extended its bank credit facilities in 2016, it was considered a renegotiation of debt and the financing fees related to the transaction were added to the previous unamortized deferred financing fees and amortized over the remaining term on a straight-line basis. The adjustments below were made to the amounts recognized in the balance sheet and statement of changes in equity. The impact on the statement of operations is not material.

IFRS 15 Revenue from Contracts with Customers

Following the adoption of IFRS 15, Cineplex defers unused cash balances on rechargeable game cards.

The following table shows the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub totals and totals disclosed cannot be recalculated from the numbers provided.

Consolidated Statement of Changes in Equity:

	January 1, 2017 as originally presented	Adjustment	January 1, 2017 Restated
Equity			
Deficit	$ (108,342)	$ (2,913)	$ (111,255)
Total Equity	$ 751,895	$ (2,913)	$ 748,982

Consolidated Balance Sheet:

	January 1, 2017 as originally presented	Adjustment	January 1, 2017 Restated
Current liabilities			
Deferred revenue	$ 172,140	$ 3,000	$ 175,140
Non-current liabilities			
Long-term debt	297,496	976	298,472
Deferred income taxes	11,210	(1,063)	10,147
Total Liabilities	$ 976,291	$ 2,913	$ 979,204

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

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 standard, which has not yet been adopted by Cineplex. The following is a description of the new standard:

IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. The new standard is mandatorily effective for fiscal years beginning on or after January 1, 2019. Under the new standard, all leases will be reported on lessees' balance sheets, except those that meet limited exception criteria. Cineplex is reviewing its analysis of the new standard and has made policy decisions to determine its impact on Cineplex's balance sheet and statement of operations. Cineplex will apply IFRS 16 using the modified retrospective approach and as a result comparative information will not be restated and will continue to be reported under IAS 17 and IFRIC 4. Additional disclosure will include a reconciliation between operating lease commitments at December 31, 2018 under IAS 17 and the opening lease liabilities at January 1, 2019 under IFRS 16. Cineplex has also identified and reviewed all contracts from all lines of its business to assess if they fall within the scope of IFRS 16, in whole or in part and to quantify lease and non-lease components.

As Cineplex has significant contractual obligations classified as operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard, and material changes to the timing of recognition and presentation of expenses associated with the lease arrangements. Cineplex will recognize a lease liability and right-of-use asset at the date of adoption. The lease liability will be measured at the present value of the future lease payments at the date of adoption, discounted using Cineplex's incremental borrowing rate at the date of adoption. Cineplex is in the process of assessing the methodology and the deemed commencement date for the calculation of the right-of-use assets.

In general, the right-of-use asset will be depreciated using the straight line method from the date of adoption to the end of the lease term. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the liability. As a result of these changes, there will be a material increase in interest expense and depreciation, as well as a material reduction in Other Costs on the Statement of Operations due to the decrease in rent expense and all lease related non-cash components being removed. Cineplex is currently in the process of upgrading its existing accounting systems, processes and internal controls to account for IFRS 16.

11. Subsequent Events

Subsequent to September 30, 2018, Cineplex increased and extended its bank credit facilities (the "Amended Credit Facilities"), with the same lenders.

The Amended Credit Facilities consist of the following:

a) a five-year, $650,000, senior, secured, revolving, credit facility (the "Amended Revolving Facility"); and
b) a seven-year, $150,000, senior, secured, non-revolving, credit facility.

The Amended Revolving Facility was increased $175,000 from the prior Revolving Facility. The financial covenants and nominal variable interest rates of the Amended Credit Facilities are substantially similar to the prior Credit Facilities.