

Cineplex Inc.

Interim Condensed Consolidated Balance Sheets
(Unaudited)

(expressed in thousands of Canadian dollars)

	March 31, 2018	Restated December 31, 2017 (note 9)
Assets		
Current assets		
Cash and cash equivalents	\$ 39,538	\$ 40,597
Trade and other receivables	93,217	160,938
Income taxes receivable	1,125	1,344
Inventories	31,139	28,966
Prepaid expenses and other current assets	17,385	13,013
Fair value of interest rate swap agreements	559	314
	<u>182,963</u>	<u>245,172</u>
Non-current assets		
Property, equipment and leaseholds	628,850	628,129
Deferred income taxes	8,085	7,134
Fair value of interest rate swap agreements	3,973	3,880
Interests in joint ventures	35,875	35,353
Intangible assets	116,689	119,011
Goodwill	816,726	816,489
	<u>\$ 1,793,161</u>	<u>\$ 1,855,168</u>

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

Cineplex Inc.

Interim Condensed Consolidated Balance Sheets...continued
(Unaudited)

(expressed in thousands of Canadian dollars)

	March 31, 2018	Restated December 31, 2017 (note 9)
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 167,684	\$ 189,929
Share-based compensation (note 2)	2,569	4,732
Dividends payable	8,866	8,866
Income taxes payable	3,873	9,157
Deferred revenue (note 3)	166,103	195,808
Finance lease obligations	3,483	3,420
Fair value of interest rate swap agreements	910	1,332
Convertible debentures	105,681	105,080
	<u>459,169</u>	<u>518,324</u>
Non-current liabilities		
Share-based compensation (note 2)	10,921	13,816
Long-term debt	473,952	467,867
Finance lease obligations	4,557	5,451
Post-employment benefit obligations	9,064	9,227
Other liabilities	120,245	117,589
Deferred income taxes	15,260	14,031
	<u>633,999</u>	<u>627,981</u>
Total liabilities	<u>1,093,168</u>	<u>1,146,305</u>
Equity		
Share capital (note 4)	856,761	856,761
Deficit	(159,433)	(148,060)
Hedging reserves and other	1,897	1,332
Contributed surplus	2,078	1,647
Cumulative translation adjustment	(1,310)	(2,817)
	<u>699,993</u>	<u>708,863</u>
Total equity	<u>\$ 1,793,161</u>	<u>\$ 1,855,168</u>

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

For the three months ended March 31, 2018 and 2017

(Unaudited)

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

	2018	2017
Revenues (note 3)		
Box office	\$ 181,380	\$ 195,354
Food service	116,948	113,935
Media	32,513	33,912
Amusement	49,905	41,401
Other	10,126	9,641
	<u>390,872</u>	<u>394,243</u>
Expenses		
Film cost	95,204	103,289
Cost of food service	24,776	25,654
Depreciation and amortization	31,194	28,267
Loss on disposal of assets	210	26
Other costs (note 5)	217,454	206,071
Share of income of joint ventures	(897)	(998)
Interest expense	6,484	4,862
Interest income	(87)	(52)
Foreign exchange	(765)	(17)
Change in fair value of financial instruments	—	(987)
	<u>373,573</u>	<u>366,115</u>
Income before income taxes	<u>17,299</u>	<u>28,128</u>
Provision for income taxes		
Current	2,035	4,586
Deferred	38	577
	<u>2,073</u>	<u>5,163</u>
Net income	<u>\$ 15,226</u>	<u>\$ 22,965</u>
Attributable to:		
Owners of Cineplex	\$ 15,226	\$ 23,332
Non-controlling interests	—	(367)
Net income	<u>\$ 15,226</u>	<u>\$ 22,965</u>
Basic net income per share attributable to owners of Cineplex (note 6)	\$ 0.24	\$ 0.37
Diluted net income per share attributable to owners of Cineplex (note 6)	\$ 0.24	\$ 0.37

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2018 and 2017

(Unaudited)

(expressed in thousands of Canadian dollars)

	2018	2017
Net income	<u>\$ 15,226</u>	<u>\$ 22,965</u>
Other comprehensive income		
<i>Items that will be reclassified subsequently to net income:</i>		
Income on hedging instruments	776	82
Associated deferred income taxes expense	(211)	(23)
Foreign currency translation adjustment	1,507	(334)
<i>Items that will not be reclassified to net income:</i>		
Actuarial gains of post-employment benefit obligations	—	1,298
Associated deferred income taxes expense	—	(348)
Other comprehensive income	<u>2,072</u>	<u>675</u>
Comprehensive income	<u>\$ 17,298</u>	<u>\$ 23,640</u>
Attributable to:		
Owners of Cineplex	\$ 17,298	\$ 23,996
Non-controlling interests	—	(356)
Comprehensive income	<u>\$ 17,298</u>	<u>\$ 23,640</u>

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Changes in Equity

For the three months ended March 31, 2018 and 2017

(Unaudited)

(expressed in thousands of Canadian dollars)

	Share capital (note 4)	Contributed surplus	Hedging reserves and other	Cumulative translation adjustment	Restated Deficit (note 9)	Non- controlling interests	Total
January 1, 2018	\$ 856,761	\$ 1,647	\$ 1,332	\$ (2,817)	\$ (148,060)	\$ —	\$ 708,863
Net income	—	—	—	—	15,226	—	15,226
Other comprehensive income (page 4)	—	—	565	1,507	—	—	2,072
Total comprehensive income	—	—	565	1,507	15,226	—	17,298
Dividends declared	—	—	—	—	(26,599)	—	(26,599)
Share option expense	—	431	—	—	—	—	431
March 31, 2018	\$ 856,761	\$ 2,078	\$ 1,897	\$ (1,310)	\$ (159,433)	\$ —	\$ 699,993
January 1, 2017	\$ 859,351	\$ 81	\$ (3,170)	\$ 1,175	\$ (111,255)	\$ 2,800	\$ 748,982
Net income	—	—	—	—	23,332	(367)	22,965
Other comprehensive income (page 4)	—	—	59	(345)	950	11	675
Total comprehensive income	—	—	59	(345)	24,282	(356)	23,640
Dividends declared	—	—	—	—	(25,724)	—	(25,724)
Share option expense	—	409	—	—	—	—	409
Issuance of shares on exercise of options	32	(32)	—	—	—	—	—
March 31, 2017	\$ 859,383	\$ 458	\$ (3,111)	\$ 830	\$ (112,697)	\$ 2,444	\$ 747,307

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

Cineplex Inc.

Interim Condensed Consolidated Statements of Cash Flows

For the three months ended March 31, 2018 and 2017

(Unaudited)

(expressed in thousands of Canadian dollars)

	2018	2017
Cash provided by (used in)		
Operating activities		
Net income	\$ 15,226	\$ 22,965
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	31,194	28,267
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(3,085)	(2,653)
Accretion of debt issuance costs and other non-cash interest, net	101	121
Loss on disposal of assets	210	26
Deferred income taxes	38	577
Interest rate swap agreements - non-cash interest	120	(175)
Non-cash share-based compensation	431	409
Change in fair value of financial instruments	—	(987)
Accretion of convertible debentures	601	563
Net change in interests in joint ventures	(1,205)	(2,377)
Tenant inducements	1,876	309
Changes in operating assets and liabilities (note 7)	919	(61,720)
Net cash provided by (used in) operating activities	<u>46,426</u>	<u>(14,675)</u>
Investing activities		
Proceeds from sale of assets	182	232
Purchases of property, equipment and leaseholds	(25,511)	(25,453)
Acquisition of businesses, net of cash acquired	—	(106)
Intangible assets additions	(1,355)	(1,322)
Net cash received from CDCP	684	684
Net cash used in investing activities	<u>(26,000)</u>	<u>(25,965)</u>
Financing activities		
Dividends paid	(26,599)	(25,724)
Borrowings under credit facilities, net	6,000	75,000
Payments under finance leases	(832)	(773)
Net cash (used in) provided by financing activities	<u>(21,431)</u>	<u>48,503</u>
Effect of exchange rate differences on cash	(54)	(2)
(Decrease) increase in cash and cash equivalents	(1,059)	7,861
Cash and cash equivalents - Beginning of period	<u>40,597</u>	<u>33,553</u>
Cash and cash equivalents - End of period	<u>\$ 39,538</u>	<u>\$ 41,414</u>
Supplemental information		
Cash paid for interest	\$ 6,930	\$ 5,743
Cash paid for income taxes, net	\$ 7,072	\$ 6,338

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

Cineplex Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2018 and 2017

(Unaudited)

(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. (“PIAG”) 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 May 1, 2018.

2. Share-based compensation

Option plan

Cineplex recorded \$431 in employee benefits expense with respect to share options during the three months ended March 31, 2018 (2017 - \$409).

Cineplex granted options in 2018 and 2017 as follows:

	2018	2017
Number of options granted	559,703	544,992
Share price	\$ 33.59	\$ 51.25
Exercise price	\$ 33.59	\$ 51.25
Expected option life (years)	4.5	4.0
Volatility	17%	16%
Dividend yield	5.00%	3.15%
Annual risk-free rate	1.55%	0.98%
Fair value of options granted	\$ 2.74	\$ 4.07

Upon cashless exercises, the options exercised in excess of shares issued are cancelled and returned to the pool available for future grants. At March 31, 2018, 1,477,534 options are available for grant.

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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
Cancelled		(5,099)	49.51	—	—
Exercised		—	—	(9,009)	41.34
Options outstanding, March 31	7.70	<u>2,712,193</u>	\$ 43.03	<u>2,241,321</u>	\$ 45.17
Options vested and exercisable, March 31		<u>1,398,413</u>		<u>1,082,690</u>	

Long-term incentive plan (“LTIP”)

Phantom Share Unit Plan

For the three-year service period ending on September 30, 2020, granted in 2018, 79,089 share equivalents were awarded and subject to certain performance and market conditions, which 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

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of \$318 under the LTIP for the three months ended March 31, 2018 (2017 - \$3,449). At March 31, 2018, \$5,099 (2017 - \$9,128) was included in share-based compensation liability.

Deferred equity units

Members of the Board of Directors and certain officers of Cineplex may elect to defer a portion of their compensation in the form of deferred equity units. For the three months ended March 31, 2018, Cineplex recognized \$1,367 of expense recoveries associated with the deferred equity units (2017 - \$88 expense recovery). At March 31, 2018, \$8,390 (2017 - \$12,851) was included in share-based compensation liability.

3. Revenue

The following table discloses the change in deferred revenue for the three months ended March 31, 2018:

	December 31, 2017	Additions	Revenue Recognized	March 31, 2018
Gift cards	\$ 157,169	\$ 24,770	\$ 52,053	\$ 129,886
SCENE loyalty program	22,465	11,143	10,119	23,489
Advances and deposits	16,174	8,949	12,395	12,728
	<u>\$ 195,808</u>	<u>\$ 44,862</u>	<u>\$ 74,567</u>	<u>\$ 166,103</u>

Revenue allocated to remaining performance obligations represents contracted revenue that has not been recognized ("contracted not recognized"), which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Contracted not recognized revenue was \$283,288 as of March 31, 2018, of which Cineplex expects to recognize approximately 74% of the revenue over the next 24 months, 6% in the following 12 months and the remainder thereafter.

The following tables provide the disaggregation of revenue into categories by nature for the three months ended March 31, 2018 and 2017:

Box office revenues	2018	2017
Box office revenues	<u>\$ 181,380</u>	<u>\$ 195,354</u>
Food service revenues	2018	2017
Food service - exhibition	\$ 108,230	\$ 111,827
Food service - location based entertainment	8,718	2,108
Total food service revenues	<u>\$ 116,948</u>	<u>\$ 113,935</u>

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Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

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

Media revenues	2018	2017
Cinema media	\$ 21,332	\$ 21,592
Digital place-based media	11,181	12,320
Total media revenues	<u>\$ 32,513</u>	<u>\$ 33,912</u>

Amusement revenues	2018	2017
Amusement solutions excluding exhibition	\$ 40,238	\$ 36,516
Amusement solutions - exhibition	2,737	2,930
Amusement solutions - location based entertainment	6,930	1,955
Total amusement revenues	<u>\$ 49,905</u>	<u>\$ 41,401</u>

Other Revenues	2018	2017
Other revenues	<u>\$ 10,126</u>	<u>\$ 9,641</u>

4. Share capital

Cineplex is authorized to issue an unlimited number of common shares and 10,000,000 preferred shares of which none are outstanding. Share capital at March 31, 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	—	—	—	—
Balance - March 31, 2018	63,330,446	\$ 852,290	\$ 4,471	\$ 856,761

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

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Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

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

5. Other costs

	2018	2017
Employee salaries and benefits	\$ 78,018	\$ 73,209
Rent	38,012	37,345
Realty and occupancy taxes and maintenance fees	17,796	17,793
Utilities	8,769	8,463
Purchased services	15,296	15,491
Other inventories consumed, including amusement and digital place-based media	14,713	15,606
Venue revenue share	11,405	8,750
Repairs and maintenance	7,942	6,766
Office and operating supplies	4,114	3,658
Licences and franchise fees	4,100	3,813
Insurance	1,438	853
Advertising and promotion	6,500	6,191
Professional and consulting fees	2,050	2,047
Telecommunications and data	1,959	1,475
Bad debts	177	172
Equipment rental	752	766
Other costs	4,413	3,673
	<u>\$ 217,454</u>	<u>\$ 206,071</u>

6. Net income per share

Basic

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

	2018	2017
Net income attributable to owners of Cineplex	\$ 15,226	\$ 23,332
Weighted average number of shares outstanding	63,330,446	63,516,499
Basic EPS	<u>\$ 0.24</u>	<u>\$ 0.37</u>

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.

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Notes to Interim Condensed Consolidated Financial Statements
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(Unaudited)

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

	2018	2017
Net income attributable to shareholders of Cineplex	\$ 15,226	\$ 23,332
Weighted average number of shares outstanding	63,330,446	63,516,499
Adjustments for stock options	12,132	272,040
Weighted average number of shares for diluted EPS	63,342,578	63,788,539
Diluted EPS	\$ 0.24	\$ 0.37

7. Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	2018	2017
Trade and other receivables	\$ 72,282	\$ 37,146
Inventories	(1,965)	(1,415)
Prepaid expenses and other current assets	(4,480)	(4,269)
Accounts payable and accrued liabilities	(23,566)	(54,556)
Income taxes payable	(5,064)	(1,106)
Deferred revenue	(29,705)	(32,559)
Post-employment benefit obligations	(163)	261
Share-based compensation	(5,708)	(4,595)
Other liabilities	(712)	(627)
	<u>\$ 919</u>	<u>\$ (61,720)</u>

Property, equipment and leasehold purchases that are included in accounts payable and accrued liabilities as at March 31, 2018, are \$1,747 (2017 - \$28,017).

8. 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.

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(Unaudited)

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Media

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

Amusement and Leisure

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

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

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

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Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

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

Three months ended March 31, 2018	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Major product and service lines					
Box office	\$ 181,380	\$ —	\$ —	\$ —	\$ 181,380
Food service	108,230	—	8,718	—	116,948
Media	—	31,157	1,356	—	32,513
Amusement	2,737	—	47,168	—	49,905
Other	9,677	—	449	—	10,126
Total revenues	\$ 302,024	\$ 31,157	\$ 57,691	\$ —	\$ 390,872
Primary geographical markets					
Canada	\$ 302,024	\$ 29,576	\$ 30,507	\$ —	\$ 362,107
United States and other countries	—	1,581	27,184	—	28,765
Total revenues	\$ 302,024	\$ 31,157	\$ 57,691	\$ —	\$ 390,872
Timing of revenue recognition					
Transferred at a point in time	\$ 302,024	\$ 5,322	\$ 57,691	\$ —	\$ 365,037
Transferred over time	—	25,835	—	—	25,835
Total revenues	\$ 302,024	\$ 31,157	\$ 57,691	\$ —	\$ 390,872
EBITDA (i)	53,221	14,050	5,768	(18,149)	54,890
Depreciation and amortization	20,985	2,735	7,474	—	31,194
Interest expense					6,484
Interest income					(87)
Income taxes expense					2,073
Net income					\$ 15,226

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(Unaudited)

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

Three months ended March 31, 2017	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Major product and service lines					
Box office	\$ 195,354	\$ —	\$ —	\$ —	\$ 195,354
Food service	111,827	—	2,108	—	113,935
Media	—	32,596	1,316	—	33,912
Amusement	2,930	—	38,471	—	41,401
Other	9,532	—	109	—	9,641
Total revenues	\$ 319,643	\$ 32,596	\$ 42,004	\$ —	\$ 394,243
Primary geographical markets					
Canada	\$ 319,643	\$ 30,844	\$ 19,306	\$ —	\$ 369,793
United States and other countries	—	1,752	22,698	—	24,450
Total revenues	\$ 319,643	\$ 32,596	\$ 42,004	\$ —	\$ 394,243
Timing of revenue recognition					
Transferred at a point in time	\$ 319,643	\$ 6,777	\$ 42,004	\$ —	\$ 368,424
Transferred over time	—	25,819	—	—	25,819
Total revenues	\$ 319,643	\$ 32,596	\$ 42,004	\$ —	\$ 394,243
EBITDA (i)	64,031	16,014	3,268	(22,108)	61,205
Depreciation and amortization	21,490	2,383	4,394	—	28,267
Interest expense					4,862
Interest income					(52)
Income taxes expense					5,163
Net income					\$ 22,965

(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.

9. Basis of presentation and accounting standards changes

Basis of preparation and measurement

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

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Notes to Interim Condensed Consolidated Financial Statements

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

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 for the year ended December 31, 2017.

Accounting standards adopted in the current year

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 *Financial Instruments* from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 9, Cineplex has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year.

Following the adoption, 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.

Under IFRS 9's new expected credit loss model, Cineplex is required to revise its impairment methodology. Cineplex applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The impact on the balance sheet and statement of operations is not material.

IFRS 15 Revenue from Contracts with Customers

Cineplex has adopted IFRS 15 *Revenue from Contracts with Customers* from January 1, 2018 which replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customer*, and SIC 31 *Revenue - Barter Transactions Involving Advertising Services*. The adoption of the new revenue standard did not have a material impact on Cineplex's balance sheet and statement of operations. The following accounting policy disclosures were expanded as required under the new standard.

Film Entertainment and Content

Cineplex generates box office revenues from the sale of admission tickets for theatrical releases purchased by customers in theatres, online at Cineplex.com or through the Cineplex mobile app. Revenue is recognized at

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the time the obligation is satisfied which is when the movie for which the ticket purchased has played. Amounts collected on advanced tickets sales are recorded as deferred revenue and recognized when the movie has played. Cineplex also generates revenues from the sale of food service which is comprised of food and beverage sales. Food service revenue is recognized when control of the food service has transferred, being at the point the customer purchases the food service at the theatres. Payment of the transaction price is due immediately at the point the customer purchases the concessions. When retail transactions include the issuance of SCENE points, Cineplex records deferred revenue based on relative stand alone selling price of the points issued. The liability associated with the points redeemed is recognized as revenue when points are redeemed by customers or in accordance with Cineplex's accounting policy for breakage.

Cineplex sells gift cards directly to individual customers and vouchers to both wholesale resellers and directly to individual customers. The transaction price received from the sales of gift cards and vouchers is due at the time of sale and is recorded as deferred revenue. Revenues from gift cards and vouchers are recognized either on redemption or in accordance with Cineplex's accounting policy for breakage. Breakage income is included in other revenues and represents the estimated value of gift cards and vouchers that are not expected to be redeemed by customers. It is estimated based on historical redemption patterns. The sale of a voucher creates a future obligation from Cineplex to provide an admission ticket or a combination of admission ticket(s) and concessions. The transaction price of the voucher is allocated between box office and concessions based on a relative stand-alone selling price basis.

Media

The media segment principally generates revenue from providing advertising services, sales of digital hardware for digital signage networks, installation of digital hardware, digital software services subscriptions, software maintenance and support services, creative services, printing services and warranties. Products and services may be sold separately or in bundled packages. For bundled packages, Cineplex determines whether individual products and services are distinct (if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it). The consideration is allocated between separate products and service in a bundle based on their relative stand-alone selling prices.

Advertising Media

Media revenues consist primarily of advertising revenues generated from customers who advertise their products and services through Cineplex's media offerings which include onscreen, online, magazine, and digital out of home. Revenue for advertising is recognized over time as services are delivered. The transaction price allocated to these services is recognized as the media runs from the start to the end dates specified in the contracts with the customer. The transaction price allocated to the distinct services to be provided is based on the stand-alone selling prices of the distinct services. Amounts collected on advanced media sales are recorded as deferred revenue and recognized over the period that the media is presented.

Each contract with a customer is also evaluated to determine whether Cineplex is the principal or agent in the transaction. For transactions which Cineplex is the principal, revenues are recorded on a gross basis and for transactions where Cineplex is the agent, revenues are recorded on a net basis.

Installation and Digital Hardware for digital signage network

Cineplex sells digital hardware, installation and other professional services for digital signage networks. The installation and other professional services that Cineplex provides are not a significant integration service, does not customize or modify the hardware and can be performed by another party. The installation and other professional services are therefore accounted for as a separate performance obligation and the transaction price is allocated to each performance obligation based on the stand-alone selling prices. Revenue for installation and other professional services are recognized upon completion of the installation of the digital hardware at the individual site being installed for the customer. If contracts include the purchase of hardware,

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revenue for the hardware is recognized at the point in time when hardware is delivered to the customer. Delivery occurs when the hardware has been shipped to the customer's specific location, the legal title has passed and the customer has accepted the hardware.

Digital software services subscription

Cineplex sells software service subscriptions to customers which provides the functionality for the digital signage network, the customer portal, the content management tool and media player software at the customer's location. Cineplex also sells maintenance and support services for the software service subscriptions. Software service subscription and maintenance and support services are considered to represent a single performance obligation and revenue is recognized over time over the life of the contract. For software service subscriptions, customers have payment options of either equal monthly payments over the term of the contract or a single lump sum payment at the inception of the contract. Amounts collected as advanced payments are recorded as deferred revenue and recognized equally over the term of the contract unless the contract contains a renewal option with an embedded material right which provides the customer a material right (such as a free or discounted good or service) and gives rise to a separate performance obligation. If an embedded material right exists, revenue is recognized on a straight line basis over the term of the contract including the renewal period. Contracts are evaluated to determine whether renewal options provide the customer with an embedded material right and whether a significant financing arrangement exists. For maintenance and support services, the transaction price is paid monthly in equal payments over the term of the contract as service is provided.

Creative Services

Cineplex provides creative services producing content to be run on customer's digital display networks. For creative services, revenue is recognized at a point in time when the project is completed and the customer has accepted the final product. Creative services are based on an hourly rate and the transaction price recognized as revenue is the amount to which Cineplex has a right to invoice based on the amount of hours required to complete the project. Payment of the transaction price is due at completion of the project.

Amusement and Leisure

The amusement and leisure segment principally generates revenue from route operations, the sale of amusement gaming and vending equipment and from the sale of food services and entertainment at location based entertainment venues.

Cineplex operates amusement, gaming and vending equipment at family entertainment centres ("FECs") and non-FECs which is referred to as route operations. The transaction price is the set price that the customer playing the game is required to pay and revenue is recognized upon the customer playing the game. As it relates to gaming revenues, the most significant judgment is determining whether Cineplex is the principal or agent in the route operations. Cineplex is considered to be the principal in its route operations as it owns all of the equipment hosted at sites, is responsible for the maintenance of the equipment, and has control over which equipment will be on site. Revenues from route operations are recorded at the gross amount with the portion shared with the location hosting the equipment recorded in other costs as venue revenue share. Cineplex also sells rechargeable cards to be used for gameplay. IFRS 15 requires unused cash values on the rechargeable cards to be deferred. Revenue from the rechargeable cards is recognized upon redemption or in accordance with Cineplex's policy for breakage based on historical redemption patterns.

For the sale of equipment to customers, revenue is recognized when control of the goods has transferred and title has passed, being when the goods have been delivered to the customer's specific location.

Food and beverage sales at location based entertainment venues are recognized when control of the goods has transferred, being at the point the customer purchases and receives the goods. Payment of the transaction price is due at the point the customer purchases food and/or beverages.

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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

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 will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted. Cineplex is analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. As Cineplex has significant contractual obligations classified as operating leases under the existing standard, 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 expects to change its existing accounting systems, processes and internal controls to account for IFRS 16.