2020

ANNUAL REPORT

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Letter from the Chair of the Board

Dear fellow shareholders,

It is my pleasure to address you today as the Chair of the Board of Directors of Cineplex Inc. As a former Cineplex board member and previous Chair of the Board, I am honoured to be back leading this great group of Directors and to be part of an organization that I believe in so strongly.

In light of the ongoing public health concerns related to the spread of COVID-19, this year Cineplex will once again host a hybrid in-person and virtual Annual General Meeting ("AGM") on Wednesday, May 19, 2021. Registered shareholders and duly appointed proxyholders can participate in-person or via live webcast, which will include voting on the motions put forward and the ability to ask questions, all in real-time.

During a year that challenged us all, the Board remained guided by our corporate strategy, took strong, decisive action to ensure the ongoing viability of the Company and upheld our commitment to protect employees and support customers and communities.

Navigating A Year Like No Other

When I look back on 2020, I am extremely proud of the Cineplex team for managing through what was a truly unprecedented year in the company's history. We began with a strong focus and commitment to completing the proposed Cineworld transaction, which was ultimately repudiated by Cineworld and is now in litigation.

Then the pandemic hit in early March and the negative impact was significant for both the movie exhibition industry around the world, and the other industries in which we operate. Pivoting with great agility, the team's top priorities were to protect the health and safety of employees and guests, as well as manage costs and address liquidity options to solidify the financial health of the Company. As a result, Cineplex significantly reduced operating and capital expenditures, worked with partners to abate or defer payments, initiated a number of liquidity measures, and focused on growing and supporting our diversified and online businesses. In anticipation of re-opening, the team also developed an industry-leading health and safety program to ensure that employees and guests feel comfortable when they return to our venues.

Continued Good Governance and Corporate Citizenship

Throughout this past year, the Board worked closely with senior management to ensure the financial health of the Company, in addition to focusing on our strategic direction and long-term value creation for shareholders beyond the current pandemic environment. All Directors have been extremely focused and involved, holding 21 full board meetings in 2020 to address the unusual challenges.

Further, Cineplex's dedication to being a good corporate citizen and community partner was made all the more evident this year, through our ongoing support of local communities across the country during the COVID-19 pandemic. Just one example of this includes hosting our annual Community Day fundraiser in 2020, which traditionally welcomes guests across Canada into our theatres for a morning of free movies. Instead of the in-theatre event, Cineplex raised money for Food Banks Canada by donating $1 from certain transactions on the Cineplex Store, as well as through our food delivery services.

Commitment to Inclusion and Diversity

As we continue to prioritize inclusion and diversity within Cineplex, I am proud to report that our Board currently includes four members who identify as women, who together represent 44% of the Directors or 50% of the independent Directors. The Board also includes four members who identify as minorities, who together represent 44% of the Directors. Finally, three members of executive management of the Company, including its major subsidiaries, identify as women, representing 38% of executive management.

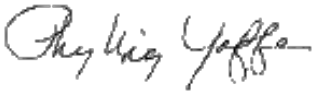
In addition to the Company's long standing commitment to inclusion, in 2020, Mr. Jacob signed the Black North Initiative CEO Pledge – acknowledging the existence of anti-Black systemic racism in Canada and ensuring that inclusion remains at the core of Cineplex's workplace culture. The pledge includes a commitment to hire a minimum of one Black leader to fill an executive or Board member role in Canada by 2025. Also, in response to the social injustice happening in North America, Cineplex launched its 'Understanding Black Stories' collection – a curated collection of films to help educate and inform perspectives on Black storytelling and culture that were available as free rentals on the Cineplex Store.

Path Forward: The Future is Bright

Throughout 2020, the team took necessary actions to address the ongoing impact of the pandemic and liquidity needs of the company. We focused on the other revenue-generating areas of our business, including Cineplex Digital Media, our expanded food delivery services and our online Cineplex Store, and will continue to focus on all revenue sources as we emerge from the pandemic. Cineplex is moving toward the next phase of its future. We are all looking forward to reopening the entire circuit of theatres and entertainment venues, which together with the pent-up consumer demand and abundance of film product available, gives us confidence for a bright future ahead.

On behalf of the entire Board, I extend our thanks and appreciation to the management team and to all employees for their hard work, passion and dedication during what has been the toughest year in Cineplex's history. I look forward to connecting with you at our AGM, but should you wish to contact me directly, please send an email to boardchair@cineplex.com.

Sincerely yours,



Phyllis Yaffe
Chair of the Board, Cineplex Inc.
boardchair@cineplex.com

Letter from the CEO

Dear fellow shareholders,

This has truly been a year like no other in the history of our company. The impact of COVID-19 has been wide-spread and has dramatically affected so many industries, including entertainment and movie exhibition. As expected, given our mandated closures, capacity restrictions and the shifts in the film release slate, our annual results were significantly impacted.

Our teams worked diligently throughout the year to mitigate the negative effects of COVID-19, support the Company's long-term stability and implement industry leading operating procedures focused on the health, safety and well-being of our employees and guests. We remained laser-focused on minimizing cash burn, extracting value from all of our assets, and implementing liquidity measures to see us through the pandemic recovery period. We adapted with agility and created a leaner, more resilient Cineplex and laid the groundwork to set us on a path to create a stronger, more successful organization for the future.

Focused Response to COVID-19

Throughout the year, our team worked harder than ever to adapt our operations, control costs, and strengthen Cineplex's financial position. We significantly reduced capital expenditures and our two primary operating costs: payroll and lease costs.

During mandated closure periods, we temporarily laid off our part-time field workforce, our full-time employees voluntarily took temporary salary reductions and we realigned and consolidated our corporate teams, permanently eliminating 130 full-time roles across the Cineplex ecosystem. We also benefited from approximately $57 million in wage subsidies, primarily through the Canada Emergency Wage Subsidy program ("CEWS program") and worked with our landlord partners to obtain relief that materially reduced net cash lease outflows by approximately $73 million. With the second wave of COVID-19 resulting in another round of widespread temporary closures from late 2020 into 2021, we were pleased to hear that the CEWS program was extended through June 2021. We are also continuing discussions with our landlord partners for further relief as we respond to the pandemic crisis together.

Additionally, in an effort to further reduce our operating costs, we eliminated all discretionary spending, and worked with our suppliers to renegotiate and revise contracts.

Gold Standard in Health & Safety Protocols

Our top priority is the health and safety of our employees and our guests. During the Canada-wide shut down between March and June 2021, we used that time to carefully re-examine our health and safety processes and procedures and worked with the country's top infectious disease experts to develop and implement an industry-leading program. We made sure that our guests would feel confident and relaxed returning to our venues.

Detailed information about the measures we have put in place is available on Cineplex.com, but at a high-level, our strategy centres around three key components – enhanced cleaning, reducing capacity to ensure physical distancing and leveraging technology to ease operations and reduce physical touchpoints between our employees and guests. It's also important to note that there remains no claim of COVID-19 transmission in a cinema to date – globally. As a worldwide industry, we have all focused on the safety of our guests and will continue to do so.

A Leaner, More Resilient Cineplex

In response to the challenges faced in 2020, we adapted with agility and created a leaner, more resilient Cineplex. We scrutinized our business divisions, analyzed our structures and challenged every assumption, in an effort to streamline our operations, and more importantly, improve our profitability for the long-term. We took a strategic look at the structure of our business divisions, our partnerships and programs, and made some tough, but necessary decisions, to reduce overheads, operating expenses and capital commitments. We re-aligned and streamlined our corporate and divisional operating structures to improve efficiencies, and reduced the number of capital projects, recognizing that this isn't the time to invest in large development projects.

While we were able to dramatically reduce our cash burn, we also focused on the other revenue-generating areas of our business, which were not as heavily impacted by COVID-19. These included Cineplex Digital Media, our expanded food delivery services through SkipTheDishes and Uber Eats, and our online Cineplex Store, which experienced significant growth with a massive 39% increase in registered users from the prior year, to 1.9 million total users. As Canadians were forced to stay home, the Cineplex Store, which is a key differentiator for us from our peers, provided us with the opportunity to meaningfully engage with our guests through our digital platform, and offer them the chance to view film content directly in their homes.

Overall, in the short and medium term, we are focusing on a smaller number of projects and priorities supported by a sustainable financial model.

Strengthening our Financial Position

Cineplex has a unique suite of assets like no other exhibitor in the world, allowing us to extract additional value and strengthen our financial position beyond the current pandemic environment. A key example of this was in the fourth quarter, when we entered into an agreement to enhance and expand the SCENE loyalty program, receiving $60 million from Scotiabank.

We raised over $300 million in additional financing in 2020, in the form of convertible unsecured subordinated debentures and subsequent to year end raised another $250 million in the form of senior secured second lien notes. We obtained additional relief under our credit facilities, which subsequent to year end, was extended through to the fourth quarter of 2021. We also began the sale process of our Head Office, which was completed subsequent to year end for $57 million and expect to receive approximately $66 million in tax refunds in early 2021, as a result of the tax losses created in 2020.

These initiatives, combined with our ongoing focus on minimizing costs, will provide the liquidity we need to see us through the pandemic recovery period as vaccines are rolled out, restrictions are lifted and a return to normalcy begins.

Undeniable Recovery of the Industry

Although the pandemic has lasted longer than any of us initially expected, we know that the exhibition, amusement and leisure industries will recover. The box office numbers coming out of countries where theatres are currently operating, like Japan, China and Australia have exceeded expectations and, in some cases, have broken all-time records. Closer to home, we experienced record-breaking opening results from our newest location of Playdium in Dartmouth, Nova Scotia, which opened in February 2021. We know our guests will be looking for safe and affordable out of home entertainment experiences coming out of the pandemic and our focus is how best to leverage and capitalize on this desire.

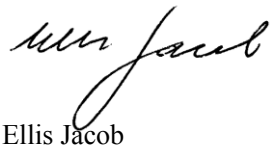
With the vaccine roll-out underway and restrictions starting to ease in certain regions, our team is looking forward to safely reopening the rest of our circuit of theatres and entertainment venues across Canada. Recent theatre reopenings have proven very successful and we anticipate a return to more normal operating conditions in the near future. We have all been cooped up for over a year and are longing to come back together as a

community and take part in social experiences. That desire, combined with the buildup of strong film content for both this year and next, means there is a lot to look forward to.

As I look back on 2020, I am extremely proud of the 'One Cineplex' team and want to thank them for their focus, agility and willingness to make sacrifices as we worked together to accomplish all that we did. I also want to thank our Board of Directors for their ongoing support and sound advice during these unprecedented times. Finally, I want to thank our customers, partners, guests and investors for their ongoing support and belief in Cineplex.

The bottom line is that Cineplex will make it through this tough time. We have fortified the financial position of our company, secured the financing we need to see us through, and developed the 'gold standard' in health and safety protocols to safely welcome guests back. We remain confident in our strategy and will continue to take all necessary actions to ensure Cineplex not only survives the pandemic, but thrives for years to come.

Sincerely,



Ellis Jacob
President and CEO, Cineplex Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 10, 2021

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 December 31, 2020 and all amounts are in Canadian dollars.

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 18, 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. Forward-looking statements also include, statements pertaining to:

- *Cineplex's outlook, goals, expectations and projected results of operations, including factors and assumptions underlying Cineplex's projections regarding the duration and impact of a novel strain of coronavirus ("COVID-19") pandemic on Cineplex, the movie exhibition industry and the economy in general, as well as Cineplex's response to the pandemic related to the closure of its theatres and location-based entertainment ("LBE") venues, employee reductions and other cost-cutting initiatives and increased expenses relating to safety measures taken at its facilities to protect the health and well-being of guests and employees;*
- *Cineplex's expectations with respect to net cash burn, liquidity and capital expenditures, including its ability to meet its ongoing capital, operating and other obligations, and anticipated needs for, and sources of, funds; and*
- *Cineplex's ability to execute cost-cutting and revenue enhancement initiatives in response to the COVID-19 pandemic.*

The COVID-19 pandemic has had an unprecedented impact on Cineplex, along with the rest of the movie exhibition industry and other industries in which Cineplex operates, including material decreases in revenues, results of operations and cash flows. The situation continues to evolve and the social and economic effects are widespread. As an entertainment and media company that operates spaces where guests gather in close proximity, Cineplex's business has been significantly impacted by the actions taken to control the spread of COVID-19. These actions include, among other things, the temporary closure of theatres and LBE venues, the introduction of social distancing measures and restrictions including those on capacity. There is limited visibility on when these restrictions will be lifted in many of the markets in which Cineplex operates and how quickly guests will return to Cineplex's locations once its operations resume due to prolonged safety concerns and adverse economic conditions. Cineplex is actively monitoring the situation and is adapting its business strategies as the impact of the COVID-19 pandemic evolves.

By their very nature, forward-looking statements involve inherent risks and uncertainties, including those described in Cineplex's Annual Information Form ("AIF"), 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, the duration and impact of the COVID-19 pandemic on Cineplex, the movie exhibition industry and the economy in general, as well as Cineplex's response to the COVID-19 pandemic as it relates to the closure of its theatres and LBE venues, employee reductions and other cost-cutting initiatives, and increased expenses relating to safety measures taken at its facilities to protect the health and well-being of customers and employees; Cineplex's expectations with respect to liquidity and capital expenditures, including its ability to meet its ongoing capital, operating and other obligations, and anticipated needs for, and sources of, funds; Cineplex's ability to execute cost-cutting and revenue enhancement initiatives in response to the COVID-19 pandemic; risks generally encountered in the relevant industry, competition, customer, legal, taxation and accounting matters; the outcome of any litigation surrounding the termination of the Cineworld transaction (described below); and diversion of management time on litigation related to the Cineworld transaction.

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, can be found on SEDAR at www.sedar.com.

1. OVERVIEW OF CINEPLEX

Cineplex is a top-tier Canadian brand that operates in the film entertainment and content, amusement and leisure, and media sectors. As a leading entertainment and media company, Cineplex welcomes millions of guests annually through its circuit of theatres and LBE venues across the country. In addition to being Canada's largest and most innovative film exhibitor, Cineplex also operates businesses in digital commerce (Cineplex Store), food service, alternative programming (Cineplex Events), cinema media (Cineplex Media), digital place-based media (Cineplex Digital Media "CDM") and amusement solutions (Player One Amusement Group "P1AG"). Additionally, Cineplex operates an LBE business through Canada's destinations for 'Eats & Entertainment' (*The Rec Room*), and entertainment complexes specifically designed for teens and families (*Playdium*). 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 December 31, 2020, Cineplex owned, leased or had a joint venture interest in 1,667 screens in 162 theatres from coast to coast as well as eight LBE venues in four provinces.

Cineplex

Theatre locations and screens at December 31, 2020

Province	Locations	Screens	3D Digital Screens	UltraAVX	IMAX Screens (i)	VIP Auditoriums	D-BOX Auditoriums	Recliner Auditoriums	Other Screens (ii)
Ontario	68	730	358	41	13	48	48	108	10
Quebec	18	230	91	10	3	4	7	12	—
British Columbia	24	231	125	16	3	15	16	39	1
Alberta	19	208	112	20	2	11	16	78	6
Nova Scotia	12	91	44	1	1	—	2	—	1
Saskatchewan	6	54	28	3	1	3	3	16	1
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	**162**	**1,667**	**819**	**94**	**25**	**84**	**98**	**253**	**19**
Percentage of screens			49 %	6 %	1 %	5 %	6 %	15 %	1 %

(i) All IMAX screens are 3D enabled. Total 3D screens including IMAX screens are 844 screens or 51% of the circuit.

(ii) Other screens includes 4DX, *Cineplex Clubhouse* and ScreenX.

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

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Theatres	162	164	164	164	165	165	165	165
Screens	1,667	1,687	1,687	1,687	1,693	1,695	1,695	1,692
3D Digital Screens	819	826	826	826	826	827	826	824
UltraAVX Screens	94	94	94	94	94	93	93	90
IMAX Screens	25	25	25	25	25	25	25	25
VIP Auditoriums	84	84	84	84	84	79	79	75
D-BOX Locations	98	99	99	99	97	92	92	89
Recliner Screens	253	221	221	221	213	182	182	173
Other Screens	19	19	19	19	17	5	4	4

Cineplex - LBE - at December 31, 2020

Province	*The Rec Room*	*Playdium*
Ontario	3	2
Alberta	3	—
Manitoba	1	—
Newfoundland & Labrador	1	—
TOTALS	**8**	**2**

1.1 RECENT DEVELOPMENTS

Response to COVID-19 and going concern

In early 2020, the outbreak of COVID-19 was confirmed in multiple countries throughout the world and on March 11, 2020, it was declared a global pandemic by the World Health Organization. In response, Cineplex immediately introduced enhanced cleaning protocols and reduced theatre capacities to promote social distancing. By mid-March, each of Canada's provinces and territories had declared a state of emergency resulting in, among other things, the mandated closure of non-essential businesses, restrictions on public gatherings and quarantining of people who may have been exposed to the virus.

On March 16, 2020, Cineplex announced the temporary closure of all of its theatres and LBE venues across Canada, as well as substantially all route locations operated by P1AG. On April 1, 2020, in response to applicable government directives and guidance from Canadian public health authorities, Cineplex announced that the closure of its theatres and LBE venues across Canada would remain in effect and that the reopening of such locations would be reassessed as further guidance is provided by Canadian public health authorities and applicable government authorities.

Cineplex was able to reopen a limited number of venues in late June, and as government restrictions across the country were eased, additional locations were opened. On August 21, 2020, Cineplex became one of the first of all the major film exhibitors in the world to reopen its entire circuit of theatres across Canada, including location based entertainment venues. During this period, Cineplex continued its negotiations with landlords, finalizing the majority of discussions and realizing material reductions in rent payments for both the closure period in the second, third, as well as for the fourth quarter and future periods.

In Canada, most provinces have adopted a phased approach to reopening businesses. The following table reflects the current status of reopening to the date of this MD&A. The reopening plans are subject to change from time to time.

Province	Theatres	Restaurants
British Columbia	All cinemas closed as of November 24, 2020.	✔ Restaurants limited to 50% capacity as of November 24, 2020.
Alberta	All cinemas closed as of December 31, 2020.	All indoor dining closed as of December 13, 2020.
Saskatchewan	✔ Cinemas open at 30 per auditorium.	✔ Restaurants open.
Manitoba	All cinemas closed as of November 12, 2020.	All indoor dining closed as of November 20, 2020.
Ontario	Cinemas will begin reopening in Ontario on February 10 with additional regions scheduled to reopen on February 16 and 22.	Restaurants will begin reopening in Ontario on February 10 with additional regions scheduled to reopen on February 16 and 22.
Quebec	All cinemas closed as of November 11, 2020.	All indoor dining closed as of November 11, 2020.
New Brunswick	✔ Cinemas open at 50 per building.	✔ Restaurants open.
Nova Scotia	✔ Cinemas open at 100 per auditorium.	✔ Indoor dining open as of January 4, 2021.
Prince Edward Island	✔ Cinemas open at 200 per building, no more than 50 per auditorium.	✔ Indoor dining permitted with a limit of up to 50 patrons.
Newfoundland	✔ Permitted since June 24. Limit of 50 persons per auditorium or 50% capacity, whichever is less.	✔ Permitted since June 8.

To mitigate the negative impact of COVID-19 and support its long-term stability, Cineplex has undertaken a variety of measures including:

Liquidity measures:

- entered into amendment agreements with The Bank of Nova Scotia as administrative agent to the seventh amended and restated credit agreement that provided Cineplex with certain financial covenant relief in light of the COVID-19 pandemic and its effects on Cineplex's business. Refer to Section 7.4, Credit Facilities and Section 16, Subsequent events, for a summary of key terms of the First, Second and Third Credit Agreement Amendments;
- issued convertible unsecured subordinated debentures for net proceeds of $303.0 million (the "Debentures") (see Section 9.1, Convertible debentures);
- entered into an agreement to enhance and expand the SCENE Scotiabank Loyalty program receiving $60.0 million with respect to the reorganization.

- focused on revenue driving opportunities including the expansion of Cineplex Store offerings and expansion of food home delivery from theatres and LBE venues; and
- filed corporate tax returns for income tax recoveries in a timely manner

Cost reduction and subsidy measures:

- temporary layoffs of all part-time and full-time hourly employees as well as a number of full-time employees who chose a temporary layoff rather than a salary reduction;
- reduced full-time employee salaries by agreement with such employees during the second and third quarters;
- suspended or deferred current capital spending and reviewing all capital projects to consider either deferral or cancellation;
- reduced non-essential discretionary operational expenditures (such as spending on marketing, travel and entertainment);
- implemented a more stringent review and approval process for all outgoing procurement and payment requests;
- continued negotiations with landlords for rent relief, including abatements and converting fixed rent to variable rent depending on attendance, until attendance returns to previous levels;
- worked with major suppliers and other business partners to modify the timing and quantum of certain contractual payments;
- reviewed and applied for government subsidy programs where available, including municipal and provincial property tax and energy rebates or subsidies;
- applied for the ongoing Canada Emergency Wage Subsidy ("CEWS") made available by the Government of Canada since March 2020;
- applied for the ongoing Canada Emergency Rent Subsidy ("CERS"), which was launched by the Government of Canada as a result of government mandated lockdowns, providing a variable subsidy for rent and other occupancy-related costs incurred from September 27, 2020 through June, 2021;
- continued evaluation of Cineplex's eligibility under other relief programs; and
- continued the suspension of dividends;

In addition to cost savings associated with the temporary layoffs of its employees, reductions in salaries and other mitigation efforts, Cineplex has suspended or deferred certain capital spending and is reviewing all capital projects to consider further deferrals or cancellations and has plans to reduce purchases of property, plant and equipment (net of tenant inducements) to approximately $50.0 million over the next 12 months.

The COVID-19 pandemic has had a material negative effect on all aspects of Cineplex's businesses resulting in material decreases in revenues, results of operations and cash flows. Since March 15, 2020, Cineplex has experienced a net cash burn of approximately $15 million to $20 million per month as a result of having to close its theatres and LBE venues (for Q4 2020 net cash burn was $74.3 million for the three months or approximately $24.8 million monthly) (see Section 18, Non-GAAP measures). When used in this MD&A, net cash burn is calculated as adjusted EBITDAaL (see Section 18, Non-GAAP measures) less cash interest (excluding amounts with respect to lease obligations), provision for income taxes and net capital expenditures.

As some of Cineplex's largest expenses, such as film cost and cost of food services, are fully variable, during the closure of its theatres and LBE venues Cineplex focused on reducing its largest fixed and semi-fixed expenses, including those attributed to theatre payroll and theatre occupancy. As a result of the measures described above and below, including receipt of assistance under the CEWS, Cineplex was able to materially reduce theatre payroll expenses from $41.9 million reported in the fourth quarter of 2019 to approximately $5.2 million in the fourth quarter of 2020. In total, Cineplex has received approximately $57.0 million in wage subsidies to end of the fourth quarter, primarily under the CEWS program. With respect to theatre occupancy expenses, Cineplex has worked with its landlord partners to obtain relief measures, which resulted in significantly reduced cash rent being paid in 2020 subsequent to the lockdowns. During the fourth quarter Cineplex was able to reduce occupancy costs by approximately $14.9 million. Including the sale of certain restrictive lease rights to landlords during the third quarter, on an annual basis Cineplex was able to materially reduce net cash lease outflows by approximately $72.5 million. The focus was on identifying opportunities for lease-related abatements during the closure period, converting fixed components of rent to variable rent during the reopening period and looking for other opportunities to extract value under its existing lease agreements. With the second wave of COVID-19 resulting in another round

of closures in the fall and winter of 2020/2021, Cineplex continues to work with landlord partners to obtain further relief.

Since the closure of its theatres and LBE venues in March 2020, Cineplex diligently prepared for their safe reopening, with the health and well-being of its employees and guests being its top priority. Cineplex carefully re-examined all of its buildings and processes, so that when its theatres and LBE venues reopened, it had implemented an industry-leading program with end-to-end health and safety protocols.

Some of the new measures implemented on reopening included:

- launching reserved seating in all auditoriums across Canada; seating options are automatically blocked off to ensure proper distance in every direction between guests;
- reducing capacity in all auditoriums to allow for physical distancing in accordance with government regulations;
- enhancing cleaning practices throughout our facilities, with particular focus on high-contact surfaces, restrooms and seats;
- accepting debit and credit payments only, with the exception of gift card purchases;
- limiting food offerings in theatres;
- ensuring employees have the personal protective equipment they need and as required by provincial regulations; and
- making hand sanitizer readily available for guests and employees throughout the buildings.

Although restrictions on social gatherings were partially lifted in many of the markets in which Cineplex operated during the third quarter, social gathering restrictions were reinstituted in the fourth quarter with the increased number of COVID-19 cases throughout the country. The second wave of increased cases during the fall months resulted in several provinces across Canada implementing mandatory lockdown measures which have resulted in prolonged mandatory theatre closures and operating restrictions on the LBE businesses. Due to the uncertainty of the timing of the reductions of many government-imposed restrictions and the potential long-term effects that the COVID-19 pandemic may have on the exhibition and amusement and leisure businesses, COVID-19 may have a prolonged negative impact on Cineplex's operations. In addition, with the global delay of exhibitors reopening, specifically those in California and New York, distributors shifted the release dates of major movie titles out of 2020 into 2021 and beyond, in an effort to maximize box office revenues on the eventual release of such titles. This included the following releases*: Godzilla vs. Kong, Black Widow, Fast & Furious 9, Cruella, Peter Rabbit 2, Venom: Let There Be Carnage, Minions: The Rise of Gru, Top Gun: Maverick, Shang-Chi and the Legend of the Ten Rings, Space Jam: A New Legacy, Jungle Cruise, The Suicide Squad, The King's Man, A Quiet Place Part II, Dune, No Time To Die, Eternals, Ghostbuster: Afterlife, Mission: Impossible 7, Spider-Man 3, West Side Story and The Matrix 4.*

In addition, a limited number of previously expected theatrical releases have instead been redirected to streaming services. The impact of the reduction of new releases in the fourth quarter as a result of these changes in combination with the ongoing and potentially expanded restrictions on the reopening of Cineplex's businesses, also negatively impacted the timing of Cineplex's return to profitability.

In December 2020, Health Canada approved and authorized the Pfizer-BioNTech and Moderna COVID-19 vaccines for use in Canada with the first doses arriving during the holiday season. Canada has begun the inoculation process of Canadians, starting with front line workers and high-risk individuals with plans to start vaccinating the general population during the spring of 2021, and having all Canadians immunized by the fall of 2021. The efficient rollout of vaccines is a significant leap forward to the return of normalcy and end of the COVID-19 pandemic. However, the supply and roll-out of approved vaccines in Canada has been inconsistent to date and there can be no assurance that vaccines will be widely available or distributed as currently anticipated, which would delay a return to normalcy.

With the unknown duration of the pandemic and yet to be determined timing of the phased complete reopening of Cineplex's businesses, as well as consumers' future risk tolerance regarding health matters, it is not possible to know the impact of the pandemic on future results. However, Cineplex is optimistic that the exhibition and amusement and leisure industries will recover over time. Cineplex believes consumer demand for the theatrical experience combined with a backlog of anticipated releases of strong film content will help drive visitation, and that LBE activities will increase as people seek out-of-home experiences they have been restricted from enjoying for almost a year.

Management continues to pursue all viable options to maintain adequate liquidity to fund operations for the currently anticipated duration of the pandemic. During the fourth quarter, Cineplex entered into an agreement to enhance and expand the SCENE Scotiabank Loyalty program receiving $60.0 million with respect to the reorganization. In addition, Cineplex continues to explore other measures to maintain adequate liquidity, including but is not limited to planned asset sales such as Cineplex's head office building in Toronto which was completed subsequent to year end, additional financing sources and amendments to existing credit facilities. All proceeds are used to repay the Credit Facilities, in part as a permanent reduction.

As of December 31, 2020, Cineplex was in compliance with all financial covenants under the terms of its senior secured credit facilities ("Credit Facilities"). However, with potential ongoing closures and delayed film releases, management's forecasts indicate a potential breach of covenants within the next twelve months as a result of the ongoing pandemic. Management's forecasts may change materially as the impact of COVID-19 on Cineplex's business is better understood over the course of time. A violation of its covenants would represent an event of default under the terms of the Credit Facilities, enabling the lenders to demand immediate repayment of all amounts due. See section 16, Subsequent Events, for a description of certain amendments to the Credit Facilities entered into after year end.

As of December 31, 2020, Cineplex had a cash balance of $16.3 million and $153.8 million available under its Credit Facilities subject to the liquidity covenants set forth in the Credit Facilities as amended (see Section 16, Subsequent events). Cineplex also reported a loss from continuing operations during the year of $624.0 million and an accumulated deficit of $903.4 million. Subsequent to year end, Cineplex entered into an amendment to the credit agreement governing the Credit Facilities to obtain certain financial covenant relief from the syndicate of lenders under its Credit Facilities, see Section 16, Subsequent Events. Cineplex continues to pursue a variety of options to maintain adequate liquidity to fund operations for the currently anticipated duration of the pandemic and is investigating additional sources of financing including further asset sales, such as the sale of the head office completed subsequent to year end, however as of the date of this MD&A, no further financing had been concluded, and there can be no assurance that such financing initiatives will be successful.

Cineplex has prepared its condensed consolidated financial statements on a going concern basis, which presumes it will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business as they become due. While Cineplex currently has sufficient liquidity to satisfy its immediate financial obligations, there can be no assurance that the steps that management is taking will provide sufficient liquidity in the near term to meet its ongoing obligations, nor can it be assured that it will be able to obtain additional financing at favorable terms, or at all. These material uncertainties lend significant doubt about the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The consolidated financial statements do not reflect adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if Cineplex were unable to continue as a going concern. Such adjustments could be material.

Cineworld Transaction

On December 15, 2019, Cineplex entered into an arrangement agreement (the "Arrangement Agreement") with Cineworld Group, plc ("Cineworld"), pursuant to which an indirect wholly-owned subsidiary of Cineworld agreed to acquire all of the issued and outstanding common shares of Cineplex ("Shares") for $34 per share in cash (the "Cineworld Transaction"). The Cineworld Transaction was to be implemented by way of a statutory plan of arrangement under the *Business Corporation Act* (Ontario).

On June 12, 2020, Cineworld delivered a notice (the "Termination Notice") to Cineplex purporting to terminate the Arrangement Agreement. In the Termination Notice, Cineworld alleged that Cineplex took certain actions that constituted breaches of Cineplex's covenants under the Arrangement Agreement including failing to operate its business in the ordinary course. In addition, Cineworld alleged that a material adverse effect had occurred with respect to Cineplex. Cineworld's repudiation of the Arrangement Agreement has been acknowledged by Cineplex and the Cineworld Transaction will not proceed. Cineplex vigorously denies Cineworld's allegations. The Arrangement Agreement explicitly excludes any "outbreaks of illness or other acts of God" from the definition of material adverse effect and all of Cineworld's allegations stem from an outbreak of illness and act of God (COVID-19). Cineplex believes that Cineworld had no legal basis to terminate the Arrangement Agreement and that Cineworld breached the Arrangement Agreement and its other contractual obligations because, among other failures, it did not use reasonable best efforts to obtain approval under the *Investment Canada Act* as soon as reasonably practicable ("ICA Approval"). If Cineworld had complied with its obligation to obtain ICA Approval, Cineplex believes the ICA Approval would have been obtained and the Cineworld Transaction would have closed well before the outside date for completion in the Arrangement Agreement. No amounts are due to be paid by Cineplex as a result of the Termination Notice and no amounts have been accrued in the financial statements with respect to the Termination Notice.

On July 3, 2020, Cineplex announced that it had commenced an action in the Ontario Superior Court of Justice against Cineworld and 1232743 B.C. Ltd. seeking damages arising from what Cineplex claims was a wrongful repudiation of the Arrangement Agreement. The claim seeks damages, including the approximately $2.18 billion that Cineworld would have paid upon the closing of the Cineworld Transaction for Cineplex's securities, reduced by the value of the Cineplex securities retained by its security holders, as well as compensation for other losses including the failure of Cineworld to repay or refinance Cineplex's approximately $664 million in debt and transaction expenses. Cineplex has also advanced alternative claims for damages for the loss of benefits to its security holders, and to require Cineworld to disgorge the benefits it improperly received by wrongfully repudiating the Cineworld Transaction.

Cineplex claims that Cineworld breached its contractual obligations and its duty of good faith and honesty in contractual performance. Cineworld purports to rely upon alleged adverse impacts of COVID-19 on Cineplex's business to terminate the Arrangement Agreement, which it is not entitled to do. The contractual agreements between the parties expressly exclude outbreaks of illness, such as the COVID-19 pandemic, as a circumstance entitling Cineworld to terminate the Arrangement Agreement. Without any legal right to avoid its contractual obligations, Cineworld intentionally chose to breach its obligations, including its obligation to obtain ICA Approval.

On July 6, 2020, Cineworld announced that it would defend Cineplex's claim, and on September 2, 2020, filed its Statement of Defence and Counterclaim in which it denied Cineplex's claims and advanced a counterclaim seeking reimbursement of an unspecified amount for costs incurred with respect to the transaction and an unspecified amount for punitive damages. Cineplex responded to Cineworld's defence and counterclaim on September 15, 2020, denying all claims levied by Cineworld.

While a trial date has been set for September 2021, due to uncertainties inherent in litigation, it is not possible for Cineplex to predict the timing or final outcome of the legal proceedings against Cineworld or to determine the amount of damages, if any, that may be awarded. Further, even if Cineplex's action against Cineworld is successful, Cineworld may not have the ability to pay the full amount of any damages awarded.

1.2 FINANCIAL HIGHLIGHTS

Financial highlights	Fourth Quarter			Full Year		
(in thousands of dollars, except theatre attendance in thousands of patrons and per Share and per patron amounts)	2020	2019	Change (i)	2020	2019	Change (i)
Total revenues (ii)	$ 52,452	$ 443,220	-88.2%	$ 418,263	$ 1,665,146	-74.9%
Theatre attendance	786	16,849	-95.3%	13,065	66,360	-80.3%
Net (loss) income from continuing operations	$ (230,403)	$ 4,668	NM	$ (624,001)	$ 36,516	NM
Net loss from discontinued operations	$ —	$ (1,196)	NM	$ (4,952)	$ (7,625)	NM
Net (loss) income	$ (230,403)	$ 3,472	NM	$ (628,953)	$ 28,891	NM
Box office revenues per patron ("BPP") (iv)	$ 9.23	$ 10.79	-14.5%	$ 10.17	$ 10.63	-4.3%
Concession revenues per patron ("CPP") (iv)	$ 9.06	$ 6.81	33.0%	$ 6.99	$ 6.73	3.9%
Adjusted EBITDA (iv)	$ (32,097)	$ 106,529	NM	$ (55,866)	$ 405,786	NM
Adjusted EBITDAaL (iii) (iv)	$ (65,948)	$ 62,327	NM	$ (182,815)	$ 230,546	NM
Adjusted EBITDAaL margin (iii) (iv)	(125.7)%	14.1%	-139.8%	(43.7)%	13.8%	-57.5%
Adjusted free cash flow (iv)	$ (30,530)	$ 39,127	NM	$ (161,870)	$ 168,455	NM
Adjusted free cash flow per Share (iv)	$ (0.482)	$ 0.618	NM	$ (2.556)	$ 2.660	NM
Earnings per Share ("EPS") from continuing operations - basic and diluted (iii)	$ (3.64)	$ 0.08	NM	$ (9.85)	$ 0.58	NM
EPS from discontinued operations - basic and diluted	$ —	$ (0.02)	NM	$ (0.08)	$ (0.12)	-33.3%
EPS - basic and diluted (iii)	$ (3.64)	$ 0.06	NM	$ (9.93)	$ 0.46	NM

(i) Throughout this MD&A, changes in percentage amounts are calculated as 2020 value less 2019 value.

(ii) All amounts are from continuing operations. See Section 13, Accounting policies.

(iii) 2020 includes expenses related to the Cineworld Transaction and associated Litigation in the amount of $1.3 million for the fourth quarter and $4.1 million for the full year.

(iv) See Section 18, Non-GAAP measures.

In response to the second wave of COVID-19, increased operating restrictions for non-essential businesses in addition to new government mandated lockdown measures were implemented across Canada, resulting in the closure of most of Cineplex's theatres and LBE venues by the end of the year. Total revenues for the fourth quarter of 2020 decreased 88.2%, or $390.8 million to $52.5 million as compared to the prior year period, due to the ongoing material negative impact of the COVID-19 pandemic on Cineplex's business operations. For the periods when venues were open, Cineplex reported box office revenues of $7.3 million and food service revenues of $10.5 million including theatre food service revenue of $7.1 million, home delivery revenues of $2.8 million and LBE food service revenues of $0.6 million. Media revenues of $12.5 million were mainly from digital place-based media revenues which recognized the majority of its $11.1 million of revenue from creative and support services. Amusement revenues of $13.6 million were primarily from route operations including family entertainment centres ("FEC") and equipment sales. As a result of the ongoing negative impact of COVID-19, adjusted EBITDAaL decreased $128.3 million to a loss of $65.9 million as compared to the prior year period and adjusted free cash flow per Share decreased $1.100 to $(0.482) per Share.

Reflecting the impact of the business closures and reduced operations that began in March and continued through the rest of the year, total revenues for the year ended December 31, 2020 decreased by $1.2 billion, or 74.9% as compared to the prior year period. Adjusted EBITDAaL decreased $413.4 million to a loss of $182.8 million

1.3 KEY DEVELOPMENTS IN 2020

The following describes certain key business initiatives undertaken and results achieved during 2020 in each of Cineplex's core business areas:

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

- Government operating restrictions and mandated closures during the fourth quarter resulted in the closure of most of Cineplex's theatres by the end of the year.

- Reported annual box office revenues of $132.8 million, a 81.2% decrease from 2019 as a result of the impact of the COVID-19 pandemic on theatre operations commencing at the end of the first quarter.
- Opened two new ScreenX auditoriums: *Scotiabank Theatre Halifax* in Nova Scotia and *Cineplex Cinemas Ottawa* in Ontario.
- Converted four auditoriums to recliner seating during the year.
- Announced a multi-year agreement with Universal Filmed Entertainment Group that provides theatrical exclusivity of their film releases for a shortened window of a minimum of 17 days up to a maximum of 31 days after which the studio will have the option to make its title available on Premium Video on Demand ("PVOD").
- Launched Private Movie Nights offering up to 20 guests to enjoy a private moving-screening experience with more than 1,000 movies to choose from.

Theatre Food Service

- Reported annual theatre food service revenues of $91.4 million, a 79.5% decrease from 2019 as a result of the impact of COVID-19 on theatre operations.
- Expanded alcohol beverage service to an additional four theatres, now totaling 91 (not including VIP auditoriums).
- Increased focus on home delivery services with Uber Eats and Skip the Dishes as a result of the theatre and LBE restrictions and closures, reporting annual theatre food service delivery revenues of $8.4 million. During the year, added five additional locations to the Uber Eats delivery platform, and seven additional locations to the Skip the Dishes platform.

Alternative Programming

- Alternative Programming (Cineplex Events) included the feature release of *On The Rocks,* concerts included *Stevie Nicks 24 Karat Gold* and the re-release of *Break The Silence: The Movie starring BTS* along with anime title *Fate/stay night [Heaven's Feel] III, Akira 4K*.
- Cineplex released the feature *100% Wolf* on October 9, 2020 across the country with the exception of Quebec. While theatres did continue to shut down in most markets, the film remained on-screen through mid-December and was in Cineplex's top five films for the quarter.

Digital Commerce

- Experienced significant growth for the Cineplex Store benefiting from PVOD releases including *Wonder Woman 1984* and *The Croods: A New Age*.
- Total registered users for Cineplex Store increased by 39% from the prior year, reaching over 1.9 million users.
- Cineplex Store continued to show significant growth with a 36% increase over the prior year in active monthly users and an increase of 57% in device activation compared to the prior year.
- Cineplex offered a collection of "Understanding Black Stories" films that were available free to rent or stream to support the Black Lives Matter movement.

MEDIA

- Reported annual media revenues of $65.4 million, a decrease of $131.4 million or 66.8% compared to the prior year.

Cinema Media

- Cinema media reported annual revenues of $23.6 million in 2020, a decrease of $91.8 million or 79.6%, due to decreases in show-time and pre-show advertising as a result of theatre closures and limited film releases.

Digital Place-Based Media

- Reported annual revenues of $41.8 million in 2020, a decrease of $39.6 million or 48.6%, compared to 2019 mainly due to decreases in recurring revenue and lower project installation revenues as a result of COVID-19 and reductions in customers' business.

AMUSEMENT AND LEISURE

Amusement Solutions

- Reported annual revenues of $62.5 million in 2020 ($2.5 million from Cineplex theatre gaming and $60.0 million from all other sources of revenues), a decrease of $126.6 million as compared to the prior year. The decrease is due to closures and capacity restrictions of route operations that remained in effect for a majority of the year and decreased distribution sales as a result of the negative economic impact of COVID-19 across all markets.

Location-based Entertainment

- Increased operating restrictions for non-essential businesses in addition to new government mandated lockdown measures were implemented across Canada in response to the second wave of COVID-19, resulting in closures of most LBE locations.
- Reported total annual revenues of $25.5 million including food service revenues of $9.1 million, amusement revenues of $15.4 million and other revenues of $1.0 million, a decrease of $53.7 million or 67.8% as compared to 2019 due to closures and capacity restrictions on locations that were able to open.
- Opened *The Rec Room* at *Seasons of Tuxedo* in Winnipeg, Manitoba, on February 18, 2020, the eighth location of *The Rec Room.*
- Terminated its partnership with Topgolf in the third quarter of 2020.

LOYALTY

- Membership in the SCENE loyalty program increased by 0.1 million in 2020, reaching 10.4 million members at December 31, 2020.
- Cineplex entered into an agreement with Scotiabank to bring together the full benefits of SCENE with Scotia Rewards, Scotiabank's flexible customer loyalty program. The repositioning includes adding new rewards partners, driving value through future consolidation of SCENE and Scotia Rewards. Cineplex received cash proceeds of $60.0 million for the reorganization of its joint operation with SCENE.
- During the year, SCENE announced a strategic three-year extension with its long-standing partners at Recipe Unlimited Corporation.

CORPORATE

- On June 12, 2020, Cineworld delivered the Termination Notice to Cineplex purporting to terminate the Arrangement Agreement (See section 1.1, Recent Developments). Cineplex has commenced legal action against Cineworld for its wrongful termination of the Agreement.
- On June 29, 2020, Cineplex and Cineplex Entertainment Limited Partnership entered into an amendment agreement with The Bank of Nova Scotia, as administrative agent, and the lenders from time to time named therein, to the seventh amended and restated credit agreement with a syndicate of lenders (See section 7.4 Credit Facilities).
- Cineplex completed the offering of $316.3 million aggregate principal amount of convertible unsecured subordinated debentures on July 17, 2020.
- In July, Cineplex announced a cost restructuring program incurring $8.3 million in related costs during the year.
- On June 29,2020, Cineplex sold its interest in WorldGaming Network for a nominal amount.
- Cineplex announced the appointment and return of Phyllis Yaffe to the Board of Directors. Ms. Yaffe returned to the role of Board Chair, replacing Ian Greenberg who did not stand for re-election at the Annual and Special Meeting of shareholders held in October 2020.
- On November 12, 2020, Cineplex and Cineplex Entertainment Limited Partnership entered into the Second Credit Agreement Amendment with the Bank of Nova Scotia, as administrative agent, and the lenders from time to time named therein, to the seventh amended and restated credit agreement with a syndicate of lenders (see section 7.4, Credit Facilities).
- During the year, Cineplex initiated a process to sell its head office building located at 1303 Yonge Street and 1257 Yonge Street, Toronto, Ontario. Subsequent to period end, Cineplex completed a sale-leaseback transaction for cash proceeds of $57.0 million (see Section 16, Subsequent Events).

2. CINEPLEX'S BUSINESS AND STRATEGY

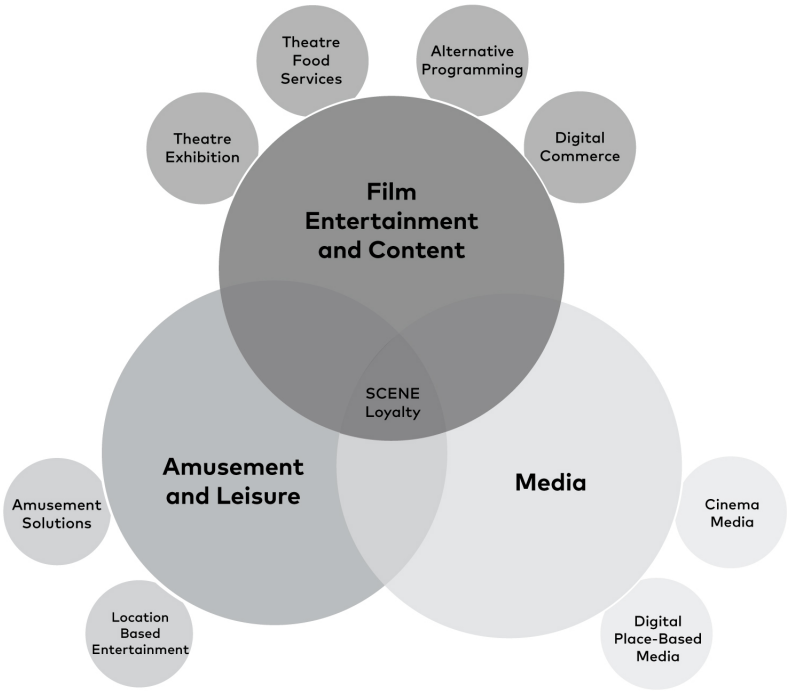
Cineplex's mission statement is "Passionately delivering exceptional experiences." All of its efforts are focused towards this mission and it is Cineplex's goal to consistently provide guests and customers with exceptional experiences.

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

- Continue to enhance 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, realize synergies, implement customer-centric technology and leverage big data across the Cineplex ecosystems; and
- Pursue opportunities that 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.

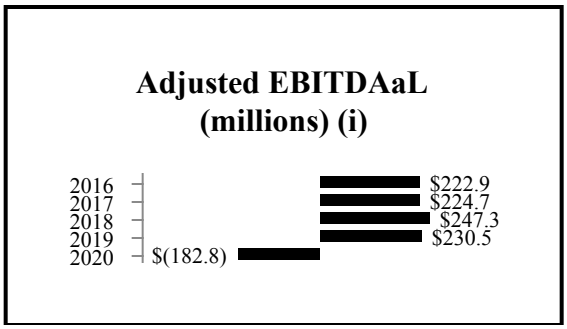
Diversified Entertainment and Media Company

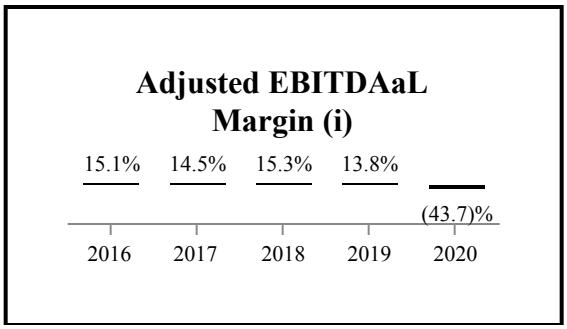


Key elements of this strategy include going beyond movies to reach customers in new ways and maximizing revenue per patron. Cineplex has implemented in-theatre initiatives to improve the overall entertainment experience, including increased premium offerings, enhanced in-theatre services, alternative pricing strategies, continued development of the SCENE loyalty program and initiatives in theatre food service such as optimizing and adding 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.

As a result of the impact of the COVID-19 pandemic on Cineplex's business, Cineplex's attention has shifted to respond to the impacts of the COVID-19 pandemic by implementing a variety of measures to reduce costs and has placed an increased focus on the safe reopening of its business (see Section 1.1 Response to COVID-19).





(i) 2020 includes expenses related to the Cineworld Transaction and associated Litigation in the amount of $4.1 million.

3. CINEPLEX'S BUSINESSES

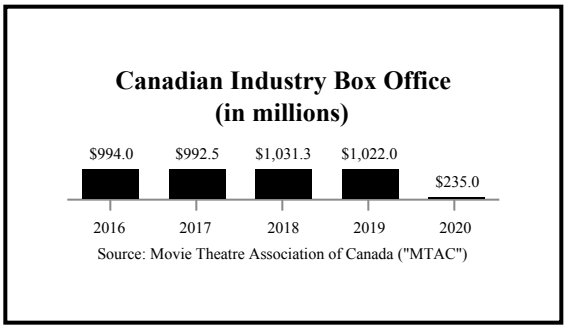
During 2020, all aspects of Cineplex's business were materially negatively impacted by COVID-19. Despite this impact, the following reflects management's belief that its business will return when it is able to reopen theatres and LBE venues without restrictions. Cineplex's operations are primarily conducted in four main areas: film entertainment and content, media, amusement and leisure and location-based entertainment, all supported by the SCENE loyalty program.

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

Theatre exhibition is the core business of Cineplex. Box office revenues are highly dependent on the marketability, quality and appeal of the film product released by the major motion picture studios.

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and creation of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary channel for new motion picture releases and is the core business function of Cineplex.



Cineplex believes that the following market trends are important factors in the growth of the film exhibition industry in Canada:

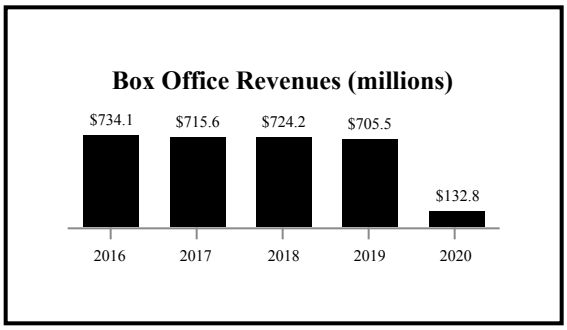
- *Importance of theatrical success in establishing movie brands and subsequent movies.* Theatrical exhibition is the initial and most important channel for new motion picture releases. A successful theatrical release which "brands" a film is often the determining factor in its popularity and value in "downstream" distribution channels, such as transactional video-on-demand ("TVoD"), Blu-ray, pay-per-view, subscription video-on-demand as well as network television.

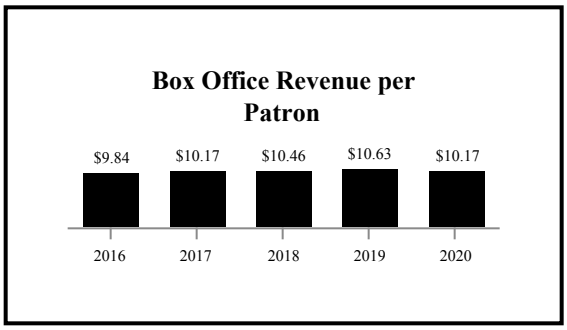
- *Continued supply of successful films.* Studios are increasingly producing film franchises, such as *Star Wars, Fast & Furious* and *Jurassic Park*. Additionally, new franchises continue to be developed, such as the films in the Marvel and DC universes. When the first film in a franchise is successful, subsequent films in the franchise benefit from existing public awareness and anticipation. The result is that such features typically attract large audiences and generate strong box office revenues. The success of a broader range of film genres also benefits film exhibitors. In 2021, the studios are currently planning to release a strong slate of films, including *Godzilla vs. Kong, Black Widow, Fast & Furious 9, Cruella, Peter Rabbit 2, Venom: Let There Be Carnage, Minions: The Rise of Gru, Top Gun: Maverick, Shang-Chi and the Legend of the Ten Rings, Space Jam: A New Legacy, Jungle Cruise, The Suicide Squad, The King's Man, A Quiet Place Part II, Dune, No Time To Die, Eternals, Ghostbuster: Afterlife, Mission: Impossible 7, Spider-Man 3, West Side Story and The Matrix 4.* In spite of changing release models, Cineplex remains confident that there will continue to be significant theatrical releases.

- *Convenient and affordable form of out-of-home entertainment.* Cineplex's BPP was $10.17 and $10.63 in 2020 and 2019 respectively. Excluding the impact of Cineplex's premium-priced product, BPP was $9.18 and $9.17 in 2020 and 2019 respectively. The movie-going experience continues to provide value and compares favorably to alternative forms of out-of-home entertainment in Canada such as professional sporting events or live theatre, and with Cineplex, SCENE members enjoy the ability to earn points towards Cineplex products as well as discounts and special offers.

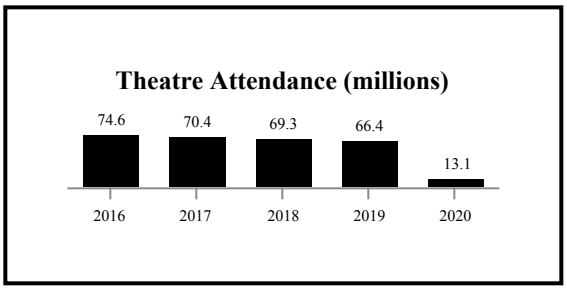
- *Providing a variety of premium and enhanced guest theatre experiences.* Premium priced theatre offerings include 3D, 4DX, UltraAVX, VIP, IMAX, D-BOX, ScreenX and *Cineplex Clubhouse*. BPP for premium-priced product was $14.04 in 2020, and accounted for 28.1% of total box office revenues in 2020. Recent enhancements to the current circuit include the addition of 4 retrofit auditoriums.

- *Reduced seasonality of revenues.* Historically, film exhibition industry revenues have been seasonal, with the most marketable motion pictures generally being released during the summer and the late-November through December holiday season. The seasonality of motion picture exhibition theatre attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of films released during traditionally weaker periods.





Cineplex's leading market position enables it to effectively manage film, food service and other theatre-level costs, thereby maximizing operating efficiencies. Cineplex seeks to continue to achieve incremental operating savings by, among other things, implementing best practices and negotiating improved supplier contracts. In addition, Cineplex continues to evaluate its existing theatre portfolio on an ongoing basis.



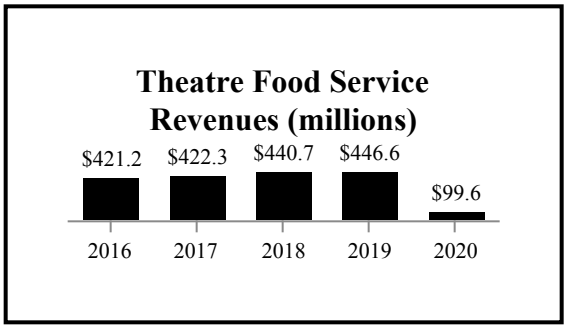
The development of premium experiences through design, structure and digital technology makes Cineplex theatres ideal locations for meetings and corporate events. Organizations, particularly corporations with offices across the country, can use Cineplex's theatres and digital technology for annual meetings, product launches and employee or customer events, producing revenue streams independent of film exhibition.

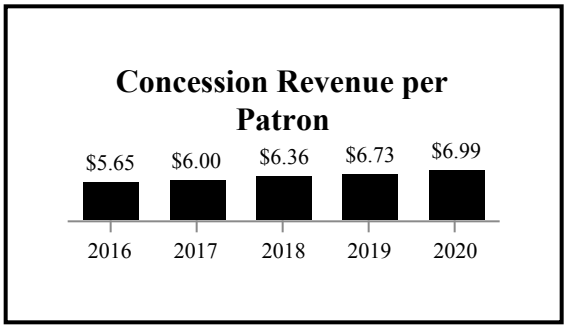
In recognition of the need to adapt to changing consumer behavior, particularly as the entertainment industry continues to navigate the impact of COVID-19, during 2020, Cineplex entered into a multi-year agreement with Universal Filmed Entertainment Group that provides theatrical exclusivity of their film releases for a shortened window of a minimum of 17 days up to a maximum of 31 days, at which point the studio will have the option to make its titles available across PVOD. Management continues to work with distributors to ensure it is well positioned as venues begin to reopen to provide moviegoers with the theatrical experience that is a key factor to the success of film.

Theatre Food Service

Cineplex's theatre food service business offers guests a range of food choices to enhance their theatre experience while generating strong profit margins for the company. Cineplex's theatres feature its internally developed brands: *Outtakes, Poptopia* and *Melt*. Certain Cineplex theatres also feature popular fast food retail branded outlets ("RBO's") including Starbucks and Pizza Pizza, among others.

Cineplex continually focuses on process improvements designed to increase the speed of service at the concession counter in addition to optimizing the RBO's available at Cineplex's theatres. Each of the wide range of menu items available at *Outtakes* locations, expanded liquor service available in theatres, partnerships with Uber Eats and Skip The Dishes as well as the expanded menu and the licensed lounge service available at VIP Cinemas are designed to reach a wider market and to increase both purchase incidence and transaction value. Digital menu boards installed across the circuit offer flexibility in menu offerings to guests which contribute to an improved guest experience while also creating additional revenue opportunities.





Alternative Programming

Alternative programming includes Cineplex's international film programming as well as content offered under its *Event Cinema* brand offerings, including The Metropolitan Opera, NFL Sunday Nights, sporting events, concerts and dedicated event screens. International film programming includes Bollywood content as well as Cantonese, Hindi, Punjabi, Mandarin, Korean and Filipino language films, amongst others, in select theatres across the country

based on local demographics. This programming attracts a more diverse audience, expanding Cineplex's demographic reach and enhancing revenues.

The success of Cineplex's alternative programming events has led to offerings including the National Theatre from London, the *In the Gallery* series and screening select television content on the big screen. Cineplex offers the Classic Film Series and Family Favorites programming at non-peak hours to enhance theatre utilization rates. As additional content becomes available, Cineplex will continue to expand its alternative programming offerings.

Digital Commerce

Cineplex's digital products consist of cineplex.com, the Cineplex mobile app and the Cineplex Store. Cineplex has developed cineplex.com into one of the leading entertainment sites in Canada, a destination of choice for Canadians seeking movie entertainment information on the internet. The website offers streaming video, movie information, showtimes and the ability to buy tickets online, entertainment news and box office reports as well as advertising and digital commerce opportunities. To complement cineplex.com, the Cineplex mobile app is available as a free download for a wide variety of devices, providing guests with the ability to find showtimes, buy tickets as well as find information relating to the latest movie choices and movie-related entertainment content and provide mobile food and beverage ordering in VIP auditoriums.

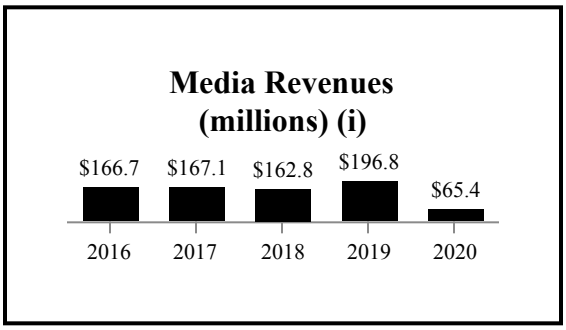
These features and others enable Cineplex to engage and interact with its guests online and on-the-go, allowing Cineplex to offer engaging, targeted and sponsored content to visitors and advertisers, resulting in opportunities to generate additional revenues.

The Cineplex Store rents and sells over 9,000 movies in digital form (TVoD and PVOD movies). Cineplex continues to improve the user experience including releasing new Cineplex Store user interfaces and experiences across the website and multiple connected televisions and device apps.

Cineplex's strong brand association with movies and well-established partnerships with movie studios combined with Cineplex's website, app and the Cineplex Store provide Cineplex with the ability to expand its touchpoints to consumers across multiple channels. As emerging technologies continue to change the ways in which content is consumed, Cineplex will continue to leverage its digital commerce properties to provide guests with in home and on-the-go options for content delivery.

MEDIA

Cineplex's media businesses cover two major categories: cinema media, which incorporates advertising mediums related to theatre exhibition, and digital place-based media which provides digital signage solutions.



(i) Media revenues for prior year periods have been restated to present revenue amounts from continuing operations.

Cinema Media

Cinema media incorporates advertising mediums related to theatre exhibition, both within Cineplex's own circuit of theatres as well as in competitors' theatres through revenue sharing arrangements.

Cineplex's core cinema media offerings include:

- Show-time advertising, which runs just prior to the movie trailers in the darkened auditorium with limited distractions.
- Pre-show advertising, featured on the big screen as guests settle in to enjoy their movie night, in the period prior to Show-time.
- Digital lobby advertising and digital poster cases located in the highest-traffic areas featuring big, bold digital signage.
- Website and mobile advertising sales through cineplex.com and the Cineplex mobile app.

Cineplex's theatres also provide opportunities for advertisers' special media placements (including floor and door coverings, window clings, standees, banners, samplings, activations and lobby domination setups).

In addition to these individual offerings, Cineplex offers integrated solutions that can cross over some or all of the above-mentioned platforms. Advertisers can utilize these forms of media individually or take advantage of an integrated advertising program spanning multiple platforms. In partnership with its digital commerce platforms, Cineplex offers online media packages that include page dominations, page skins, pre-roll and post-roll advertising; all with geo-targeting capabilities.

Cineplex's cinema media business is well positioned for continued growth and is the ideal channel for advertisers wanting to reach all demographics, especially the highly sought-after 17 to 25-year-old Canadian market.

Cineplex also generates revenues from the sale of sponsorship and advertising at LBE venues.

Digital Place-Based Media

Cineplex's 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.

Cineplex media's advertising sales team combined with the project management, system design, network operations, and creative services teams within its digital place-based media business have Cineplex well positioned to expand its media reach throughout its current infrastructure as well as in numerous place-based advertising locations across the country. Cineplex believes that the strength of its digital place-based media assets make it a leader in the indoor digital signage industry and provide a platform for significant growth throughout North America and Europe.

AMUSEMENT AND LEISURE

Amusement and leisure includes two primary areas of operations:

- Amusement solutions, comprised of P1AG which is one of the largest distributors and operators of amusement, gaming and vending equipment in North America;
- Location-based entertainment, which includes social entertainment destinations featuring gaming, entertainment and dining, including *The Rec Room,* and *Playdium.*

Amusement Solutions

Cineplex's amusement solutions business generates revenues from the following activities in both Canada and the United States:

- Route operations: P1AG collects a revenue share on games revenues earned by P1AG-owned amusement and vending equipment placed into locations such as family entertainment centres, arcades, theatres, restaurants, bars and other locations.
- Third party equipment sales.
- Operating family entertainment centres.

In addition to expanding Cineplex's amusement and gaming presence outside of its theatres, the acquisition and expansion of P1AG allowed Cineplex to vertically integrate its gaming operations. Cineplex's in-theatre gaming

business features Cineplex's 38 XSCAPE Entertainment Centres as well as arcade games in select Cineplex theatres, with all of the games supplied and serviced by P1AG.

Location-based Entertainment

Cineplex operates LBE establishments under the brand names *The Rec Room* and *Playdium,* as well as other family entertainment centres.

The Rec Room is a social entertainment destination targeting millennials featuring a wide range of entertainment options including virtual reality ("VR"), simulation, redemption, video and recreational gaming, and a live entertainment venue for watching a wide range of entertainment programming. These entertainment options are complemented with an upscale casual dining environment, featuring an open kitchen and contemporary menu, as well as a larger bar with a wide range of digital monitors and a large screen for watching sporting and other major events.

The Rec Room earns revenues from food and beverage service, from amusement, gaming and leisure attraction play, and from ticket sales for events held within the destination.

Cineplex has eight locations of *The Rec Room* and announced plans to open two additional locations in Barrie, Ontario, and Burnaby, British Columbia in 2021.

Playdium is the *Playdium* brand concept relaunched for targeting families and teens in mid-sized communities across Canada. Cineplex has two locations of *Playdium*, and announced plans to open one additional location in Dartmouth, Nova Scotia with an expected opening date in early 2021.

LOYALTY

Cineplex has a joint venture agreement with Scotiabank to operate the SCENE loyalty program, providing Cineplex with significant data and a more comprehensive understanding of the demographics and behaviors of its audience. During the fourth quarter of 2020, Cineplex and Scotiabank entered into an agreement to enhance and expand the SCENE Scotiabank Loyalty program. Cineplex received $60.0 million with respect to the reorganization.

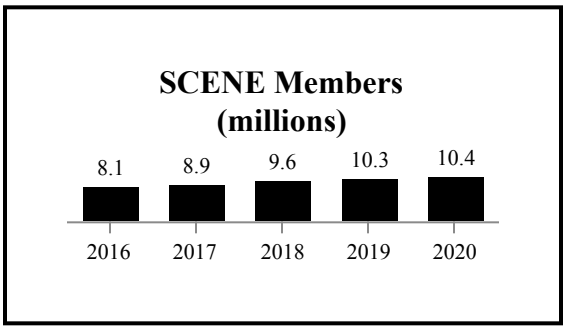
SCENE is a customer loyalty program designed to offer members discounts and the opportunity to earn and redeem SCENE points. SCENE members can earn and redeem SCENE points for purchases at Cineplex's theatres, at its location-based entertainment establishments, online at the Cineplex Store as well as at locations operated by select program partners and as part of the Cineplex Tuesdays program. In conjunction with the reorganization of its joint operation in SCENE, Cineplex announced an agreement with Scotiabank to bring together the full benefits of SCENE with Scotia Rewards, Scotiabank's flexible customer loyalty program. Beginning in the fall of 2021, members can look forward to redemption opportunities for a wide variety of popular retailers. Members will also be able to apply points as statement credits on certain Scotiabank products, as well as book flexible travel.

The SCENE loyalty program has been well received as evidenced by the strong membership growth and high engagement and satisfaction levels of its program members. Membership in the SCENE loyalty program at December 31, 2020 was approximately 10.4 million, an increase of approximately 0.1 million members during 2020. Through SCENE, Cineplex has gained a more thorough understanding of its customers, driven increased customer frequency, increased overall spending across its businesses and provides Cineplex with the ability to communicate directly and regularly with customers.

The SCENE customer database has allowed Cineplex to segment SCENE's member population and provide special offers to Cineplex's guests, implement targeted marketing programs and deliver tailored messages to subsets of the membership base, providing members with relevant information and offers which in turn drive increased frequency and spend. Cineplex continues to influence consumer behavior through the use of SCENE bonus points and experience upgrades for SCENE members in its initiatives as well as in partnership with movie studios.

Cineplex has gained tremendous insight into customer behavior with over 13 years of data collected. Cineplex will continue to focus on leveraging this data through marketing automation to drive customer behavior as well as accelerating the adoption of artificial intelligence and machine learning for more robust consumer insight. SCENE

continues to build its strategic marketing partnerships with participating partners across Canada, providing promotions and offerings.



4. OVERVIEW OF OPERATIONS

Revenues

Cineplex generates revenues primarily from box office and food service sales. These revenues are affected primarily by theatre attendance levels and by changes in BPP and CPP. Due to the closures as a result of the COVID-19 pandemic, revenues were materially impacted during 2020. The following table presents the revenue mix for comparative years:

Revenue mix % by period	2020	2019	2018	2017	2016
Box office	**31.8 %**	42.4 %	44.9 %	46.2 %	49.8 %
Food service	**26.0 %**	29.0 %	29.5 %	28.5 %	28.8 %
Media	**15.6 %**	11.8 %	10.1 %	10.8 %	11.3 %
Amusement	**18.6 %**	13.7 %	12.8 %	11.9 %	7.6 %
Other	**8.0 %**	3.1 %	2.7 %	2.6 %	2.5 %
Total	**100.0 %**	100.0 %	100.0 %	100.0 %	100.0 %

Cineplex has four reportable segments, film entertainment and content, media, amusement and leisure and location-based entertainment. The reportable segments are business units offering differing products and services and managed separately due to their distinct natures. These four reportable segments have been determined by Cineplex's chief operating decision makers. The revenue mix percentages for the four reportable segments during the year were materially impacted by the closures and reduced capacities of theatres and LBE locations as a result of COVID-19.

Revenue mix % by year	Year to date	
	2020	2019
Film Entertainment and Content	64.0 %	72.8 %
Media	15.5 %	11.8 %
Amusement and Leisure	14.4 %	10.7 %
LBE	6.1 %	4.7 %
Total	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. Box office revenues were negatively impacted as a result of the negative economic effects of COVID-19. Cineplex optimized revenues in the current period by offering a catalog of classic film products and expanding product offerings through the Cineplex Store which saw significant growth in the period. In addition, 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 and beverage sales at theatre locations, as well as food and beverage sales at LBE venues including *The Rec Room* and *Playdium*. In addition, food service revenues include home delivery serviced by Uber Eats and by Skip the Dishes. 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 LBE include food and beverage revenues from the various bars and restaurants located throughout the venues.

Media revenues include both cinema media (Cineplex Media) and digital place-based media (Cineplex Digital Media) revenues. Cineplex 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. Additionally, Cineplex Media sells media placements throughout Cineplex's circuit including digital poster cases, as well as sponsorship and advertising in LBE venues. Cineplex Media also sells digital advertising for cineplex.com, the Cineplex mobile app and on third party networks operated by Cineplex Digital Media. Cineplex Digital 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 LBE venues.

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 LBE is also included in cost of food service.

Depreciation - right-of-use assets, represents the depreciation of Cineplex's right-of-use assets related to leases. Depreciation is calculated on a straight-line basis from the date of commencement of the lease to the earlier of the end of the useful life of the asset or the end of the lease term.

Depreciation and amortization - other, 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.

(Gain) loss on disposal of assets represents the (gain) 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, percentage rent, property related taxes, business related taxes and insurance and exclude cash rent.

Other operating expenses consist of fixed and variable expenses, with the largest component being theatre salaries and wages. Although theatre salaries and wages net of subsidies (CEWS) 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 and LBE), loyalty including SCENE, digital commerce, supplies and services, utilities and maintenance. To the extent these costs are variable, they can be curtailed with changes in business volumes.

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 Omnibus Incentive Plan ("Incentive 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. Many of these costs have been and can be further reduced as required by changes in business volumes.

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 and associates) or recognizing Cineplex's share of the assets, liabilities, revenues and expenses in Cineplex's consolidated results (for joint operations), as required by GAAP.

Under IFRS 11, Cineplex's 50% share of one IMAX auditorium in Ontario, its 78.2% interest in the Canadian Digital Cinema Partnership ("CDCP") and a 50% interest in *YoYo's Yogurt Cafe* ("YoYo's") 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.

In the fourth quarter of 2020, Cineplex announced that it had entered into an agreement with Scotiabank to enhance and expand the SCENE loyalty program. Cineplex received $60.0 million with respect to the agreement to reorganize the program and reposition it for future growth. In conjunction with the agreement, Cineplex's interest in the operations of SCENE was reduced to 33.3%. Cineplex continues to have joint control of the joint operation and is entitled to and responsible for 50% of the economic benefits and obligations until specific non-financial milestones are met, resulting in the deferral of recognition of the proceeds in other liabilities, and the continued consolidation of 50% of SCENE.

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

The following table presents summarized financial data for Cineplex for the three most recently completed financial years (expressed in thousands of dollars except Shares outstanding, per Share data and per patron data, unless otherwise noted):

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
Box office revenues	$ 132,820	$ 705,521	$ 724,244
Food service revenues	108,632	483,330	475,501
Media revenues	65,358	196,755	162,820
Amusement revenues	77,901	228,231	205,793
Other revenues	33,552	51,309	44,080
Total revenues	418,263	1,665,146	1,612,438
Film cost	66,922	369,386	379,325
Cost of food service	30,667	106,823	100,191
Depreciation - right-of-use assets	128,393	145,946	—
Depreciation and amortization - other assets	124,846	128,883	127,423
(Gain) loss on disposal of assets	(13,101)	1,764	2,681
Other costs (a)	375,690	782,693	870,358
Impairment of long-lived assets and goodwill	294,863	—	—
Costs of operations	1,008,280	1,535,495	1,479,978
Net (loss) income from continuing operations	$ (624,001)	$ 36,516	$ 85,459
Net loss from discontinued operations	(4,952)	(7,625)	(8,503)
Net (loss) income	$ (628,953)	$ 28,891	$ 76,956
Adjusted EBITDA (i) (iii)	$ (55,866)	$ 405,786	$ 262,357
Adjusted EBITDAaL (i) (iii)	$ (182,815)	$ 230,546	$ 247,295
(a) Other costs include:			
Theatre occupancy expenses	60,514	71,867	209,838
Other operating expenses	276,092	629,849	593,736
General and administrative expenses (iii)	39,084	80,977	66,783
Total other costs	$ 375,690	$ 782,693	$ 870,357
Net (loss) income per share from continuing operations - basic and diluted (iii)	$ (9.85)	$ 0.58	$ 1.35
Net loss per share from discontinued operations - basic and diluted	(0.08)	(0.12)	(0.13)
Net (loss) income per share - basic and diluted (iii)	$ (9.93)	$ 0.46	$ 1.22
Total assets	$ 2,333,870	$ 3,100,412	$ 1,856,449
Total long-term financial liabilities (ii)	$ 725,271	$ 625,000	$ 580,000
Shares outstanding at period end	63,333,238	63,333,238	63,333,238
Cash dividends declared per Share	$ 0.150	$ 1.780	$ 1.720
Adjusted free cash flow per Share (i)	$ (2.556)	$ 2.660	$ 2.887
Box office revenue per patron (i)	$ 10.17	$ 10.63	$ 10.46
Concession revenue per patron (i)	$ 6.99	$ 6.73	$ 6.36
Film cost as a percentage of box office revenues	50.4%	52.4%	52.4%
Theatre attendance (in thousands of patrons) (i)	13,065	66,360	69,272
Theatre locations (at period end)	162	165	164
Theatre screens (at period end)	1,667	1,693	1,686

(i) See Section 18, Non-GAAP measures, for the definition of non-GAAP measures reported by Cineplex.

(ii) Represents the principal component of convertible debentures. Excludes share-based compensation, lease obligations, fair value of interest rate swap agreements, post-employment benefit obligations and other liabilities.

(iii) 2020 includes expenses related to the Cineworld Transaction and resulting litigation in the amount of $4.1 million.

5.2 OPERATING RESULTS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2020

Total revenues

Total revenues for the three months ended December 31, 2020 decreased $390.8 million (88.2%) to $52.5 million as compared to the prior year period. Total revenues for the year ended December 31, 2020 decreased $1.2 billion (74.9%) to $418.3 million as compared to the prior year. A discussion of the factors affecting the changes in box office, food service, media, amusement and other revenues for the two periods is provided below.

Non-GAAP measures discussed throughout this MD&A, including adjusted EBITDA, adjusted EBITDAaL, adjusted store level EBITDAaL, adjusted EBITDAaL margin, adjusted store level EBITDAaL margin, 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 18, 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 full year (in thousands of dollars, except theatre attendance reported in thousands of patrons and per patron amounts, unless otherwise noted):

Box office revenues	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Box office revenues	$ 7,260	$ 181,789	-96.0%	$ 132,820	$ 705,521	-81.2%
Theatre attendance (i)	786	16,849	-95.3%	13,065	66,360	-80.3%
Box office revenue per patron (i)	$ 9.23	$ 10.79	-14.5%	$ 10.17	$ 10.63	-4.3%
BPP excluding premium priced product (i)	$ 8.61	$ 9.40	-8.4%	$ 9.18	$ 9.17	0.1%
Same theatre box office revenues (i)	7,177	180,184	-96.0%	$ 130,124	$ 694,360	-81.3%
Same theatre attendance (i)	778	16,686	-95.3%	12,825	65,342	-80.4%
% Total box from premium priced product (i)	19.1%	38.7%	-19.6%	28.1 %	41.7 %	-13.6%

(i) See Section 18, Non-GAAP measures.

Box office continuity	Fourth Quarter		Full Year	
	Box Office	Theatre Attendance	Box Office	Theatre Attendance
2019 as reported	$ 181,789	16,849	$ 705,521	66,360
Same theatre attendance change	(171,789)	(15,908)	(558,074)	(52,517)
Impact of same theatre BPP change	(1,220)	—	(6,163)	—
New and acquired theatres (i)	(535)	(45)	(4,278)	(299)
Disposed and closed theatres (i)	(985)	(110)	(4,186)	(479)
2020 as reported	$ 7,260	786	$ 132,820	13,065

(i) See Section 18, Non-GAAP measures. Represents theatres opened, acquired, disposed or closed subsequent to the start of the prior year comparative period.

Fourth Quarter and Full Year

	Fourth Quarter 2020 Top Cineplex Films	3D	% Box		Fourth Quarter 2019 Top Cineplex Films	3D	% Box
1	Honest Thief		11.9 %	1	Joker		15.4 %
2	Tenet		11.3 %	2	Frozen II	✔	14.4 %
3	The War With Grandpa		10.3 %	3	Star Wars: The Rise Of Skywalker	✔	13.9 %
4	The Croods: A New Age		7.6 %	4	Jumanji: The Next Level	✔	7.3 %
5	100% Wolf		5.3 %	5	Maleficent: Mistress Of Evil	✔	3.6 %

	Full Year 2020 Top Cineplex Films	3D	% Box		Full Year 2019 Top Cineplex Films	3D	% Box
1	1917		8.1%	1	Avengers: Endgame	✓	8.6 %
2	Star Wars: The Rise of Skywalker	✓	7.7%	2	The Lion King	✓	4.7 %
3	Jumanji: The Next Level	✓	7.6%	3	Captain Marvel	✓	4.3 %
4	Bad Boys For Life		7.2%	4	Joker		4.0 %
5	Sonic The Hedgehog		5.4%	5	Frozen II	✓	3.7 %

Fourth Quarter and Full Year

Box office revenues decreased $174.5 million, or 96.0%, to $7.3 million during the fourth quarter of 2020, compared to $181.8 million recorded in the same period in 2019. This decrease was due to a 95.3% decrease in theatre attendance as a result of mandatory lockdown measures during the fourth quarter of 2020 in many provinces in response to the second wave of rising COVID-19 infections, as well as reduced seating capacity restrictions in venues that were open and limited first run film product.

BPP for the three months ended December 31, 2020 was $9.23, a $1.56 decrease from the prior year period as a result of lower ticket pricing on classic film product, SCENE promotions and reduced premium offerings.

Box office revenues for the year ended December 31, 2020 were $132.8 million, a decrease of $572.7 million or 81.2% from the prior year. The decrease in box office revenues was primarily due to a 80.3% decrease in theatre attendance as a result of the negative impact of COVID-19 government mandated restrictions that have kept a theatres closed or operating below full capacity for a majority of the year.

Cineplex's BPP for the year ended December 31, 2020 decreased $0.46, or 4.3%, from $10.63 in 2019 to $10.17 in 2020. This decrease was primarily due to lower ticket pricing on previously released content with limited new film releases during the year as a distributors have continued to push their film slates further out in the calendar and into 2021.

Food service revenues

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

Food service revenues	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Food service - theatres	$ 7,122	$ 114,678	-93.8 %	$ 91,384	$ 446,639	-79.5 %
Food delivery - theatres	2,660	—	NM	8,175	—	NM
Food service - LBE	632	10,481	-94.0 %	$ 8,882	36,691	-75.8 %
Food delivery - LBE	129	—	NM	191	—	NM
Total food service revenues	$ 10,543	$ 125,159	-91.6 %	$ 108,632	$ 483,330	-77.5 %
Theatre attendance (i)	786	16,849	-95.3 %	13,065	66,360	-80.3 %
CPP (i) (ii)	$ 9.06	$ 6.81	33.0 %	$ 6.99	$ 6.73	3.9 %
Same theatre food service revenues (i)	$ 7,131	$ 113,706	-93.7 %	$ 89,282	$ 439,444	-79.7 %
Same theatre attendance (i)	778	16,686	-95.3 %	12,825	65,342	-80.4 %

(i) See Section 18, Non-GAAP Measures.
(ii) Food service revenue from LBE and delivery is not included in the CPP calculation.

Theatre food service revenue continuity	Fourth Quarter		Full Year	
	Theatre Food Service	Theatre Attendance	Theatre Food Service	Theatre Attendance
2019 as reported	$ 114,678	16,849	$ 446,639	66,360
Same theatre attendance change	(111,112)	(15,908)	(361,365)	(52,517)
Impact of same theatre CPP change	4,444	—	11,205	—
New and acquired theatres (i)	(293)	(45)	(2,462)	(299)
Disposed and closed theatres (i)	(595)	(110)	(2,633)	(479)
2020 as reported	$ 7,122	786	$ 91,384	13,065
(i) See Section 18, Non-GAAP measures. Represents theatres opened, acquired, disposed or closed subsequent to the start of the prior year comparative period.				

Fourth Quarter and Full Year

Food service revenues are comprised primarily of concession revenues, which includes food service sales at theatre locations and through delivery services including Uber Eats and Skip the Dishes. Food service revenues also include food and beverage sales at LBE venues, *The Rec Room* and *Playdium*.

Food services revenues were materially impacted by the government mandated capacity restrictions and closures of theatres and LBE venues as a result of COVID-19. Food delivery sales continue to produce strong results with quarterly revenues of $2.8 million. Theatre food service revenues decreased $107.6 million (93.8%) as compared to the prior year period to $7.1 million.

CPP increased 33.0% as compared to the prior year period to $9.06 from $6.81. The increase in CPP compared to the prior period is largely attributable to increased concession purchases as a result of customers excited to return to the theatre incurring a higher spend per visit in addition to a higher percentage of theatres open in provinces that historically have a higher CPP.

Annual food service revenues decreased $374.7 million, or 77.5% as compared to the prior year to $108.6 million, due to impact of COVID-19 on its business. Cineplex continued to provide home delivery services through Uber Eats and Skip the Dishes and reported revenues of $8.4 million.

Media revenues

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

Media revenues	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Cinema media	$ 1,368	$ 42,171	-96.8%	$ 23,568	$ 115,415	-79.6%
Digital place-based media	11,128	27,374	-59.3%	41,790	81,340	-48.6%
Total media revenues from continuing operations	$ 12,496	$ 69,545	-82.0%	$ 65,358	$ 196,755	-66.8%
Media revenues from discontinued operations	—	248	-100.0%	602	1,075	-44.0%
Total media revenues	$ 12,496	$ 69,793	-82.1%	$ 65,960	$ 197,830	-66.7%

Fourth Quarter and Full Year

Total media revenues from continuing operations decreased 82.0% to $12.5 million in the fourth quarter of 2020 compared to the prior year period. This decrease was due to a $40.8 million decrease in cinema media and $16.2 million decrease in digital place-based media. The second wave of rising COVID-19 infections during the fourth quarter further prolonged the closure of theatres leading to a sharp decline in pre-show and show-time revenues which have historically provided strong results during the holiday season. Further, re-imposed mandatory lockdown measures during the fourth quarter kept many malls and restaurants closed for a majority of the quarter leading to a decline in installation and digital advertising revenues.

Total media revenues from continuing operations decreased $131.4 million, or 66.8%, in the year ended December

31, 2020 compared to the prior year to $65.4 million. This decrease was due to a $91.8 million decrease in cinema media revenue primarily as a result of a decrease in pre-show advertising and show time advertising revenue due to theatre closures and limited first run film product available. In addition, digital place-based media decreased $39.6 million as compared to the prior period. The decrease compared to the prior period is primarily attributable to a decrease in media hardware sales, and digital media revenue as a result of mall and theatre closures that have remained in effect for a majority of the year due to the COVID-19 pandemic.

The following table shows a breakdown of the nature of digital place-based media revenues for the quarter and the full year (in thousands of dollars):

Digital place-based media revenues	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Project revenues (i)	$ 1,972	$ 14,189	-86.1%	$ 11,066	$ 39,943	-72.3%
Other revenues (ii)	9,156	13,185	-30.6%	30,724	41,397	-25.8%
Total digital place-based media revenues	$ 11,128	$ 27,374	-59.3%	$ 41,790	$ 81,340	-48.6%

(i) Project revenues include hardware sales and professional services.
(ii) Other revenues include sales of software and its support as well as media advertising.

Amusement revenues

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

Amusement revenues	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Amusement - P1AG excluding Cineplex exhibition and LBE (i)	$ 11,815	$ 39,931	-70.4%	$ 60,027	$ 178,209	-66.3%
Amusement - Cineplex exhibition (i)	130	2,668	-95.1%	2,457	10,907	-77.5%
Amusement - LBE	1,652	10,872	-84.8%	15,417	39,115	-60.6%
Total amusement revenues	$ 13,597	$ 53,471	-74.6%	$ 77,901	$ 228,231	-65.9%

(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 and LBE reflects P1AG's gross amusement revenues, net of the venue revenue share paid to Cineplex reflected in Amusement - Cineplex exhibition above.

Fourth Quarter and Full Year

Amusement revenues decreased $39.9 million (74.6%) to $13.6 million during the quarter compared to the prior year period. For the full year period, amusement revenues decreased by $150.3 million (65.9%) to $77.9 million. The quarterly and full year decrease in revenue was primarily due to the government mandated closures of P1AG route locations, Cineplex theatres and LBE venues due to COVID-19 implemented throughout the second to fourth quarters.

The following table presents the adjusted EBITDAaL for the quarter and the full year for P1AG (in thousands of dollars):

P1AG Summary	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Amusement revenues	$ 11,815	$ 39,931	-70.4%	$ 60,027	$ 178,209	-66.3%
Operating Expenses	14,900	35,275	-57.8%	69,216	150,615	-54.0%
Cash rent related to lease obligations (i)	594	1,543	-61.5%	2,422	6,072	-60.1%
Total adjusted operating expenses	$ 15,494	$ 36,818	-57.9%	$ 71,638	$ 156,687	-54.3%
P1AG adjusted EBITDAaL (ii)	$ (3,679)	$ 3,113	NM	$ (11,611)	$ 21,522	NM
P1AG adjusted EBITDAaL Margin (ii)	(31.1)%	7.8 %	-38.9%	(19.3)%	12.1 %	-31.4%

(i) Cash rent that has been reallocated to offset the lease obligations.
(ii) See Section 18, Non-GAAP measures.

Mandatory closures of P1AG route locations as well as increased operating restrictions beginning in March 2020 due to rising COVID-19 cases resulted in decreased margins for the fourth quarter and full year when compared to the prior year periods. Certain operating expenses such as, salaries, rent, and utilities are fixed in nature, which also contributed to the lower adjusted EBITDAaL margin. Payroll costs were reduced by $0.7 million received under the COVID-19 CEWS wage subsidy program during the quarter and $4.6 million for the full year. Cash rent related to lease obligations decreased as a result of rent abatements negotiated with landlords.

The following table presents the adjusted store level EBITDAaL for the quarter and the full year for LBE (in thousands of dollars):

LBE Summary	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Food service revenues	$ 761	$ 10,481	-92.7 %	$ 9,073	$ 36,691	(75.3)%
Amusement revenues	$ 1,652	10,872	-84.8 %	15,417	39,115	(60.6)%
Media and other revenues	78	911	-91.4 %	1,040	3,391	(69.3)%
Total revenues	$ 2,491	$ 22,264	-88.8 %	$ 25,530	$ 79,197	(67.8)%
Cost of food service	285	2,478	-88.5 %	2,822	9,517	-70.3 %
Operating expenses before adjustments (i)	3,057	13,127	-76.7 %	21,258	47,392	-55.1 %
Cash rent related to lease obligations (ii)	1,979	1,564	26.5 %	5,473	5,718	-4.3 %
Total adjusted costs	$ 5,321	$ 17,169	-69.0 %	$ 29,553	$ 62,627	-52.8 %
Adjusted store level EBITDAaL (iii)	$ (2,830)	$ 5,095	NM	$ (4,023)	$ 16,570	NM
Adjusted store level EBITDAaL Margin (iii)	(113.6)%	22.9 %	(136.5)%	(15.8)%	20.9 %	(36.7)%

(i) Includes operating costs of LBE. Pre-opening costs relating to LBE and overhead relating to management of LBE portfolio are not included.
(ii) Cash rent that has been reallocated to offset the lease obligations.
(iii) See Section 18, Non-GAAP measures.

Negative operating margins in the fourth quarter and annual period compared to the prior year periods are due to operating restrictions and mandatory closures that have kept LBE locations with limited operations or closed for a majority of the year. In addition, operating restrictions as a result of COVID-19 have resulted in limited corporate events at LBE locations which have historically resulted in higher margins. Certain fixed costs such as salaries and rent are fixed in nature contributing to lower margins. Payroll costs were partially offset by $1.1 million and $3.6 million government wage subsidies recognized during the quarter and full year, respectively.

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 full year (in thousands of dollars):

Other revenues	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Other revenues from continuing operations	$ 8,556	$ 13,256	-35.5%	$ 33,552	$ 51,309	-34.6%
Other revenues from discontinued operations	—	—	NM	199	16	NM
Total other revenues	$ 8,556	$ 13,256	-35.5%	$ 33,751	$ 51,325	-34.2%

Fourth Quarter and Full Year

The quarterly and annual decreases in other revenues from continuing operations were primarily due to the suspension of the recognition of deferred revenues on gift card and other related products during the shutdown of theatre and LBE venues. In addition, the shutdown reduced other ancillary revenues generated from theatres, such as venue rentals. This decrease was partially offset by higher sales from Cineplex Store during the year resulting from the widespread closures and lockdowns across all businesses and the strength of PVOD titles including *Wonder Woman 1984*.

Film cost

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

Film cost	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Film cost	$ 3,151	$ 93,925	-96.6%	$ 66,922	$ 369,386	-81.9%
Film cost percentage (i)	43.4%	51.7%	-8.3%	50.4%	52.4%	-2.0%
(i) See Section 18, Non-GAAP measures.						

Fourth Quarter and Full Year

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, impacted by film cost terms varying by title and distributor.

Film costs decreased during the fourth quarter and annual period due to limited releases of first run product and lower settlement rates on older and classic film products. Due to the ongoing pandemic, major distributors have continued to delay films which were initially scheduled to release in 2020 further into 2021 and beyond or have released via other platforms.

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 both theatres and LBE for the quarter and the full year (in thousands of dollars, except percentages and margins per patron):

Cost of food service	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Cost of food service - theatre	$ 3,704	$ 25,223	-85.3%	$ 27,845	$ 97,306	-71.4%
Cost of food service - LBE	285	2,478	-88.5%	2,822	9,517	-70.3%
Total cost of food service	$ 3,989	$ 27,701	-85.6%	$ 30,667	$ 106,823	-71.3%
Theatre concession cost percentage (i)	37.9%	22.0%	15.9%	28.0%	21.8%	6.2%
LBE food cost percentage (i)	37.4%	23.6%	13.8%	31.1%	25.9%	5.2%
Theatre concession margin per patron (i)	$ 5.63	$ 5.31	6.0%	$ 5.04	$ 5.26	-4.2%
(i) See Section 18, Non-GAAP measures.						

Fourth Quarter and Full Year

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 LBE venues varies primarily with the volume of guests who visit the locations as well as the quantity and mix between food and beverage items sold. The increase in theatre and LBE food cost percentages as compared to the prior period is primarily due to increases in prepackaged products associated with food delivery services, and a decrease in groups and events bookings which have historically reduced the average cost of food purchases and increased reserves taken for perishable concession items as a result of year end closures.

Decreases in cost of food service for both segments are primarily attributable to the temporary capacity restrictions and mandated closures at Cineplex's theatres and LBE locations. Cineplex opened a limited number of theatres and LBE locations, which were then subsequently closed as several provinces across Canada experienced a surge in COVID-19 cases during the fourth quarter, further limiting the reopening phase of theatre circuits. Increases in theatre and LBE food cost percentages were primarily due to lower volumes of foods sales, and increased reserves taken on perishable concession items as a result of year end closures after limited openings during the summer and fall periods.

Depreciation and amortization

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

Depreciation and amortization expenses	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Depreciation of property, equipment and leaseholds	$ 27,043	$ 29,967	-9.8%	$ 113,346	$ 116,911	-3.0%
Amortization of intangible assets and other	1,707	3,168	-46.1%	11,500	11,972	-3.9%
Sub-total - depreciation and amortization - other assets	$ 28,750	$ 33,135	-13.2%	$ 124,846	$ 128,883	-3.1%
Depreciation - right-of-use assets	28,136	36,471	-22.9%	128,393	145,946	-12.0%
Total depreciation and amortization from continuing operations	$ 56,886	$ 69,606	-18.3%	$ 253,239	$ 274,829	-7.9%
Depreciation and amortization from discontinued operations	—	—	NM	—	3,623	-100.0%
Total depreciation and amortization	$ 56,886	$ 69,606	-18.3%	$ 253,239	$ 278,452	-9.1%

Fourth Quarter and Full Year

Depreciation of property, equipment and leaseholds from continuing operations decreased by $2.9 million, or 9.8% during the quarter compared to the prior year period, and by $3.6 million or 3.0% for the year compared to the prior year period. The decrease was due to the impact of the impairment recorded in the first quarter of 2020 on the carrying amount of long-lived assets.

The quarterly and annual amortization of intangible assets and other from continuing operations decreased as compared to the prior year periods as a result of fully depreciated intangible assets.

The quarterly and annual decrease in depreciation of right-of-use assets from continuing operations was due to reduced carrying values resulting from the impairment recorded in the first quarter of 2020 in addition to modifications to lease agreements related to COVID-19 that reduced the carrying value of these assets.

Impairment of long-lived assets, goodwill and investments

The following table highlights the movement in impairment of long-lived assets, goodwill and investments during the quarter and the full year (in thousands of dollars):

Impairment of long-lived assets, goodwill and investments	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Impairment of property, equipment and leaseholds	$ (5,243)	$ —	NM	$ (39,192)	$ —	NM
Impairment of right-of-use assets	(21,236)	—	NM	(71,846)	—	NM
Impairment of goodwill	(26,906)	—	NM	(181,035)	—	NM
Impairment of investments	(2,790)	—	NM	(2,790)	—	NM
Impairment of long-lived assets, goodwill and investments	$ (56,175)	$ —	NM	$ (294,863)	$ —	NM

Fourth Quarter and Full Year

With the closure of its operations on March 16, 2020 as a result of the declaration of a global pandemic, and the ensuing negative impact on Cineplex's businesses throughout the remainder of the year, triggering events for purposes of testing long-lived assets and goodwill for impairment occurred at each quarter end.

At each of March 31st and September 30th carrying values of assets were tested for recoverability measured as the fair value based on internal budgets which reflected the negative impact of the COVID-19 pandemic on Cineplex's current and future results. Where the carrying value of assets were assessed as exceeding the recoverable value of those assets at those points in time, impairments were recognized. As at June 30th, management determined that there were no material changes in key judgements or assumptions from those determined as at March 31st and therefore concluded that there was no impairment as at June 30th.

In addition to its required annual testing for impairment of goodwill and indefinite-lived intangible assets in the fourth quarter, the closure of most theatre and location-based entertainment operations resulted in further decreases in revenues, results of operations and cash flows which represented an indicator to trigger impairment testing for both long-lived assets and goodwill at December 31, 2020. Based on the results of the impairment tests, Cineplex recognized non-cash impairment charges of $53.4 million ($26.9 million to goodwill and $26.5 million to tangible and right-of-use assets) for the three months ended December 31, 2020 and $292.1 million ($181.0 million to goodwill and $111.1 million to tangible and right-of-use assets) for the full year.

Where an impairment has been recorded with respect to a long-lived asset, it will be reversed when and if the recoverable value of the related asset increases. Management will monitor and re-assess the recoverable value of the impaired assets, reversing the impairments where it increases. Impairments recorded with respect to goodwill cannot be reversed.

If the return to business continues to be delayed as a result of actions outside of the control of management, including but not limited to additional changes to the film slate release schedule, ongoing government restrictions impacting the re-opening of entertainment venues and delays in the vaccine roll out, management's estimates of operating results and further cash flows for the forecasted period may be negatively impacted. As a result, they may be insufficient to support the recoverability of goodwill and long lived assets in certain CGUs, thus requiring further impairment charges. Cineplex will continue to evaluate the recoverability of goodwill at the cash generating unit level on an annual basis during its fourth quarter and whenever events or changes in circumstances indicate there may be a potential impairment.

During the quarter, Cineplex assessed the recoverability of its investment in VR Studios Inc. and recognized impairment of $2.8 million, reducing the carrying value of its investment to $nil.

Impairment of intangible assets - discontinued operations

The following table highlights the movement in impairment of intangible assets - discontinued operations during the quarter and the full year (in thousands of dollars):

Impairment of intangible assets - discontinued operations	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Impairment of intangible assets - discontinued operations	$ —	$ —	NM	$ 5,156	$ —	NM

Intangible assets included in assets held for sale were written down prior to disposition to reflect their expected net realizable value.

(Gain) loss on disposal of assets

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

(Gain) loss on disposal of assets	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
(Gain) loss on disposal from continuing operations	$ (283)	$ 868	NM	$ (13,101)	$ 1,764	NM
Loss on disposal from discontinued operations	—	—	NM	129	—	NM
(Gain) loss on disposal of assets	$ (283)	$ 868	NM	$ (12,972)	$ 1,764	NM

The quarterly and annual movements in (gain) loss on disposal of assets from continuing operations as compared to the prior year periods were due mainly to the negotiated sale of certain restrictive lease rights completed during the third quarter.

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 include 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 full year (in thousands of dollars):

Other costs	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Theatre occupancy expenses	$ 9,891	$ 18,493	-46.5%	$ 60,514	$ 71,867	-15.8%
Other operating expenses	55,567	167,416	-66.8%	276,092	629,849	-56.2%
General and administrative expenses	11,755	29,014	-59.5%	39,084	80,977	-51.7%
Total other costs from continuing operations	$ 77,213	$ 214,923	-64.1%	$ 375,690	$ 782,693	-52.0%
Other costs from discontinued operations	—	1,471	NM	2,212	7,001	-68.4%
Total other costs	$ 77,213	$ 216,394	-64.3%	$ 377,902	$ 789,694	-52.1%

Theatre occupancy expenses

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

Theatre occupancy expenses	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Cash rent paid/payable (i)	$ 23,727	$ 39,042	-39.2%	$ 109,161	$ 156,921	-30.4%
Other occupancy	12,820	18,545	-30.9%	65,545	73,736	-11.1%
One-time items (ii)	(169)	(62)	NM	(2,108)	(2,275)	-7.3%
Total theatre occupancy including cash lease payments	$ 36,378	$ 57,525	-36.8%	$ 172,598	$ 228,382	-24.4%
Cash rent paid/payable related to lease obligations (iii)	(26,487)	(39,032)	-32.1%	(112,084)	(156,515)	-28.4%
Theatre occupancy as reported	$ 9,891	$ 18,493	-46.5%	$ 60,514	$ 71,867	-15.8%

(i) Represents the cash payments for theatre rent paid or payable during the quarter.

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

(iii) Cash rent paid/payable that has been reallocated to offset the lease obligations.

Theatre occupancy continuity	Fourth Quarter Occupancy	Full Year Occupancy
2019 as reported	$ 18,493	$ 71,867
Impact of new and acquired theatres	(20)	580
Impact of disposed theatres	(251)	(1,241)
Same store rent change (i)	(15,094)	(44,623)
One-time items	(107)	167
Other	(5,675)	(10,667)
Impact of IFRS 16 adoption:		
Cash rent related to lease obligations	12,545	44,431
2020 as reported	$ 9,891	$ 60,514

(i) See Section 18, Non-GAAP measures.

Fourth Quarter

Theatre occupancy expenses decreased $8.6 million during the fourth quarter of 2020 compared to the prior year period. This decrease was primarily due to the rent relief measures Cineplex has undertaken with landlord partners resulting in lower theatre rent related expense including common area maintenance and taxes as compared to the prior year period. In addition, the decrease compared to the prior period can be attributed to rent and realty tax subsidies totaling $2.8 million and $3.2 million, of which $2.7 million and $2.9 million were offset against theatre occupancy costs during the period, respectively.

Full Year

The decrease in theatre occupancy expenses of $11.4 million for the 2020 year compared the prior year was mainly due to lower theatre rent related expense including common area maintenance and taxes as compared to the prior year period, net of rent and realty tax subsidies received.

Other operating expenses

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

Other operating expenses	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Theatre payroll	$ 5,157	$ 41,925	-87.7%	$ 40,689	$ 160,593	-74.7%
Theatre operating expenses	12,717	32,986	-61.4%	61,359	121,833	-49.6%
Media	8,513	27,762	-69.3%	42,913	88,621	-51.6%
P1AG	15,494	36,818	-57.9%	71,638	156,687	-54.3%
LBE (i)	5,037	14,692	-65.7%	26,731	53,110	-49.7%
LBE pre-opening (ii)	785	603	30.3%	1,907	2,447	-22.1%
SCENE	4,890	2,470	98.0%	13,423	15,549	-13.7%
Marketing	2,136	5,128	-58.3%	7,223	16,254	-55.6%
Other (iii)	5,093	9,686	-47.4	24,389	32,879	-25.8%
Other operating expenses including cash lease payments	$ 59,822	$ 172,070	-65.2%	$ 290,272	$ 647,973	-55.2%
Cash rent paid/payable related to lease obligations (iv)	(4,255)	(4,654)	-8.6%	(14,180)	(18,124)	-21.8%
Other operating expenses from continuing operations	$ 55,567	$ 167,416	-66.8%	$ 276,092	$ 629,849	-56.2%
Other operating expenses from discontinued operations	—	1,471	NM	2,212	7,001	-68.4%
Total other operating expenses	$ 55,567	$ 168,887	-67.1%	$ 278,304	$ 636,850	-56.3%

(i) Includes operating costs of LBE locations. Overhead relating to management of LBE portfolio are included in the 'Other' line.
(ii) Includes pre-opening costs of LBE.
(iii) Other category includes overhead costs related to LBE and other Cineplex internal departments.
(iv) Cash rent paid/payable that has been reallocated to offset the lease obligations.

Other operating continuity from continuing operations	Fourth Quarter Other Operating	Full Year Other Operating
2019 as restated	$ 167,416	$ 629,849
Impact of new and acquired theatres	(166)	(1,182)
Impact of disposed theatres	(535)	(1,953)
Same theatre payroll change (i)	(36,233)	(117,621)
Same theatre operating expenses change (i)	(20,102)	(59,626)
Media operating expenses change	(19,249)	(45,708)
P1AG operating expenses change	(21,324)	(85,049)
LBE operating expenses change	(9,655)	(26,379)
LBE pre-opening change	182	(540)
SCENE change	2,420	(2,126)
Marketing change	(2,992)	(9,031)
Other	(4,594)	(8,486)
Impact of IFRS 16 adoption:		
Cash rent related to lease obligations	$ 399	$ 3,944
2020 as reported	$ 55,567	$ 276,092

(i) See Section 18, Non-GAAP measures.

Fourth Quarter

The overall decrease in other operating expenses was a result of the restricted operations and temporary closures of theatres, LBE locations and P1AG route locations and the resulting impact on all other parts of the business. In managing its costs, Cineplex benefited from government subsidy programs in Canada and the United States. During the fourth quarter, Cineplex recognized $14.3 million in payroll subsidies, with $6.9 million offsetting theatre payroll and additionally $1.8 million offsetting utilities.

Full Year

The overall decrease in other operating expenses was as a result of the temporary closure of theatres, LBE locations and P1AG route locations leading to a decrease in business volumes. Rising COVID-19 cases during the fall months resulted in delayed rollouts of re-openings and limited operating capacity on locations permitted to remain open.

General and administrative expenses

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

G&A expenses	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
G&A excluding the following items	$ 7,261	$ 16,403	-55.7%	$ 43,717	$ 64,108	-31.8%
Restructuring	2,396	189	NM	8,258	1,078	NM
Transaction / Litigation costs	1,279	11,711	-89.1%	4,101	11,711	-65.0%
LTIP (i)	248	466	NM	(15,104)	3,076	NM
Option plan	718	407	76.4%	(1,203)	1,605	NM
G&A expenses including cash lease payments	$ 11,902	$ 29,176	-59.2%	$ 39,769	$ 81,578	-51.3%
Cash rent paid/payable included as part of lease obligations (ii)	(147)	(162)	-9.3%	(685)	(601)	14.0%
G&A expenses as reported	$ 11,755	$ 29,014	-59.5%	$ 39,084	$ 80,977	-51.7%

(i) LTIP includes the expense for RSUs and PSUs, as well as the expense for the executive and Board deferred share unit plans.
(ii) Cash rent paid/payable that has been reallocated to offset the lease obligations.

Fourth Quarter and Full Year

G&A expenses decreased $17.3 million during the fourth quarter of 2020 compared to the prior year period. This was primarily due to a $9.1 million decrease in G&A excluding LTIP costs as a result of the $2.3 million received under the COVID-19 CEWS wage subsidy program, and $10.4 million decrease in Cineworld Transaction related costs as compared to the prior period. These savings were partially offset by costs of $2.4 million arising from a cost restructuring program implemented in the third quarter.

G&A expenses for 2020 decreased $41.9 million (51.7%) as compared to the prior year. The decrease is due to a $26.6 million decrease in Incentive Plan expenses, $8.4 million of which was included in the $11.7 million Cineworld Transaction costs, a $2.8 million decrease in option plan expense and the $9.4 million received under the COVID-19 CEWS wage subsidy program that was recorded against payroll costs. Additionally, payroll costs were reduced mainly due to voluntary salary reductions for full-time employees. With the termination of the Arrangement Agreement, Share options have been reclassified to being accounted for as equity-settled and equity instruments issued under the previous Long-Term Incentive Plan have been accounted for over their original vesting periods (prior to the Arrangement Agreement). These savings were partially offset by an increase in restructuring costs of $7.2 million compared to the prior period.

Share of loss (income) of joint ventures and associates

Cineplex's joint ventures and associates include its 78.2% interest in CDCP (2019 - 78.2%), 50% interest in one IMAX screen in Ontario (2019 - 50%), 50% interest in YoYo's and 34.7% interest in VRStudios (2019 - 34.7%).

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

Share of income of joint ventures and associates	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Share of loss (income) of CDCP	$ 2,085	$ (1,803)	NM	$ 7,279	$ (4,827)	NM
Share of loss of other joint ventures and associates	260	206	26.2%	1,130	658	71.7%
Total loss (income) of joint ventures and associates	$ 2,345	$ (1,597)	NM	$ 8,409	$ (4,169)	NM

CDCP revenues were negatively impacted by the temporary closures of theatres from March with limited reopenings in the third quarter during the quarter with a slow rollout and a limited number of first-run movies, resulting in a $3.9 million decrease in share of loss (income) from CDCP for the quarter and $12.6 million decrease for the full year. In the fourth quarter of 2020, Cineplex assessed the recoverability of its investment in VRStudios Inc. and recognized an impairment loss of $2,790, reducing the carrying value to nil.

Interest expense

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

Interest expense	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Long-term debt interest expense	$ 8,128	$ 6,693	21.4%	$ 30,026	$ 25,487	17.8%
Financing fees	700	—	NM	1,500	—	NM
Convertible debenture interest expense	4,584	—	NM	8,459	—	NM
Sub-total - long-term debt interest expense	$ 13,412	$ 6,693	NM	$ 39,985	$ 25,487	56.9%
Lease interest expense (i)	13,858	11,497	20.5%	47,794	47,018	1.7%
Sub-total - cash interest expense	$ 27,270	$ 18,190	49.9%	$ 87,779	$ 72,505	21.1%
Deferred financing fee accretion and other non-cash interest, net	368	408	-9.8%	1,396	1,745	-20.0%
Convertible debenture accretion	3,428	—	NM	7,471	—	NM
Interest rate swap - non-cash	2,509	11,891	-78.9%	13,922	10,472	32.9%
Sub-total - non-cash interest expense	6,305	12,299	-48.7%	22,789	12,217	86.5%
Total interest expense	$ 33,575	$ 30,489	10.1%	$ 110,568	$ 84,722	30.5%
(i) See Section 13, Accounting policies.						

Interest expense increased $3.1 million for the quarter and increased $25.8 million during for the full year as compared to the prior year periods. The increase in the fourth quarter compared to the prior period is due to the increases in cash interest of $9.1 million, and non-cash interest of $3.4 million relating to the issuance of the Debentures, partially offset by a $9.4 million decrease in non-cash interest relating to the interest rate swap. The increase in interest expense for the annual period as compared to the prior year period is due to a $15.3 million increase in cash interest and a $10.6 million increase in non-cash interest which is primarily as a result of the issuance of the Debentures. For both the fourth quarter and annual period, the increase in cash interest was primarily due to increased borrowing on Cineplex's revolving credit facility (see Section 7.4, Credit Facilities), in addition to interest incurred as a result of the issuance of the Debentures on July 15, 2020 (see Section 9.1, Convertible debentures).

Non-cash interest decreased in the quarter which was mainly due to the decrease in non-cash interest relating to the interest rate swaps which are being accounted for without hedge accounting. The increase in non-cash interest for the full year is mainly due to accretion expense arising on the issuance of the Debentures. The change in fair value of the interest rate swaps has been recorded in the statement of operations as of December 31, 2019 as a result of terms of the Arrangement Agreement. The termination of the Arrangement Agreement does not change accounting treatment as the swaps require re-designation on a prospective basis to qualify for hedge accounting.

Interest income

Interest income during the fourth quarter and the full year was as follows (in thousands of dollars):

Interest income	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Interest income	$ 33	$ 44	-25.0%	$ 182	$ 252	-27.8%

Foreign exchange

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

Foreign exchange	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Foreign exchange loss (gain) from continuing operations	$ 759	$ 496	53.0%	$ 57	$ 1,065	-94.6
Foreign exchange loss (gain) from discontinued operations	—	82	NM	(117)	268	NM
Total foreign exchange loss (gain)	$ 759	$ 578	31.3%	$ (60)	$ 1,333	NM

The movement in the quarterly and full year foreign exchange was due to the change in the CAD/USD foreign exchange month end rate from 1.3339 at September 30, 2020 and 1.2988 at December 31, 2019 to 1.2732 at December 31, 2020.

Income taxes

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

Income taxes	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Current income tax expense (recovery)	$ (65,776)	$ 5,414	NM	$ (73,495)	$ 21,759	NM
Deferred income tax expense (recovery)	114,854	(3,228)	NM	(11,373)	(9,990)	NM
Provision for income taxes from continuing operations	$ 49,078	$ 2,186	NM	$ (84,868)	$ 11,769	NM
Provision for income taxes from discontinued operations	—	(109)	NM	(1,627)	(2,176)	-25.2%
Provision for income taxes	$ 49,078	$ 2,077	NM	$ (86,495)	$ 9,593	NM

The increase in the fourth quarter provision for income taxes was primarily due to the derecognition of deferred income tax assets as a consequence of material uncertainties resulting from COVID-19 business impacts, risks and going concern (see Section 1.1, Response to COVID-19 and going concern). The remaining change was related to the expected recovery of income taxes paid in prior periods which have been recognized as income taxes receivable.

The decrease in the annual provision for income taxes was primarily due to the derecognition of deferred income tax assets as a consequence of material uncertainties resulting from COVID-19 business impacts, risks and going concern (see Section 1.1, Response to COVID-19 and going concern). The remaining change was related to the expected recovery of income taxes paid in prior periods which have been recognized as income taxes receivable.

The use of $26.6 million of losses by Cineplex to offset taxable income generated in 2014 remains under objection with the Canada Revenue Agency (“CRA”). Cineplex believes that it should prevail in defending its original filing position although no assurance can be given in this regard.

Cineplex’s combined statutory income tax rate at December 31, 2020 was 26.8% (2019 - 26.8%).

Net (loss) income

Net income during the fourth quarter of 2020 and the year ended December 31, 2020 was as follows (in thousands of dollars):

Net income	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Net (loss) income from continued operations	$ (230,403)	$ 4,668	NM	$ (624,001)	$ 36,516	NM
Net loss from discontinued operations	—	(1,196)	NM	(4,952)	(7,625)	-35.1%
Net (loss) income	$ (230,403)	$ 3,472	NM	$ (628,953)	$ 28,891	NM

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

The following table presents EBITDA, adjusted EBITDA and adjusted EBITDAaL for the three months and year ended December 31, 2020 as compared to the prior year periods (expressed in thousands of dollars, except adjusted EBITDAaL margin):

EBITDA	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
EBITDA	$ (90,897)	$ 106,905	NM	$(345,244)	$ 407,584	NM
Adjusted EBITDA	$ (32,097)	$ 106,529	NM	$ (55,866)	$ 405,786	NM
Adjusted EBITDAaL	$ (65,948)	$ 62,327	NM	$(182,815)	$ 230,546	NM
Adjusted EBITDAaL margin	(125.7)%	14.1%	-139.8%	(43.7)%	13.8%	-57.5%

Adjusted EBITDAaL for the fourth quarter of 2020 decreased $128.3 million, as compared to the prior year period. For the year ended December 31, 2020, adjusted EBITDAaL decreased $413.4 million, as compared to the prior year period. The quarterly and annual decreases were primarily due to the impact of the COVID-19 government imposed restrictions and resulting closure of substantially all of Cineplex businesses since March 2020. In computing adjusted EBITDAaL, cash rents paid or payable have been partially offset by the quantified lease-related savings negotiated with landlords as a result of the COVID-19 closures. This includes agreements with landlords that are evidenced by way of written confirmation of the terms agreed upon up to the date of this MD&A, and are in the process of being formally documented. Adjusted EBITDAaL margin is calculated as adjusted EBITDAaL divided by total revenues.

6. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the year ended December 31, 2020 as compared to December 31, 2019 (in thousands of dollars):

	December 31, 2020	December 31, 2019	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 16,254	$ 26,080	$ (9,826)	-37.7%
Trade and other receivables	51,834	168,065	(116,231)	-69.2%
Income taxes receivable	66,551	9,757	56,794	582.1%
Inventories	21,712	30,995	(9,283)	-29.9%
Prepaid expenses and other current assets	11,613	14,226	(2,613)	-18.4%
Fair value of interest rate swap agreements	—	1,022	(1,022)	-100.0%
Assets held for sale	—	6,573	(6,573)	-100.0%
	167,964	256,718	(88,754)	-34.6%
Non-current assets				
Property, equipment and leaseholds	555,340	662,798	(107,458)	-16.2%
Right-of-use assets	881,418	1,232,849	(351,431)	-28.5%
Deferred income taxes	—	14,197	(14,197)	-100.0%
Fair value of interest rate swap agreements	—	472	(472)	-100.0%
Interests in joint ventures	8,644	28,221	(19,577)	-69.4%
Intangible assets	84,922	88,367	(3,445)	-3.9%
Goodwill	635,582	816,790	(181,208)	-22.2%
	$ 2,333,870	$ 3,100,412	$ (766,542)	-24.7%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$ 82,992	$ 220,188	$ (137,196)	-62.3%
Share-based compensation	482	25,681	(25,199)	-98.1%
Dividends payable	—	9,500	(9,500)	-100.0%
Income taxes payable	802	1,183	(381)	-32.2%
Deferred revenue	219,983	222,998	(3,015)	-1.4%
Lease obligations	97,259	106,352	(9,093)	-8.5%
Fair value of interest rate swap agreements	7,202	1,874	5,328	284.3%
Liabilities related to assets held for sale	—	2,808	(2,808)	-100.0%
	408,720	590,584	(181,864)	-30.8%
Non-current liabilities				
Share-based compensation	2,670	—	2,670	NM
Long-term debt	506,000	625,000	(119,000)	-19.0%
Fair value of interest rate swap agreements	19,157	10,837	8,320	76.8%
Lease obligations	1,073,666	1,261,243	(187,577)	-14.9%
Post-employment benefit obligations	11,503	10,678	825	7.7%
Other liabilities	68,649	9,813	58,836	599.6%
Deferred income taxes	—	1,263	(1,263)	-100.0%
Convertible debentures	219,271	—	219,271	NM
	2,309,636	2,509,418	(199,782)	-8.0%
Equity				
Equity attributable to owners of Cineplex	24,234	591,103	(566,869)	-95.9%
Non-controlling interests	—	(109)	109	-100.0%
Total Equity	24,234	590,994	(566,760)	-95.9%
	$ 2,333,870	$ 3,100,412	$ (766,542)	-24.7%

Cash and cash equivalents. The decrease in cash and cash equivalents is due to the minimal use of cash at theatres and LBE venues resulting in a reduction of manager's funds held at locations in addition to lower cash in transit.

Trade and other receivables. The decrease in trade and other receivables is primarily due to the low business

volumes in 2020 including the reduced sale of gift cards and vouchers as a result of the impact of COVID-19.

Income taxes receivable. The increase in income taxes receivable is primarily the result of tax refunds of $66.2 million expected from loss carrybacks realized in 2020 to offset taxable income in prior years.

Inventories. The decrease in inventories is primarily due to lower theatre and location-based entertainment inventories as a result of the lower business volumes due to continued government restrictions and business closures.

Prepaid expenses and other current assets. The decrease in prepaid expenses and other current assets is due to the deferral of some real estate tax payments due to the impact of COVID-19 on the businesses.

Fair value of interest rate swap agreements. The interest rate swaps provide for fixed interest rates on $450 million of debt. The increase in the net liability for swap agreements is due to the expectation of future interest rate decreases (see discussion in Section 7.4, Credit Facilities).

Assets held for sale. The decrease in assets held for sale is due to the sale of discontinued operations during the second quarter of 2020.

Property, equipment and leaseholds. The decrease in property, equipment and leaseholds is due to amortization expenses ($113.3 million), asset dispositions ($3.7 million), foreign exchange impact ($0.2 million), and an impairment charge ($39.2 million) recorded during the year. This was offset by new build and other capital expenditures ($42.9 million), maintenance capital expenditures ($5.4 million) and a reclassification from assets held for sale to continuing operations ($0.7 million).

Right-of-use assets. The decrease in right-of-use assets is due to amortization expense ($128.4 million) and lease modifications ($144.1 million) resulting from renegotiated lease terms due to the impact of COVID-19 on the business, and an impairment charge ($71.8 million) recorded during the year. In addition, during the third quarter of 2020, Cineplex sold certain protective rights on leased properties which resulted in a derecognition of right-of use assets ($7.2 million).

Deferred income tax assets. The decrease is due to the derecognition of the net deferred income tax asset as a consequence of material uncertainties resulting from COVID-19 business impacts, risks and going concern (see Section 1.1, Response to COVID-19 and going concern).

Interests in joint ventures. The decrease in interest in joint ventures is primarily due to the equity loss realized by CDCP which has been negatively impacted by the theatre closures, in addition to an impairment of the investment in VR studios Inc. ($2.8 million) during the fourth quarter of 2020.

Intangible assets. The decrease in intangible assets is due to the amortization expense ($11.5 million), partially offset by the capitalization of software development costs ($8.1 million).

Goodwill. The decrease in goodwill is due to an impairment charges recorded ($181.0 million) during the year, offset by the impact of foreign exchange ($0.2 million).

Accounts payable and accrued expenses. The decrease in accounts payable and accrued liabilities relates to lower business volume in 2020 as a result of the impact of COVID-19.

Share-based compensation. The decrease in share-based compensation is due to the decrease in Share price, which fell to $9.27 per Share at December 31, 2020 from $34.00 per Share as contemplated by the Arrangement Agreement at December 31, 2019, decreasing the fair value of the compensation liability, as well as the reclassification of the liability with respect to options to equity on the termination the Cineworld Transaction (see Section 9, Share Activity). Current grants under the Incentive Plan are accounted for as equity settled and included in equity.

Dividends Payable. The decrease in dividends payable is due to the suspension of dividends as required by the Arrangement Agreement with Cineworld in the first quarter of 2020 and the continued suspension as required by the terms of the First and Second Credit Agreement Amendments entered into during 2020.

Income taxes payable. The decrease in income taxes payable represents amounts paid by several taxable entities in Cineplex's consolidated group during 2020 for taxes due based on its 2019 results. The remaining balance includes minimum tax payable by certain entities as a result of losses used to offset taxable income in 2020.

Deferred revenue. The deferred revenue decrease is primarily due to the significant decrease in gift cards and vouchers sales during the 2020 holiday season as a result of the impact of COVID-19.

Long-term debt. The decrease in long-term debt is primarily due to the repayment of long-term debt with the proceeds from the issuance of the Debenture (see Section 9.1, Convertible Debentures) and payment received with respect to the reorganization of SCENE.

Lease obligations. The decrease in lease obligations is primarily due to lease modifications recognized from renegotiated leases due to the impact of COVID-19 on the business and settlement of lease obligation.

Other liabilities. The increase in other liabilities is due to the deferral of $60.0 million proceeds received for the reorganization of SCENE. Cineplex continues to have joint control of the joint operation and is entitled to and responsible for 50% of the economic benefits and obligations until specific non-financial milestones are met, resulting in the deferral of recognition of the proceeds in other liabilities.

Convertible debentures. The increase in convertible debentures is due to the issuance of the Debentures completed during the third quarter and the accretion of the Debentures (see Section 9, Share Activity).

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 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 months and year ended December 31, 2020 and 2019 (in thousands of dollars):

Cash flows provided by operating activities	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Net (loss) income from continuing operations	$ (230,403)	$ 4,668	$ (235,071)	$ (624,001)	$ 36,516	$ (660,517)
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization of other assets (i)	28,750	33,135	(4,385)	124,846	128,883	(4,037)
Depreciation of right-of-use assets	28,136	36,471	(8,335)	128,393	145,946	(17,553)
Unrealized foreign exchange	787	309	478	342	698	(356)
Interest rate swap agreements - non-cash interest	2,509	11,891	(9,382)	13,922	10,472	3,450
Accretion of convertible debentures	3,428	—	3,428	7,471	—	7,471
Other non-cash interest (ii)	368	408	(40)	1,396	1,745	(349)
(Gain) loss on disposal of assets	(283)	868	(1,151)	(13,101)	1,764	(14,865)
Deferred income taxes (recovery)	114,854	(3,228)	118,082	(11,373)	(9,990)	(1,383)
Non-cash Share-based compensation	(3,149)	407	(3,556)	1,228	1,608	(380)
Impairment of ling-lived assets and goodwill	56,175	—	56,175	294,863	—	294,863
Net change in interests in joint ventures and associates	5,044	(1,466)	6,510	12,878	(4,704)	17,582
Changes in operating assets and liabilities	(67,257)	40,670	(107,927)	(43,178)	8,727	(51,905)
Net cash (used in) provided by operating activities	**$ (61,041)**	**$ 124,133**	**$ (185,174)**	**$ (106,314)**	**$ 321,665**	**$ (427,979)**

(i) Includes depreciation of property, equipment and leaseholds and amortization of intangible assets.
(ii) Includes accretion of asset retirement obligations and non-cash interest costs on lease obligations.

Fourth Quarter and Full Year

Cash used in operating activities was $61.0 million in the fourth quarter and $106.3 million for the year ended December 31, 2020, as compared to cash provided by operating activities of $124.1 million and $321.7 million in the prior year comparative periods. The movements were primarily due to the negative impact of COVID-19 on businesses, coupled with the timing of settlement of accounts payables and recognition of income taxes receivable during the quarter. Tax returns with respect to these receivables were promptly filed subsequent to year end.

7.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the three months and year ended December 31, 2020 and 2019 (in thousands of dollars):

Cash flows provided by (used in) investing activities	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Proceeds from disposal of assets, including sale of discontinued operations	$ 59,870	$ —	$ 59,870	$ 80,920	$ —	$ 80,920
Purchases of property, equipment and leaseholds	(9,969)	(51,448)	41,479	(73,411)	(146,367)	72,956
Intangible assets additions	(2,106)	(2,709)	603	(9,005)	(7,865)	(1,140)
Tenant inducements	2,697	4,832	(2,135)	24,296	13,985	10,311
Net cash received from joint ventures and associates	—	2,882	(2,882)	3,910	15,394	(11,484)
Net cash provided by (used in) investing activities	**$ 50,492**	**$ (46,443)**	**$ 96,935**	**$ 26,710**	**$ (124,853)**	**$ 151,563**

Fourth Quarter

Cash provided by investing activities during the fourth quarter of 2020 was $50.5 million, as compared to cash used in investing activities of $46.4 million in the prior year period. The movement was primarily due to the reduction of capital expenditures during the period as a result of COVID-19, and cash proceeds of $60.0 million that were received as a result of Cineplex's reorganization of its joint operation with SCENE. The negative capital expenditures resulted from accruals movement during the quarter.

Full Year

For the full year, cash provided by investing activities was $26.7 million, as compared to cash used in investing activities of $124.9 million in the prior year. The movement was primarily due to cash proceeds received from the sale of certain protective rights on leased properties in the third quarter of 2020, $60.0 million proceeds from Cineplex's reorganization of its joint operation with SCENE, and reduced capital expenditures as a result of the significant reduction of all capital assets acquisitions and contractual projects during the period due to COVID-19.

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

Capital expenditures	**Fourth Quarter**			**Full Year**		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Gross capital expenditures	$ 9,969	$ 51,448	$ (41,479)	$ 73,411	$ 146,367	$ (72,956)
Less: tenant inducements	(2,697)	(4,832)	2,135	(24,296)	(13,985)	(10,311)
Net capital expenditures	$ 7,272	$ 46,616	$ (39,344)	$ 49,115	$ 132,382	$ (83,267)
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 8,823	$ 32,962	$ (24,139)	$ 37,104	$ 102,220	$ (65,116)
Tenant inducements	(2,697)	(4,832)	2,135	(24,296)	(13,985)	(10,311)
Media growth capital expenditures	—	26	(26)	198	402	(204)
Premium formats (ii)	541	13,951	(13,410)	2,884	21,662	(18,778)
Amusement and leisure growth capital expenditures (excluding LBE build expenditures)	372	4,561	(4,189)	877	5,748	(4,871)
Maintenance capital expenditures	1,171	14,246	(13,075)	5,379	31,702	(26,323)
Other (iii)	(938)	(14,298)	13,360	26,969	(15,367)	42,336
	$ 7,272	$ 46,616	$ (39,344)	$ 49,115	$ 132,382	$ (83,267)

(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, 3D, 4DX and ScreenX.

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

7.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the three months and year ended December 31, 2020 and 2019 (in thousands of dollars):

Cash flows provided by (used in) financing activities	**Fourth Quarter**			**Full Year**		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Dividends paid	$ —	$ (28,498)	$ 28,498	$ (19,000)	$ (112,415)	$ 93,415
Borrowings (repayments) under credit facility, net	46,000	(24,000)	70,000	(119,000)	45,000	(164,000)
Repayments of lease obligations - principal	(32,323)	(32,352)	29	(91,946)	(128,252)	36,306
Issuance of convertible debentures, net	—	—	—	303,063	—	303,063
Financing fees	(700)	—	(700)	(1,500)	(243)	(1,257)
Net cash provided by (used in) financing activities	**$ 12,977**	**$ (84,850)**	**$ 97,827**	**$ 71,617**	**$ (195,910)**	**$ 267,527**

Fourth Quarter

Cash flows provided by financing activities were $13.0 million in the fourth quarter of 2020, as compared to cash used in financing activities in the prior year comparative periods in the amount of $84.9 million. The movement was mainly due to borrowings under the Credit Facilities to fund operations during the COVID-19 driven closures. Dividends were suspended under the terms of the Arrangement Agreement subsequent to the dividend paid on February 28, 2020 and remained suspended after the termination of the Arrangement Agreement as a result of the terms of the Credit Agreement Amendments.

Full Year

Cash flows provided by financing activities were $71.6 million for the year ended December 31, 2020, as compared to cash used in financing activities in the prior year period in the amount of $196.0 million. The movement was mainly due to the net proceeds arising from the issuance of the Debentures of $303.1 million net of repayment of amounts borrowed under the Credit Facilities. In addition, cash rent paid was reduced as a result of the relief measures that Cineplex negotiated with landlords in response to COVID-19. Dividends were suspended under the terms of the Arrangement Agreement subsequent to the dividend paid on February 28, 2020 and remained suspended after the termination of the Arrangement Agreement as a result of the terms of the Credit Agreement Amendments.

In response to the impact of the COVID-19 pandemic, Cineplex is closely monitoring its liquidity. Details with respect to its ongoing measures to maximize liquidity are detailed in Section 1.1 Response to COVID-19.

7.4 CREDIT FACILITIES

Cineplex increased and extended its Credit Facilities effective November 13, 2018. On June 29, 2020, Cineplex and Cineplex Entertainment Limited Partnership entered into the First Credit Agreement Amendment with The Bank of Nova Scotia, as administrative agent, and the lenders from time to time named therein, to the seventh amended and restated credit agreement with a syndicate of lenders. The First Credit Agreement Amendment Agreement (along with the Second Credit Amendment and Third Credit Agreement Amendment described below) provides Cineplex with certain financial covenant relief in light of the COVID-19 pandemic and its effects on Cineplex's businesses.

At December 31, 2020, the Credit Facilities consisted of the following (in millions of dollars), subject to amendments described below pursuant to the Credit Agreement Amendment:

	Available	Drawn	Reserved	Remaining
(i) a five-year senior secured revolving credit facility ("Revolving Facility")	$ 620.0	$ 456.0	$ 10.2	$ 153.8
(ii) a five-year senior secured non-revolving term facility ("Term Facility") (i)	$ 50.0	$ 50.0	$ —	$ —
Letters of credit outstanding at December 31, 2020 of $10.2 million are reserved against the Revolving Facility.				
(i) Reduced to a five-year senior secured non-revolving term facility with a balance of $50.0 million available and drawn as a result of the repayment of $100.0 million on the successful completion of the issuance of the Debentures.				

The Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, U.S. Base Rate, LIBOR or bankers' acceptances rates plus, in each case, an applicable margin to those rates. The Revolving Facility matures in November 2023 and, as a result of the First Credit Agreement Amendment, the Term Facility also matures in November 2023, 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 limits and restrictions on, among other things, the ability of Cineplex to create liens or other encumbrances, to pay dividends or make certain other payments, minimum liquidity covenants, anti-hoarding provisions, 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.

The following is a summary of the key terms of the First Credit Agreement Amendment (certain of which have been modified further by the Second Credit Agreement Amendment and Third Credit Agreement Amendment described below):

- Financial covenant testing was suspended effective upon execution of the First Credit Agreement Amendment, and subsequently extended for the second and third quarters of 2020 following a $100.0 million permanent repayment of the Term Facility from the proceeds of the offering of the Debentures (see Section 8 Share Activity). On the resumption of financial covenant testing at the beginning of the fourth quarter of 2020, it will be based on an annualized calculation of Adjusted EBITDA for the following four fiscal quarters;
- The leverage ratio of 3.75x will apply when financial covenants are reinstated, and will be reduced over the course of 2021 each quarter until it is at 3.00x for the fourth fiscal quarter of 2021 until the fourth quarter of 2021 at which point it will reach a level of 3.00x;
- The maturity date for the Term Facility was advanced by two years to be coincident with the maturity date for the Revolving Facility of November 13, 2023;
- If Cineplex chooses to undertake any new debt, equity or equity-related issuances or the sale of certain assets, Cineplex will be required to make certain mandatory permanent repayments of the Credit Facilities from the proceeds of such issuances or asset sales;
- Growth capital expenditures will be limited to certain agreed projects. After December 31, 2020, additional growth capital expenditures will be permitted subject to a pro forma leverage covenant of 2.75x (both prior to and immediately after giving effect to any such growth capital expenditure);
- Distributions will be limited to free cash flow and only permitted when the leverage ratio is less than 2.75x (both prior to and immediately after giving effect to any such distribution);
- Cineplex will not be permitted to make any acquisitions without consent from at least three of its lenders holding, in the aggregate, a minimum of 51% of the commitments under its Credit Facilities;
- The applicable margins for the interest rates on all borrowings will increase;
- Cineplex will no longer be able to request an increase in the total commitments under the Credit Facilities pursuant to the "accordion" provisions of the Credit Agreement prior to amendment; and
- Payments of interest on the Debentures (as defined below) will be permitted so long as no default or event of default has occurred under the Credit Agreement.

On November 12, 2020, Cineplex and Cineplex Entertainment Limited Partnership entered into the Second Credit Agreement Amendment. Without the provisions of the Second Credit Agreement Amendment, management's internal forecasts indicated a potential breach of the financial covenants as of December 31, 2020.

The following is a summary of the key terms of the Second Credit Agreement Amendment that are updated from the First Credit Agreement Amendment (certain of which have been modified further by the Third Credit Agreement Amendment in Section 16 Subsequent Events):

- Financial covenant testing will be suspended until the second quarter of 2021. On resumption of financial covenant testing in the second quarter of 2021, the testing will be based on an annualized calculation of Adjusted EBITDA for the following four fiscal quarters;
- The leverage ratio of 3.75x will apply when financial covenants are reinstated, and will be reduced over the course of successive four quarters until the first quarter of 2022 at which point it will reach a level of 3.00x;
- Effective with the second quarter of 2021, additional growth capital expenditures will be subject to pro-forma leverage covenant of 2.75x (both prior to and immediately after giving effect to any such growth capital expenditure) based on actual last twelve month EBITDA;
- A liquidity covenant effective at all times through the covenant suspension period beginning in November 2020, through to and including June 2021, requiring available liquidity as defined on a monthly basis;
- Distributions continue to be blocked during the extended financial covenant suspension period and only permitted when the leverage ratio is less than 2.75x (both prior to and immediately after giving effect to any such distribution); and
- An anti-cash hoarding provision has been added limiting the request for advances under the Credit Facilities to those amounts required to fund costs and expenses reasonably anticipated to be incurred in the

ordinary course of business. No amounts may be requested if sufficient cash on hand exists to pay such costs.

Following the First and Second Credit Agreement Amendments, including mandatory repayments, the Credit Facilities consist of the following:

a) a five-year, $620.0 million senior, secured, Revolving Facility; and
b) a five-year, $50.0 million, senior, secured, Term Facility.

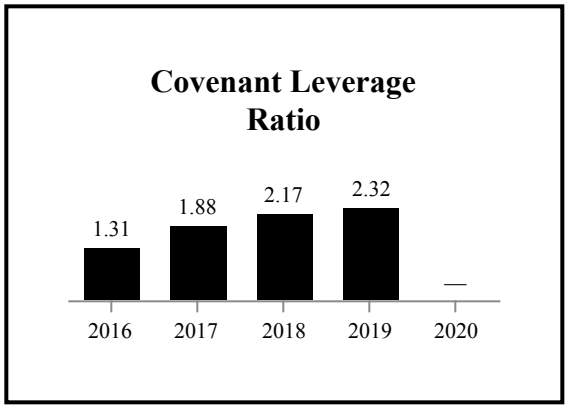
Subsequent to year end, Cineplex completed a sale-leaseback transaction for its head office buildings located at 1303 Yonge Street and 1257 Yonge Street, Toronto, Ontario for gross proceeds of $57.0 million. Fifty percent of the net proceeds were used to permanently reduce Cineplex's Revolving Facility to $591.7 million(see Section 16, Subsequent events).

Subsequent to year end, on February 8, 2021, Cineplex entered into the Third Credit Agreement Amendment, which, among other things, extended the suspension of financial covenant testing for two additional fiscal quarters and extended the liquidity covenant requirement until December 2021 (see Section 16, Subsequent events).

The Credit Facilities mature and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity. The Credit Facilities bear interest at a floating rate, based on the Canadian dollar prime rate, or bankers' acceptances rate plus, in each case, an applicable margin to those rates. Borrowings on the Revolving Facility and the Term Facility can be made in either Canadian or US dollars.

A copy of the Credit Agreement Amendments are available on SEDAR at www.sedar.com.

One of the key financial covenants in the Credit Facilities is the leverage covenant which will be calculated in accordance with IFRS in effect at November 13, 2018 which excludes the impact of the adoption of IFRS 16 on Cineplex's financial reporting. The definition of debt in the Credit Facilities includes long-term debt, financing leases and letters of credit but does not include Debentures, the lease obligations arising on the adoption of IFRS 16 or a reduction for cash on hand. For the purposes of the Credit Facilities definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new operating locations or acquisitions. Under the term of the Second Credit Agreement Amendment, financial covenant testing has been suspended until the end of the second quarter of 2021 and further extended to the fourth quarter of 2021 pursuant to the terms of the Third Credit Agreement Amendment entered into after year end.



Management continues to pursue all viable options to maintain adequate liquidity to fund operations for the currently anticipated duration of the pandemic. During the fourth quarter, Cineplex entered into an agreement to enhance and expand the SCENE Scotiabank Loyalty program receiving $60.0 million with respect to the reorganization. In addition, Cineplex continues to explore other measures to maintain adequate liquidity, including but is not limited to planned asset sales such as Cineplex's head office building in Toronto which was completed subsequent to year end, additional financing sources and amendments to existing credit facilities. All proceeds are used to repay the Credit Facilities, in part as a permanent reduction.

As of December 31, 2020, Cineplex was in compliance with all financial covenants under the terms of the Credit Facilities. However, management's forecasts indicate a potential breach of its covenants within the next 12 months as a result of the COVID-19 pandemic. Management's forecasts may change materially as the impact of COVID-19 on Cineplex's business is better understood. A violation of its covenants would represent an event of default under the terms of the Credit Facilities, enabling the lenders to demand immediate repayment of all amounts due.

Interest rate swap agreements. Cineplex entered into interest rate swap agreements where Cineplex agreed to pay fixed rates per annum, plus an applicable margin and receive a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

The following table outlines Cineplex's current interest rate swap agreements as of December 31, 2020:

Interest rate swap agreements					
	Notional amount	**Inception date**	**Effective date**	**Maturity date**	**Fixed rate payable**
Swap - 1	$200.0 million	April 25, 2016	October 24, 2018	April 26, 2021	1.484 %
Swap - 2	$200.0 million	November 13, 2018	April 26, 2021	November 14, 2023	2.945 %
Swap - 3	$100.0 million	November 13, 2018	November 13, 2018	November 14, 2023	2.830 %
Swap - 4	$150.0 million	November 13, 2018	November 13, 2018	November 14, 2025	2.898 %

The purpose of the interest rate swap agreements is to act as a cash flow hedge on the floating interest rate payable on Cineplex's first $450.0 million of borrowings. Cineplex ceased the use of hedge accounting for the interest rate swaps during the fourth quarter of 2019. The interest rate swap will be measured at fair market value at each reporting period with changes in fair market value recognized in the consolidated statement of operations.

As a result of the terms of the Arrangement Agreement, hedge accounting was determined to no longer to be appropriate. Despite the termination of the Arrangement Agreement, the swaps can only be re-designated on a prospective basis for hedge accounting treatment.

Accordingly, losses associated with the interest rate swaps previously recognized in Other Comprehensive Income ("OCI") were recognized as interest expense in the fourth quarter of 2019. Changes in the value of these interest rate swaps are recognized in net income.

Based on the amended credit agreement in effect at December 31, 2020 Cineplex's effective cost of borrowing on the $450.0 million hedged borrowings was 5.754% (December 31, 2019 - $450.0 million hedged borrowings - 4.079%).

7.5 FUTURE OBLIGATIONS

At December 31, 2020, Cineplex had the following contractual or other commitments authorized by the Board (expressed in thousands of dollars):

	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Long-term debt	506,000	—	506,000	—	—
Interest rate swap agreements	26,359	7,201	15,449	3,709	—
Capital commitment - exhibition and LBE	82,100	14,470	67,630	—	—
Deferred consideration - AMC	3,134	3,134	—	—	—
Equipment obligations	4,168	1,975	2,018	150	25
Convertible debentures	316,250	—	—	316,250	—
Total contractual obligations	**$ 938,011**	**$ 26,780**	**$ 591,097**	**$ 320,109**	**$ 25**

The following table discloses the undiscounted cash flow for lease obligations as of December 31, 2020:

Less than one year	$	159,928
One to five years		635,088
More than five years		695,714
Total undiscounted lease obligations	$	1,490,730

Cineplex has aggregate gross capital commitments of $82.1 million ($53.9 million net of tenant inducements) related to the completion of construction of 11 operating locations including both theatres and location-based entertainment locations, in addition to the ongoing rollout of expanded entertainment offerings at select theatres and location-based entertainment locations, over the next four years.

As a result of the negative impact of COVID-19 on its business, Cineplex has minimized all capital expenditures by deferring or canceling project spending during the crisis. With the uncertainty surrounding the timing and impact of the theatre and LBE venue closures, management will continue to assess its future capital spending taking into consideration its legal commitments, restrictions imposed by the Credit Facilities (as amended) and requirements of the business on a short and long-term basis.

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. In response to the COVID-19 pandemic and resulting government mandated closures, Cineplex temporarily closed all of its theatres and LBE locations on March 16, 2020. Government mandates remain in effect in multiple markets which have resulted in theatre closures and restrictions on the LBE business.

Cineplex is guarantor under the leases for the remainder of the lease terms for certain theatres that it has sold in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease; ten or fewer of those theatres are still operated by a third-party lease under which Cineplex arguably could be responsible as a guarantor. Cineplex has assessed the fair value of the lease guarantees and determined that the fair value of these guarantees at December 31, 2020 is nominal. As such, no additional amounts have been provided in the consolidated financial statements for these guarantees. 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.

At December 31, 2020, Cineplex had $316.3 million ($303.1 million net of fees) principal amount of Debentures outstanding that bear interest at 5.75% and have a maturity date of September 30, 2025. At December 31, 2020, the Debentures were recorded on Cineplex's balance sheet at $219.3 million (see Section 9.1, Convertible debentures). The Debentures are being accreted to their maturity value using the effective interest method as prescribed by IFRS 9, *Financial Instruments.* The Debentures are not redeemable by Cineplex prior to September 30, 2023. On or after September 30, 2023 and prior to September 30, 2024, Cineplex may, at its option, redeem the Debentures in whole or in part from time to time, subject to specific market conditions. On or after September 30, 2024, the 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. Redemption may be in cash or in the form of Shares, at the option of Cineplex. See Section 9, Share activity, for more information regarding the Debentures.

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

Cineplex's dividend policy is subject to the discretion of the Board and may vary depending on, among other things, Cineplex's results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the Board may deem relevant. As a result of the Arrangement Agreement, Cineplex did not pay any further dividends after the monthly dividend that was paid on February 28, 2020. Cineplex does not expect to return to paying dividends until the negative impact of the COVID-19 crisis has been addressed and liquidity improved. The payment of any dividends in the future is also subject to the terms of the Credit Facilities (as amended). Cineplex hereby currently designates all dividends paid or deemed to be paid as "eligible dividends" for purposes of subsection 89(14) of the *Income Tax Act* (Canada), and similar provincial and territorial legislation, unless indicated otherwise.

8.1 ADJUSTED FREE CASH FLOW

Prior to the monthly dividend that was paid on February 28, 2020, Cineplex distributed cash to its shareholders on a monthly basis. The following table illustrates adjusted free cash flow per Share, dividends paid per Share, and the payout ratio of dividends relative to adjusted free cash flow for the three months and year ended December 31, 2020 and 2019:

Adjusted free cash flow	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Adjusted free cash flow per Share	$ (0.482)	$ 0.618	NM	$ (2.556)	$ 2.660	NM
Dividends declared per Share	$ —	$ 0.450	-100.0%	$ 0.150	$ 1.780	-91.6%
Payout ratio - year ended December 31	—	—	—	(5.9)%	66.9%	-72.8%

Adjusted free cash flow per Share for the fourth quarter and full year compared to the prior year decreased due to weaker operating results as a result of the economic effects of COVID-19 and the temporary closure of theatres and LBE locations and P1AG route locations.

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

	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
Cash flows (used in) provided by continuing operations	$ (61,041)	$ 124,133	NM	$ (106,314)	$ 321,665	NM
Net (loss) income from continuing operations	$ (230,403)	$ 4,668	NM	$ (624,001)	$ 36,516	NM
Standardized free cash flow	$ (92,060)	$ 72,685	NM	$ (179,725)	$ 175,298	NM
Adjusted free cash flow	$ (30,530)	$ 39,127	NM	$ (161,870)	$ 168,455	NM
Cash dividends declared	$ —	$ 28,499	-100.0%	$ 9,500	$ 112,731	-91.6%
Average number of Shares outstanding	63,333,238	63,333,238	—%	63,333,238	63,333,238	—%

8.2 DIVIDENDS

Cineplex has not paid any dividends after the monthly dividend that was paid on February 28, 2020 and is restricted from paying any dividends under the Credit Facilities (as amended).

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	$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
May 2019 - January 2020	$0.1500
(i) Cineplex Galaxy Income Fund, the predecessor to Cineplex ("The Fund") declared and paid distributions at a rate of $0.1050 per month from May 2008 until December 2010. The Fund converted to a corporation on January 1, 2011, at which time distributions ceased and dividends began at the same rate of $0.1050 per month.	

9. SHARE ACTIVITY

Share capital at December 31, 2020 and the transactions during the year are as follows (expressed in thousands of dollars except Share amounts):

	Shares	Amount	
	Number of common shares issued and outstanding	Common shares	Total
Balance - December 31, 2019 and 2020	63,333,238	$ 852,379	$ 852,379

On November 12, 2020, the Board of Directors approved the new Omnibus Incentive Plan (the "Incentive Plan"). This plan supersedes the former Incentive Plans ("Legacy Plan") that included Options, Performance Share Units ("PSU") and Restricted Share Units ("RSU"). All employees and consultants are eligible to participate in the Incentive Plan. The Incentive Plan consists of stock options, RSU and PSU. Awards of RSU and PSU granted during a service year will be subject to a three year service period. The aggregate number of Shares that may be issued under the Incentive Plan is 1.8 million provided that no more than 1.2 million Shares may be issued in aggregate pursuant to the settlement of RSUs and PSUs. Options that were issued under the Legacy Plan and cancelled subsequent to the approval of the Incentive Plan will be available to be issued under the Incentive Plan. The base Share equivalents granted as RSU and PSU awards attract compounding notional dividends at the same rate as outstanding Shares, which are notionally re-invested as additional base Share equivalents. PSU and RSU awards may be settled in Shares issued from treasury, cash, or a mix of Shares and cash, at Cineplex's option at the time of settlement. Cineplex has determined that the 2020 award will be settled in Shares, and as a result are accounted for as equity-settled. Awards outstanding under prior plans shall remain in full force and effect under the prior plans according to their respective terms. Under the prior plans, the effects of changes in estimates of performance results are recognized in the year of change. As at December 31, 2020, 2.1 million Shares are available to be issued under the Incentive Plan.

Incentive Plan costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. Forfeitures are estimated at $nil.

Stock options issued under the Incentive Plan will be administered by the Board of Directors who will establish the exercise price at the time each option is granted, which in all cases will not be less than the market price on the grant date. All of the options must be exercised over specified periods not to exceed ten years from the date granted.

Options issued under the Incentive Plan may be exercised for cash or on a cash less basis, both of which result in the issuance of Shares from treasury. Options will be accounted for as equity-settled.

A summary of option activities for the year ended December 31, 2020 and 2019 is as follows:

	2020			2019	
	Weighted average remaining contractual life (years)	Number of underlying Shares	Weighted average exercise price	Number of underlying Shares	Weighted average exercise price
Options outstanding - January 1	6.67	3,123,521	$ 38.62	2,433,589	42.84
Granted		725,758	8.25	757,639	25.05
Cancelled		(1,408,439)	44.74	—	
Forfeited		(398,821)	29.64	(67,707)	38.51
Options outstanding – end of period	7.64	2,042,019	$ 25.37	3,123,521	$ 38.62

Until December 15, 2019, the options could only be equity-settled, and were accounted for as equity, not liabilities. Upon cashless exercises, the options exercised in excess of Shares issued were cancelled and returned to the pool available for future grants. The expense amount for options was determined at the time of their issuance, recognized over the vesting period of the options. Effective December 15, 2019, as a result of the terms of the Arrangement Agreement, the options were considered cash-settled, and the fair value of the options outstanding in excess of their respective exercise price was recognized as a current share-based compensation liability, and changes in value were reflected in the statement of operations. With the Termination Notice delivered by Cineworld on June 12, 2020 to terminate the Arrangement Agreement, the options were revalued and accounted for as equity-settled, with expected lives of the lesser of four years and their contractual lives. The value of vested options at March 31, 2020 of $3,944 was reclassified from liability to contributed surplus. Unvested options will be recognized over their remaining vesting periods at the value determined at March 31, 2020. Forfeitures are estimated at nil, based on historical forfeiture rates.

Cineplex recorded $1.2 million of employee benefits recovery with respect to the options during the year ended December 31, 2020 (2019 - $2.5 million). At December 31, 2020, $nil associated with the options is reflected in current share-based compensation liability on the consolidated balance sheets (2019 - $6.3 million). The intrinsic value of vested share options at December 31, 2020 is $nil (2019 - $0.6 million, based on the purchase price of $9.27 per share (2019 - $34.00). Cineplex undertook a one-time voluntary stock option cancellation program in December 2020 under which qualified holders of outstanding options granted from 2012 to 2017 were given the opportunity to cancel their options in exchange for a market value payment. In December, 1.3 million options were cancelled for aggregate proceeds of $0.5 million.

9.1 CONVERTIBLE DEBENTURES

During the third quarter of 2020, Cineplex issued a $316.3 million principal amount of convertible unsecured subordinated debentures, maturing on September 30, 2025 (the “Maturity Date”) and bearing interest at a rate of 5.75% per annum, payable semi-annually in arrears on September 30 and March 31 in each year, commencing on September 30, 2020. At the holder’s option, the Debentures may be converted into Shares at a conversion price of $10.94 per Share at any time prior to the close of business on the earlier of: (i) five business days prior to the Maturity Date, and (ii) if called for redemption, five business days immediately preceding the dated fixed for redemption of the Debentures, at a conversion price to be determined at the time of pricing. Holders who convert their Debentures into Shares will receive accrued and unpaid interest for the period from the date of the latest Interest Payment Date to the date of conversion.

The Debentures are direct, unsecured subordinated obligations of Cineplex, subordinated to any senior indebtedness of Cineplex and ranking equally with one another and with all other existing and future unsecured subordinated indebtedness of Cineplex.

The Debentures will not be redeemable by Cineplex prior to September 30, 2023. On or after September 30, 2023 and prior to September 30, 2024, Cineplex may, at its option, redeem the Debentures in whole or in part from time to time provided that the volume weighted average trading price of the Share on the Toronto Stock Exchange during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after September 30, 2024, the 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. Redemption may in cash or in the form of Shares, at the option of Cineplex.

At the holder's option, the Debentures may be converted into shares at a conversion price of $10.94 per share at any time prior to the close of business on the earlier of: (i) five business days prior to the Maturity Date, and (ii) if called for redemption, five business days immediately preceding the dated fixed for redemption of the Debentures, at a conversion price to be determined at the time of pricing. Holders who convert their Debentures into shares will receive accrued and unpaid interest for the period from the date of the latest interest payment date to the date of conversion.

The fair value of the liability component of the Debentures was assessed at inception based on an estimated market discount rate of 14.1% less the pro-rata portion of transaction costs, and will be accreted to the full face value over the term of the debenture. Cineplex recorded accretion on Debentures of $7.5 million. Accretion on Debentures is included as part of the interest expense on the consolidated statement of operations. The residual value was allocated to the equity component less the pro-rata portion of transaction costs as prescribed by IFRS 9, *Financial Instruments*.

10. 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 as dependent on Hollywood 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 subject to restrictions under the Credit Facilities including liquidity covenants set forth in the Credit Facilities (as amended, see Section 16, Subsequent Events), which had $456.0 million drawn and $153.8 million available subject to the Credit Facilities (see Section 16, Subsequent events) as of December 31, 2020. In response to the impact of the COVID-19 pandemic, Cineplex is closely monitoring its liquidity. Details with respect to its ongoing measures are detailed in Section 1.1 Response to COVID-19.

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

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2 Restated	Q1 Restated
Revenues								
Box office revenues	**$ 7,260**	$ 14,531	$ 27	$111,002	$181,789	$177,865	$189,371	$156,496
Food service revenues	**10,543**	15,468	3,256	79,365	125,159	125,550	129,563	103,058
Media revenues	**12,496**	12,825	7,880	32,157	69,545	43,308	49,196	34,706
Amusement revenues	**13,597**	13,236	3,731	47,337	53,471	58,143	58,117	58,500
Other revenues	**8,556**	4,962	7,094	12,940	13,256	13,582	12,608	11,864
	52,452	61,022	21,988	282,801	443,220	418,448	438,855	364,624
Expenses								
Film cost	**3,151**	7,261	10	56,500	93,925	93,735	103,005	78,721
Cost of food service	**3,989**	3,680	789	22,209	27,701	27,439	28,247	23,436
Depreciation - right-of-use assets	**28,136**	30,539	34,185	35,533	36,471	36,456	36,557	36,462
Depreciation and amortization - other	**28,750**	30,375	31,759	33,962	33,135	31,712	32,403	31,633
(Gain) loss on disposal of assets	**(283)**	(14,113)	478	817	868	303	116	477
Other costs	**77,213**	78,754	62,175	157,548	214,922	190,955	192,988	183,828
Impairment of long-lived assets and goodwill	**56,175**	65,634	—	173,054	—	—	—	—
	197,131	202,130	129,396	479,623	407,022	380,600	393,316	354,557
(Loss) income from continuing operations	**$(144,679)**	$(141,108)	$(107,408)	$(196,822)	$ 36,198	$ 37,848	$ 45,539	$ 10,067
Adjusted EBITDA (i)	**$(32,097)**	$(28,928)	$(41,313)	$ 46,472	$106,529	$106,132	$114,383	$ 78,742
Adjusted EBITDAaL (i) (ii)	**$(65,948)**	$(46,725)	$(72,532)	$ 2,390	$ 62,327	$ 62,312	$ 70,255	$ 35,652
Net (loss) income from continuing operations	$(230,403)	$(121,209)	$(98,234)	$(174,155)	$ 4,668	$ 15,100	$ 22,077	$ (5,329)
Net loss from discontinued operations	—	—	(693)	(4,259)	(1,196)	(1,718)	(2,680)	(2,031)
Net (loss) income	$(230,403)	$(121,209)	$(98,927)	$(178,414)	$ 3,472	$ 13,382	$ 19,397	$ (7,360)
EPS - basic and diluted from continuing operations	**$ (3.64)**	$ (1.91)	$ (1.55)	$ (2.75)	$ 0.08	$ 0.24	$ 0.35	$ (0.09)
EPS - basic and diluted from discontinued operations	—	—	(0.01)	(0.07)	(0.02)	(0.03)	(0.04)	(0.03)
EPS - basic and diluted	**$ (3.64)**	$ (1.91)	$ (1.56)	$ (2.82)	$ 0.06	$ 0.21	$ 0.31	$ (0.12)
Cash (used in) provided by operating activities (ii)	**$(61,041)**	$(86,558)	$ 18,095	$ 23,190	$124,133	$ 77,760	$ 58,346	$ 61,426
Cash provided by (used in) investing activities (ii)	**50,492**	11,384	(8,947)	(26,219)	(46,443)	(25,791)	(24,851)	(27,768)
Cash provided by (used in) financing activities	**12,977**	74,252	(2,793)	(12,819)	(84,850)	(52,336)	(24,447)	(34,277)
Effect of exchange rate differences on cash	**650**	292	560	(950)	345	(158)	235	61
Net change in cash	**$ 3,078**	$ (630)	$ 6,915	$(16,798)	$ (6,815)	$ (525)	$ 9,283	$ (558)
Cash flows used in discontinued operations	**$ —**	$ —	$ (253)	$ (2,138)	$ 2,821	$ (1,441)	$ (1,120)	$ (807)
BPP (i)	**$ 9.23**	$ 9.30	$ 4.50	$ 10.36	$ 10.79	$ 10.16	$ 11.13	$ 10.44
CPP (i)	**$ 9.06**	$ 7.37	$ 10.33	$ 6.79	$ 6.81	$ 6.68	$ 7.04	$ 6.35
Film cost percentage (i)	**43.4 %**	50.0 %	37.0 %	50.9 %	51.7 %	52.7 %	54.4 %	50.3 %
Theatre attendance (in thousands of patrons) (i)	**786**	1,563	6	10,710	16,849	17,512	17,011	14,988
Theatre locations (at period end)	**162**	164	164	164	165	165	165	165
Theatre screens (at period end)	**1,667**	1,687	1,687	1,687	1,693	1,695	1,695	1,692

(i) See section 18, Non-GAAP measures.

(ii) Prior period figures have been revised to current period presentation. See Section 19, Reconciliation for further details.

Summary of adjusted free cash flow by quarter

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

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2 Restated	Q1 Restated
Cash (used in) provided by operating activities (i)	**$ (61,041)**	$ (86,558)	$ 18,095	$ 23,190	$ 124,133	$ 77,760	$ 58,346	$ 61,426
Less: Total capital expenditures net of proceeds on sale of assets	**(10,099)**	(11,418)	(14,391)	(37,503)	(51,448)	(34,905)	(27,653)	(32,361)
Standardized free cash flow	**(71,140)**	(97,976)	3,704	(14,313)	72,685	42,855	30,693	29,065
Add/(Less):								
Changes in operating assets and liabilities	**67,257**	34,894	(69,401)	10,428	(40,670)	3,666	30,432	(2,155)
Changes in operating assets and liabilities of joint ventures	**(2,699)**	372	(986)	(1,156)	(131)	(411)	(240)	1,317
Principal component of lease obligations	**(32,323)**	(24,811)	(993)	(33,819)	(32,352)	(31,836)	(31,580)	(32,484)
Principal portion of cash rent paid not pertaining to current period	**(357)**	(357)	(357)	1,071	(346)	(345)	(346)	1,037
Growth capital expenditures and other	**8,928**	10,801	13,777	34,526	37,202	30,580	19,190	27,693
Share of income of joint ventures, net of non-cash depreciation	**(196)**	(255)	(331)	(73)	(147)	(189)	(238)	92
Non-controlling interests	**—**	—	4	1	4	2	7	11
Net cash received from CDCP	**—**	—	782	3,128	2,882	3,910	3,128	5,474
Adjusted free cash flow	**$ (30,530)**	$ (77,332)	$ (53,801)	$ (207)	$ 39,127	$ 48,232	$ 51,046	$ 30,050
Average number of Shares outstanding	**63,333,238**	63,333,238	63,333,238	63,333,238	63,333,238	63,333,238	63,333,238	63,333,238
Adjusted free cash flow per Share	**$ (0.482)**	$ (1.221)	$ (0.849)	$ (0.003)	$ 0.618	$ 0.762	$ 0.806	$ 0.474

(i) Prior period figures have been revised to conform to current period presentation. See Section 19, Reconciliation for further details.

11. RELATED PARTY TRANSACTIONS

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

The Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan") served as a member of the Board until May 5, 2020. Prior to his departure, Cineplex incurred theatre expenditures for theatres under lease commitments with Riocan in the amount of $20.2 million (2019 - $43.0 million).

12. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

Cineplex makes estimates and assumptions concerning the future that may not equal actual results. The following are the estimates and judgments applied by management that most significantly impact Cineplex's consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Goodwill - recoverable amount

Cineplex tests at least annually whether goodwill suffered any impairment. Management makes key assumptions and estimates in determining the recoverable amount of groups of cash generating units' goodwill, including future cash flows based on historical and budgeted operating results, growth rates, tax rates and appropriate after-tax discount rates.

Financial instruments - fair value of over-the-counter derivatives

Cineplex's over-the-counter derivatives include interest rate swaps used to economically hedge exposure to variable cash flows associated with interest payments on Cineplex's borrowings. Management estimates the fair values of these derivatives as the present value of expected future cash flows to be received or paid, based on available market data, which includes market yields and counter-party credit spreads.

Revenue recognition - gift cards

Management estimates the value of gift cards that are not expected to be redeemed by customers, based on the terms of the gift cards and historical redemption patterns, including industry data. The estimates are reviewed annually, or when evidence indicates the existing estimate is not valid.

Income taxes

The timing of reversal of timing differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income tax asset. Management estimates the reversals and income allocation based on historical and budgeted operating results and income tax laws existing at the consolidated balance sheet dates. In addition, management occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

Fair value of identifiable assets acquired and liabilities assumed in business combinations

Significant judgment is required in the identifying of tangible and intangible assets and liabilities of the acquired businesses, as well as determining their fair values.

Share-based compensation

Management is required to make certain assumptions and to estimate future financial performance to estimate the fair value of Share-based awards at each consolidated balance sheet date. The LTIP and Incentive Plan requires management to estimate future non-GAAP earnings measures, future revenue growth relative to specified industry peers, and total shareholder return, both absolutely and relative to specified industry peers. Future non-GAAP earnings are estimated based on current projections, updated at least annually, taking into account actual performance since the grant of the award. Future revenue growth relative to peers is based on historical performance and current projections, updated at least annually for actual performance since the grant of the award by Cineplex and its peers. Total shareholder return for Cineplex and its peers is updated at each consolidated balance sheet date based on financial models, taking into account financial market observable inputs.

Lease terms

Some leases of property contain extension options exercisable by Cineplex up to one year before the end of the non-cancellable contract period. Where practicable, Cineplex seeks to include extension options in new leases to provide operational flexibility. In determining the lease term, Cineplex considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed upon a trigger by a significant event or a significant change in circumstances.

13. ACCOUNTING POLICIES

ACCOUNTING STANDARDS APPLIED OR ADOPTED IN THE CURRENT YEAR

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

Accounting for Government Subsidies

Cineplex recorded, presented, and disclosed the government subsidies received in Canada and the United States in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. During the year ended December 31, 2020, Cineplex recorded subsidies in the amount of $61.9 million which have been offset in other costs.

ACCOUNTING STANDARDS

IFRS 16, Leases ("IFRS 16") - Amendment

In May 2020, the IASB issued an amendment to IFRS 16, which added a practical expedient to provide relief for lessees from lease modification accounting for rent concessions related to COVID-19. The practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. In order to apply the practical expedient, all of the following conditions must be met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- the rent concession is for relief for payments that were originally due on or before June 30, 2021. Any subsequent rental increases of amounts deferred can extend beyond June 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

The practical expedient relieve lessees from assessing whether rent concessions are lease modifications and applying the lease modification requirements to those concessions. A lessee applying the practical expedient would generally account for forgiveness or waiver of lease payments as a variable lease payment which is recognized on the Statement of Operations as a gain or loss with a corresponding adjustment to derecognize the portion of lease liability which has been waived or forgiven. Lease payments that are deferred to other periods would result in a re-measurement of the lease obligation using the original incremental borrowing rate with any difference related to the change in timing of payments being recognized in gain or loss. Rent concessions can also incorporate both a forgiveness or waiver of payments and a change in the timing of payments.

Cineplex will not apply the practical expedient to lease concessions.

Accounting standards issued but not yet applied

Management of Cineplex reviews all changes to 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:

IAS 1 Presentation of Financial Statements - Amendment

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current*, which amended IAS 1 *Presentation of Financial Statements* and clarified how to classify debt and other financial liabilities as current or non-current in particular circumstances. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

Under the new amendment, an entity shall classify a liability as current when: (a) it expects to settle the liability in its normal operating cycle: (b) it holds the liability primarily for the purpose of trading; (c) the liability is due to be settled within twelve months after the reporting period; or (d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

If Cineplex were to early adopt the amendment to IAS 1, the application would result in the long-term debt being classified as current in the December 31, 2020 balance sheet due to the projected covenant breaches.

14. 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".

Impact of COVID-19 on the Business, Financial Condition and Results of Operations of Cineplex

The outbreak of the COVID-19 pandemic has had an unprecedented impact on all of Cineplex's business segments. As an entertainment company that operates in spaces where guests gather in close proximity, including theatres and LBE venues, Cineplex has been significantly impacted by the actions taken to control the spread of COVID-19. On March 16, 2020, Cineplex announced the temporary closure of all of its theatres and LBE venues across Canada, as well as substantially all route locations operated by P1AG. On April 1, 2020, in response to applicable government directives and guidance from Canadian public health authorities, Cineplex announced that the closure of its theatres and LBE venues across Canada would remain in effect and that the reopening of such locations would be reassessed as further guidance is provided by Canadian public health authorities and applicable government authorities. Although Cineplex has been able to temporarily open some locations since March 2020, the second wave of COVID-19 infections in the fall and winter of 2020/2021 has resulted in another round of government mandated closures in select markets, many of which remain in force at the date of this MD&A with no clear date for reopening.

The impact of the COVID-19 pandemic cannot be quantified at this time because of the significant uncertainty around the timing of the reductions of government imposed restrictions and mandated closures of non-essential businesses, and the potential long-term effects that COVID-19 may have on Cineplex's exhibition and amusement and leisure businesses. Cineplex cannot predict when restrictions will be lifted or how quickly (a) its businesses will be permitted to resume operations and (b) guests will return to its locations once operations have resumed, which may be a function of (i) continued safety and health concerns, (ii) additional regulatory requirements limiting Cineplex's seating capacity, and/or (iii) depressed consumer sentiment due to adverse economic conditions, including job losses, among other things. If Cineplex does not respond appropriately to the pandemic, or if guests do not perceive its response to be adequate, Cineplex could suffer damage to its reputation, which could adversely affect its business.

Additional significant impacts on Cineplex's business caused by the COVID-19 pandemic include, and are likely to continue to include, among others:

- lack of availability of films in the short or long-term, including as a result of (i) continued delay in film releases; (ii) release of scheduled films on alternative channels, (iii) disruptions or suspensions of film production, or (iv) the reduction or elimination of the theatrical exclusive release window including the introduction of a Premium Video On Demand ("PVOD") window and direct to streaming services releases;
- increased operating costs resulting from additional regulatory requirements enacted in response to the COVID-19 pandemic and from precautionary measures it voluntarily takes at Cineplex's locations for the health and well being of its guests and employees;
- challenges maintaining relationships with its business partners, including its landlords, suppliers and motion picture distributors as a result of its business closures during the COVID-19 pandemic;
- unavailability of employees and/or their inability or unwillingness to conduct work under revised work environment protocols;
- increased risks related to employee matters, including increased employment litigation and claims relating to terminations or leaves of absence caused by the suspension of operations;
- reductions and delays associated with planned operating and capital expenditures;
- Cineplex's inability to generate significant cash flow from operations if Cineplex's theatres continue to operate at significantly lower than historical levels, which could, in the long-term, lead to a substantial increase in indebtedness and may negatively impact Cineplex's ability to comply with the financial covenants in the Credit Facilities;
- Cineplex's inability to access lending, capital markets and other sources of liquidity, if needed, on reasonable terms, or at all, or obtain amendments, extensions and waivers of financial maintenance or other material terms;
- Cineplex's inability to effectively meet short-term and long-term obligations which it does not have the ability to eliminate or reduce (including interest payments, taxes, critical maintenance capital expenditures and compensation and benefits payments); and
- Cineplex's inability to service its existing and future indebtedness.

The longer and more severe the COVID-19 pandemic is, including new outbreaks in the future, the more significant the effects will be on Cineplex's business, financial conditions and results of operations. Even when the COVID-19 pandemic subsides, Cineplex cannot guarantee that it will recover as rapidly as other industries, or as other operators within the movie exhibition industry, due to its strong footprint in densely populated areas. Further, if Canada experiences additional outbreaks of COVID-19, Cineplex may elect on a voluntary basis to again close (after reopening) certain of its theatres and LBE venues or governmental officials may order additional closures, impose further restrictions on travel or introduce social distancing measures such as limiting the number of people allowed in a theatre or other venue at any given time.

While Cineplex has eliminated certain variable costs and reduce fixed costs to the extent possible, Cineplex continues to incur significant expenses, including interest payments, taxes, critical maintenance capital expenditures, occupancy costs, and compensation and benefits payments. Cineplex cannot be certain that it will have access to sufficient liquidity to meet its obligations for the time required to allow its operations to resume or normalize. The net cash burn experienced by the Company in the second, third and fourth quarters of 2020 may not be sustainable at its current levels and may worsen in the future. Further, Cineplex may not be able to obtain additional liquidity and any relief provided by lenders, governmental agencies, and business partners may not be adequate or may include onerous terms.

Cineplex continues to actively monitor all aspects of its business and operations in order to minimize the impact of COVID-19 on its operations wherever possible. However, the outbreak of COVID-19 has caused significant disruptions to Cineplex's ability to generate profitability and cash flows. Cineplex expects the ongoing COVID-19 pandemic and the events and circumstances resulting from the COVID-19 pandemic to have a material negative impact on its business, financial condition and results of operations into 2021.

Litigation Arising Out of the Termination of the Cineworld Transaction

Cineplex has commenced an action against Cineworld as a result of Cineworld's repudiation of the Arrangement Agreement. Cineworld has filed a counterclaim against Cineplex for an unspecified amount of costs that it incurred as a result of Cineplex's alleged breaches of the Arrangement Agreement. See Section 1.1 Recent Developments. While Cineplex denies Cineworld's allegations and believes that Cineworld (a) had no legal basis to terminate the Arrangement Agreement, and (b) breached the Arrangement Agreement and its other contractual obligations, the outcome of such litigation cannot be predicted with certainty. Cineplex will incur additional expenses in connection with these matters, and there can be no assurance that it will be successful in obtaining any financial remedy. Even if Cineplex's action against Cineworld is successful, Cineworld may not have the ability to pay the full amount of any damages awarded. As well, the litigation proceedings could take away from management's time and effort, which could be otherwise spent on running Cineplex's business. There can be no assurance that the proceedings, and associated costs, will not have a material adverse impact on Cineplex's financial performance, cash flow and results of operations.

General Economic Conditions

Entertainment companies compete for guests' entertainment time and 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. However, COVID-19 has significantly increased economic uncertainty, which could lead to a long lasting recession in Canada, which will further adversely affect Cineplex's business, and such adverse effects may be material. Cineplex has never previously experienced a sustained complete halt of its operations across Canada, and as a result, its ability to predict the impact of such a halt on its operations and future prospects is uncertain.

Negative Cash Flow from Operations

Cineplex reported negative cash flow from operations for the year ended December 31, 2020 due to the impact of the COVID-19 pandemic. There can be no assurance that Cineplex will generate sufficient revenues to achieve or maintain profitability or positive cash flow from operations in the future. If Cineplex does not achieve or maintain profitability or positive cash flow from operating activities, then there could be a material adverse effect on Cineplex's business, financial condition and results of operation.

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.

Upon reopening its theatres and location-based entertainment venues following the closures resulting from COVID-19, there is a risk that locations operate at significantly lower levels than prior to the COVID-19 pandemic and as a result this may negatively impact the ability of Cineplex to meet its financial covenants, access debt or equity capital markets for sources of additional liquidity on reasonable terms, and meet its short and long-term obligations.

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 a 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, ScreenX, Cineplex Clubhouse and D-BOX seating. Cineplex also includes XSCAPE Entertainment Centres in select theatres and provides alternative programming which appeals to specific demographic groups. In addition, 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 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.

Even when government restrictions are lifted as the number of COVID-19 cases subside, it is unclear how quickly customers will return to Cineplex's theatres and location-based entertainment venues, which may be a function of continued concerns over safety and social distancing and/or depressed consumer sentiment due to adverse economic conditions. Even once theatres resume operations, a single outbreak of COVID-19 in a theatre could result in additional costs and further closures. If Cineplex does not respond appropriately to the COVID-19 pandemic, or if customers do not perceive its response to be adequate, Cineplex could suffer damage to its reputation, which could significantly adversely affect its business, financial condition and results of operations.

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 TVoD 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 have signed contracts of finite lengths or that 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, delay the timing of contract fulfillment or curtail spending due to economic conditions, 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 or delay 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.

The impact of COVID-19 has led to less film productions by studios, delayed film releases, further reductions to the theatrical release window and redirection of a limited number of theatrical releases to streaming services. There is a risk that there will be less film content available on the reopening of theatres to entice customers to return to theatres at historical levels.

Cineplex box office revenues depend upon movie production and its relationships with film distributors, including a number of major Hollywood and Canadian distributors. In 2019, seven major film distributors accounted for approximately 86% 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, and Blu-rays, as well as TVoD, subscription video on demand ("SVOD") and other over the top operators via the Internet. The release date of a film in other channels of distribution such as over the top internet streaming, pay television 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 recent pilots by certain studios with 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. Cineplex also fosters strong ties with the real estate and development communities 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 and in-theatre at select Cineplex locations and location-based entertainment including *The Rec Room* and *Playdium*. 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.

The majority of Cineplex's advertising revenue is earned at Cineplex theatres. There is a risk of decreased attendance at theatres once they reopen as a result of continued safety and health concerns and depressed consumer sentiment due to adverse economic conditions, arising from the impact of COVID-19 pandemic. This could result in media customers electing to reduce their spending in cinemas and advertise through alternative channels.

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 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.

Due to the outbreak of the COVID-19 pandemic, there is a risk of a permanent decrease in guests and corporate events frequenting LBE locations upon reopening. Cineplex's LBE venues have a larger guest-facing footprint and higher levels of customer traffic than other concepts in the dining and entertainment industry. The effects of the COVID-19 pandemic as a result of continued concerns over safety and social distancing and/or depressed consumer

sentiment due to adverse economic conditions could have an adverse effect on Cineplex's business, financial conditional and results of operations.

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. A material amount of P1AG's revenue is dependent on the customer traffic in venues in which they operate. The COVID-19 pandemic in North America resulted in the closure of venues in which P1AG operates gaming equipment. There is a risk that these venues will have decreased customer traffic once shutdowns are lifted or may permanently shut down. Any reduction in traffic or permanent shutdown of venues 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, ScreenX 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 TVOD 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 TVOD 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 TVOD 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. Currently, as the majority of Cineplex's corporate employees have moved to a work-from-home platform, there is an increased risk to Cineplex's technology systems, In response, Cineplex has implemented additional security measures, including training, monitoring and testing and contingency plans, to protect systems.

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, computer viruses, malware, phishing, denial of service attacks, unauthorized access to confidential, proprietary or sensitive information, industrial espionage 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. Furthermore, due to the outbreak of the COVID-19 pandemic, Cineplex continued its negotiations with landlord partners with respect to reductions in rent payments for current and future periods. While Cineplex works hard to maintain positive relationships with its landlords, we cannot guarantee continued reductions in future rent payments and there exists a potential for a default on existing lease obligations should the pandemic continue.

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.

The economic impacts of COVID-19 may have negative impact on Cineplex's suppliers and as a result its suppliers may not be able to sustain operations after the pandemic. A reduction in the number of suppliers or the loss of critical suppliers may result in increased costs, or the inability to find satisfactory replacement goods and services in the short or long-term.

Human Resources Risk

The success of Cineplex depends upon the retention of senior executive management, including its Chief Executive Officer, 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 typically employs approximately 10,000 people, of whom approximately 80% 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 works to expand automation, take advantage of technological efficiencies and continually reviews 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.

As a result of the government mandated closures, due to the impact of the COVID-19 pandemic, Cineplex temporarily laid off all part-time staff members. There is a risk upon reopening, Cineplex may not be able to rehire enough staff to sustain operations due to their unavailability, inability or unwillingness to rejoin the workforce.

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. Cineplex will investigate further methods in order to keep guests and employees safe at both locations and corporate offices.

There is a significant risk that concerns over health and safety as a result of COVID-19 will be long lasting and will have an adverse impact on the business of Cineplex. In order to help mitigate these risks, Cineplex has made

changes to its operations to enable social distancing, as well as increasing safety measures by reducing capacity, promoting cashless transactions where possible and by cleaning and disinfecting surfaces on a regular basis.

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. Severe weather incidents (as a result of environmental changes or otherwise) have potential to negatively impact Cineplex's operation. See "Business Continuity Risk" above.

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 and $300 million of the Revolving 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.

As a result of COVID-19, Cineplex may not have sufficient funds available under its current financing sources to fund operations on a short and/or long-term basis. The effects of COVID-19 on the financial markets could significantly impact the ability of Cineplex to raise capital and could increase the cost of borrowing. There is a risk that Cineplex may not be able to find timely sources of financing, which could have an adverse effect on its business, financial condition and results of operations.

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 and digital place-based media all operate in the United States and which represent 13.4% of Cineplex's revenues. These revenues are naturally hedged by Cineplex's US-based operating costs.

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 7.4, 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 disputes. 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.

15. CONTROLS AND PROCEDURES

15.1 DISCLOSURE CONTROLS AND PROCEDURES

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

Management has evaluated the design and operation of Cineplex's disclosure controls and procedures as of December 31, 2020 and has concluded that such disclosure controls and procedures are effective.

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of Cineplex is responsible for designing and evaluating the effectiveness of internal controls over financial reporting for Cineplex as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting 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.

Management has used the Internal Control - Integrated Framework: 2013 to evaluate the effectiveness of internal controls over financial reporting, which is a recognized and suitable framework developed by COSO.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management has evaluated the design and operation of Cineplex's internal controls over financial reporting as of December 31, 2020, and has concluded that such controls over financial reporting are effective. There are no material weaknesses that have been identified by management in this regard.

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

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2020, Cineplex completed a sale and leaseback transaction for its head office buildings located at 1303 Yonge Street and 1257 Yonge Street, Toronto, Ontario for gross proceeds of $57.0 million. Fifty percent of the net proceeds were used to permanently reduce Cineplex's Revolving Credit Facilities to $591.7 million.

In January 2021, 165,146 stock options were cancelled as part Cineplex's voluntary stock option cancellation program for payment of $59 thousand. The cancelled stock options were returned to the pool available for future grants under the Incentive Plan.

On February 8, 2021, Cineplex and Cineplex Entertainment Limited Partnership entered into the Third Credit Agreement Amendment with The Bank of Nova Scotia providing Cineplex with certain financial covenant relief in light of the COVID-19 pandemic and its effects on Cineplex's business.

The following is a summary of the key terms of the Third Credit Agreement Amendment that are updated from the First and Second Credit Agreement Amendments.

- Allow the issuance by Cineplex of second lien secured notes (the "Second Lien Notes") with the following terms:
  - a minimum of $200 million and a maximum of $250 million of notes may be issued on or prior to March 31, 2021;
  - tenor of at least five years;
  - secured second lien ranking, subordinate to the security granted for the obligations under the Credit Facilities, and shall be subject to the terms of an intercreditor agreement that incorporates certain agreed intercreditor principles and otherwise in form and substance satisfactory to the agent under to the Credit Facilities; and
  - mandatory repayment of the Credit Facilities from the issuance of Second Lien Notes, $100 million of which would constitute a permanent reduction.

- The following amendments to the Credit Facilities would become effective upon the completion of the issuance of at least $200 million of Notes on or prior to March 31, 2021:
  - The suspension of financial covenant testing would be extended until the fourth quarter of 2021. On resumption of financial covenant testing in the fourth quarter of 2021, testing will be based on an annualized calculation of Adjusted EBITDA (as further adjusted per Credit Agreement definitions) for the fourth quarter of 2021 and immediately following two fiscal quarters, and thereafter on a trailing four fiscal quarter period;
  - The Total Leverage Ratio of 3.75x will apply when financial covenants are reinstated, and will be reduced until the third quarter of 2022 at which point it will reach a level of 3.00x;
  - The liquidity covenant would continue and be amended and extended beginning in February 2021, through to and including December 2021, requiring available liquidity as defined on a monthly basis (November 1, 2020 through January 31, 2021 - $100.0 million; February 2021 - $75.0 million; March 2021 - $60.0 million; April 1, 2021 through December 31, 2020 - $100.0 million;
  - The addition of a Senior Leverage Ratio to be based on annualized Adjusted EBITDA and set at 1.0x lower than the Total Leverage Ratio. Senior Leverage Ratio to be defined as (i) Total Debt less any Second Lien Notes to (ii) Adjusted EBITDA.
  - Effective with the fourth quarter of 2021, additional growth capital expenditures will be subject to pro-forma leverage covenant of 2.75x (both prior to and immediately after giving effect to any such growth capital expenditure) based on actual last twelve month EBITDA; and
  - Distributions continue to be blocked during the extended financial covenant suspension period and only permitted when the total leverage ratio is less than 2.75x (both prior to and immediately after giving effect to any such distribution).

On February 8, 2021, Cineplex announced that it has entered into an engagement letter with BMO Capital Markets and Scotiabank in connection with a proposed private placement offering (the "Note Offering") of second lien secured notes (the "Notes"), subject to market and other conditions, Cineplex intends to use the net proceeds from

the proposed Note Offering, if completed, to repay indebtedness under its Credit Facilities, in accordance with the terms of the Third Amendment.

17. OUTLOOK

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

The outlook for Cineplex's businesses is contingent on its ability to navigate the current and future impact of COVID-19 on its businesses.

On March 16, 2020, Cineplex temporarily closed all of its theatres and LBE locations and substantially all of its route locations throughout North America in response to the COVID-19 pandemic. Cineplex's related businesses, including its media business, continue to experience the fallout of the closure of significant portions of the global economy.

Since the closure of its theatres and LBE venues in March 2020, Cineplex diligently prepared for their safe reopening, with the health and well being of its employees and guests being its top priority. Cineplex has carefully re-examined all of its buildings and processes, so that when its theatres and LBE venues reopened, it has implemented an industry-leading program with end-to-end health and safety protocols. At Cineplex's theatres specifically, it has also launched reserved seating in all auditoriums across the country to ensure proper physical distancing between its guests.

Cineplex has been able to maintain connections with its guests during the period of theatre and LBE venue closures through its online Cineplex Store and home delivery of food offerings via Uber Eats and Skip the Dishes, as well as through the SCENE loyalty program and social media channels. Cineplex will use these communication channels to ensure that its guests are made aware of when its theatres and LBE venues will reopen, and the various measures put in place to ensure their safety while enjoying a long-deserved outing.

Cineplex gradually reopened theatre and LBE locations throughout July and August as government mandated closures were reduced in markets in which Cineplex operates. On August 21, 2020, Cineplex became the first of all the major film exhibitors in the world to reopen its entire circuit of theatres with all 164 Cineplex theatres and 1,687 screens across Canada were reopened, including 22 VIP Cinemas locations, as well as 10 location-based entertainment venues. Although restrictions on social gatherings were partially lifted in many of the markets in which Cineplex operated during the third quarter, social gathering restrictions were reinstituted in the fourth quarter with the increased number of COVID-19 cases throughout the country. The second wave of COVID-19 cases during the fall and winter months resulted in several provinces across Canada implementing mandatory lockdown measures which have resulted in prolonged mandatory theatre closures and operating restrictions on the LBE businesses.

In December 2020, Health Canada approved and authorized the Pfizer-BioNTech and Moderna COVID-19 vaccines for use in Canada with the first doses arriving during the holiday season. Canada has begun the inoculation process of Canadians, starting with front line workers and high-risk individuals with plans to start vaccinating the general population during the spring of 2021, and having all Canadians immunized by the fall of 2021. The efficient rollout of vaccines is a significant leap forward to the return of normalcy and end of the COVID-19 pandemic. However, the supply and roll-out of approved vaccines in Canada has been inconsistent to date and there can be no assurance that vaccines will be widely available or distributed as currently anticipated, which would delay a return to normalcy.

Countries around the world have recently updated their scheduled reopening dates for cinemas. Countries that are scheduled to reopen their cinemas in January 2021 include but are not limited to Australia, Greece, Bulgaria and Denmark. Japan had its biggest box office weekend in the country's history during the fourth quarter of 2020 with the exhibition of *Demon Slayer: Mugen Train.* The film exceeded expectations and welcomed over 3.4 million guests and resulting in a record opening box office weekend topping the country's previous record. With the strong slate of upcoming film products, Cineplex remains confident that there will continue to be significant theatrical releases.

Based on how the exhibition industry has historically performed during depressed economic environments, and the results of openings in other countries subsequent to COVID-19 related closures, Cineplex believes, but cannot guarantee, that the industry will recover as consumer demand for the theatrical experience combined with a build-up of anticipated content will help drive visitation as people look to return to normalcy. However, the significance of the COVID-19 pandemic, including the adverse impact on Cineplex's business, financial condition and results of operations will be dictated by the duration of the pandemic and the effect on the economy and of responsive governmental directives, all of which are currently unknown. Cineplex's business could also be significantly negatively impacted by changes in consumer behaviors as a result of COVID-19 (such as social distancing) or further reductions to the theatrical release window. Further, the effect of COVID-19 on financial markets could significantly impact the ability to raise capital and increase the cost of borrowing. There are limitations on the ability of Cineplex to mitigate the adverse financial impact of the foregoing. The COVID-19 pandemic also creates challenges for Cineplex in predicting future performance of its businesses or its liquidity needs in the near term.

FINANCIAL OUTLOOK

Cineplex continues to be negatively impacted by the ongoing COVID-19 pandemic and management focus continues to be on minimizing net cash burn and optimizing liquidity. Since the onset of the COVID-19 pandemic, Cineplex and Cineplex Entertainment Limited Partnership have entered into three amendments to its Credit Facilities, providing Cineplex with certain financial covenant relief in light of the COVID-19 pandemic and its effects on Cineplex's businesses (see Section 6.4 Credit Facilities and Section 16, Subsequent events).

On July 15, 2020, Cineplex completed the offering of the Debentures for gross proceeds of $316.3 million, allowing it to meet the conditions of the First Credit Agreement Amendment and providing additional liquidity for the recovery period. In addition, a restructuring undertaken in July 2020 reduced headcount by approximately 130 positions, resulting in annual saving of approximately $12.0 million in employee costs, approximately half of which relates to corporate overhead functions.

In December 2020, Cineplex entered into an agreement with Scotiabank to enhance and expand the SCENE program receiving $60.0 million with respect to the reorganization. A portion of the proceeds were used to permanently repay the Credit Facilities, and the remaining proceeds are available to be drawn under the Credit Facilities to fund continuing operations.

In January 2021, Cineplex announced the sale of its head office building located at 1257 Yonge Street and 1303 Yonge Street, Toronto, Ontario for total cash proceeds of $57.0 million. Cineplex will continue to use the office building through a sale-leaseback transaction. Cineplex used a portion of the proceeds to permanently repay the Credit Facilities and the remaining proceeds are available to be drawn under the Credit Facilities to fund continuing operations.

On February 8, 2021, Cineplex announced that it has entered into an engagement letter with BMO Capital Markets and Scotiabank in connection with a proposed private placement offering (the "Note Offering") of second lien secured notes (the "Notes"), subject to market and other conditions, Cineplex intends to use the net proceeds from the proposed Note Offering, if completed, to repay indebtedness under its Credit Facilities, in accordance with the terms of the Third Amendment.

Management continues to focus on reducing costs including the elimination of future capital expenditures and the termination of its partnership with Topgolf during the third quarter of 2020. With the issuance of the Debentures, amendments to the Credit Facilities, planned asset sales and income tax recoveries, management believes that it has adequate liquidity to fund operations for the currently anticipated duration of the pandemic.

18. NON-GAAP MEASURES

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

18.1 EBITDA, ADJUSTED EBITDA AND ADJUSTED EBITDAaL

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, (gain) loss on disposal of assets, foreign exchange, impairment of long-lived assets, goodwill and investments, the equity loss (income) of CDCP, the non-controlling interests' share of adjusted EBITDA of TG-CPX Limited Partnership, and depreciation, amortization, interest and taxes of Cineplex's other joint ventures and associates. Adjusted EBITDAaL modifies adjusted EBITDA to deduct current period cash rent paid or payable related to lease obligations net of quantified savings negotiated with landlords as a result of the COVID-19 closures, including savings negotiated after the period end. This includes agreements with landlords that are evidenced by way of written confirmation of the terms agreed upon to the date of approval of the MD&A, and are in the process of being formally documented.

Cineplex's management believes that adjusted EBITDAaL is an important supplemental measure of Cineplex's profitability at an operational level and provides analysts and investors with comparability in evaluating and valuing Cineplex's performance period over period. EBITDA, adjusted for various unusual items, is also used to define certain financial covenants in Cineplex's Credit Facilities. Management calculates adjusted EBITDAaL margin by dividing adjusted EBITDAaL by total revenues.

EBITDA, adjusted EBITDA and adjusted EBITDAaL 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, adjusted EBITDA and adjusted EBITDAaL may differ from similar calculations as reported by other entities and accordingly may not be comparable to EBITDA, adjusted EBITDA or adjusted EBITDAaL as reported by other entities.

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

	Year ended December 31,		
	2020	2019	2018
Net (loss) income from continuing operations	**$ (624,001)**	**$ 36,516**	**$ 85,459**
Depreciation and amortization - other	124,846	128,883	127,423
Depreciation - right-of-use assets	128,393	145,946	—
Interest expense - lease obligations	49,085	48,659	535
Interest expense - other	61,483	36,063	30,155
Interest income	(182)	(252)	(274)
Current income tax (recovery) expense	(73,495)	21,759	28,894
Deferred income tax recovery	(11,373)	(9,990)	(6,580)
EBITDA from continuing operations	**$ (345,244)**	**$ 407,584**	**$ 265,612**
(Gain) loss on disposal of assets	(13,101)	1,764	2,681
CDCP equity loss (income) (i)	7,279	(4,827)	(4,186)
Foreign exchange loss (gain)	57	1,065	(1,981)
Impairment of long-lived assets, goodwill and investments	294,863	—	—
Non-controlling interest adjusted EBITDA	5	24	78
Depreciation and amortization - joint ventures and associates (ii)	73	99	33
Taxes and interest of joint ventures and associates (ii)	202	77	120
Adjusted EBITDA from continuing operations	**$ (55,866)**	**$ 405,786**	**$ 262,357**
Cash rent paid/payable related to lease obligations	(126,949)	(175,240)	—
Rent previously recognized as a finance lease (iii)	—	—	(3,956)
Non-cash rent (v)	—	—	(11,106)
Adjusted EBITDAaL (iv) (vi)	**$ (182,815)**	**$ 230,546**	**$ 247,295**

(i) CDCP equity loss (income) not included in adjusted EBITDA as CDCP is a limited-life financing vehicle that is funded by virtual print fees collected from distributors.

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

(iii) Rent payments that were charged to the finance lease obligations in the previous reporting period.

(iv) See Section 18, Non-GAAP measures.

(v) Prior period figures have been revised to conform to current period presentation.

18.2 ADJUSTED FREE CASH FLOW

Free cash flow measures the amount of cash from operating activities net of capital expenditures available for activities such as repayment of debt, 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):

	Year ended December 31		
	2020	**2019**	**2018 Restated**
Cash (used in) provided by operating activities (i)	$ (106,314)	$ 321,665	$ 198,364
Less: Total capital expenditures net of proceeds on sale of assets	(73,411)	(146,367)	(108,149)
Standardized free cash flow	(179,725)	175,298	90,215
Add/(Less):			
Changes in operating assets and liabilities (ii)	43,178	(8,727)	3,660
Changes in operating assets and liabilities of joint ventures and associates (ii)	(4,469)	535	(609)
Principal component of lease obligations	(91,946)	(128,252)	(3,420)
Growth capital expenditures and other (iii)	68,032	114,665	88,941
Share of income of joint ventures and associates, net of non-cash depreciation (iv)	(855)	(482)	(285)
Non-controlling interests	5	24	78
Net cash received from CDCP (iv)	3,910	15,394	4,266
Adjusted free cash flow	**$ (161,870)**	**$ 168,455**	**$ 182,846**
Average number of Shares outstanding	63,333,238	63,333,238	63,332,159
Adjusted free cash flow per Share	**$ (2.556)**	**$ 2.660**	**$ 2.887**
Dividends declared	**$ 0.150**	**$ 1.780**	**$ 1.720**

(i) Prior period figures have been revised to conform to current period presentation. See Section 19, Reconciliation for further details.

(i) Changes in operating assets and liabilities are not considered a source or use 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 7.4 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 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):

	Year ended December 31,		
	2020	2019	2018 Restated
Net (loss) income from continuing operations	$ (624,001)	$ 36,516	$ 85,459
Adjust for:			
Depreciation and amortization - other	124,846	128,883	127,423
Depreciation - right-of-use assets	128,393	145,946	—
(Gain) loss on disposal of assets	(13,101)	1,764	2,681
Non-cash interest (i)	22,789	12,217	5,080
Non-cash foreign exchange	342	698	(1,231)
Impairment of long-lived assets, goodwill and investments	294,863	—	—
Financing fees in interest expense	—	—	1,718
Share of loss (income) of CDCP (ii)	7,279	(4,827)	(4,186)
Non-controlling interests	5	24	78
Non-cash depreciation of joint ventures and associates	73	99	33
Deferred income tax recovery	(11,373)	(9,990)	(6,580)
Taxes and interest of joint ventures and associates	202	77	120
Maintenance capital expenditures	(5,379)	(31,702)	(19,207)
Principal component of finance lease obligations	(91,946)	(128,252)	(3,420)
Net cash received from CDCP (ii)	3,910	15,394	4,266
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	—	—	(11,106)
Non-cash Share-based compensation	1,228	1,608	1,718
Adjusted free cash flow	**$ (161,870)**	**$ 168,455**	**$ 182,846**

(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.

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 attributable to Cineplex 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, ScreenX and IMAX product; divided by total paid theatre attendance for the period, less paid theatre attendance for 3D, 4DX, UltraAVX, VIP, ScreenX 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, ScreenX 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 December 31, 2020 the impact of 1 location that has been opened or acquired and 4 locations that have been closed have been excluded, resulting in 157 theatres being included in the same theatre metrics. For the year ended December 31, 2020 the impact of the 2 locations that have been opened or acquired and the 5 locations that have been closed have been excluded, resulting in 155 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.

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

P1AG Adjusted EBITDAaL

Calculated as amusement revenues of P1AG less the total operating expenses of P1AG, which excludes foreign exchange.

P1AG Adjusted EBITDAaL Margin

Calculated as P1AG Adjusted EBITDAaL divided by total amusement revenues for P1AG for the period.

Adjusted Store Level EBITDAaL Metrics

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

Adjusted Store Level EBITDAaL Margin

Calculated as adjusted store level EBITDAaL divided by total revenues for LBE for the period.

Lease-related cash saving

Quantified savings negotiated with landlords as a result of the COVID-19 disclosures. This includes agreements that are evidenced by way of written confirmation of the terms agreed upon to the date of this MD&A, and are in the process of formally documented.

Net Cash Burn

Calculated as adjusted EBITDAaL less cash interest expense (excluding amounts with respect to lease obligations), provision for income taxes and net capital expenditures.

Net cash burn	2020		
	Q4	Q3	Q2
Adjusted EBITDAaL	$ (65,948)	$ (46,725)	$ (72,532)
Cash interest expense excluding lease obligations	(13,412)	(11,317)	(7,782)
Provision for income taxes	12,355	16,497	34,440
Net capital expenditures	(7,272)	(8,198)	(8,019)
Total net cash burn	$ (74,277)	$ (49,743)	$ (53,893)
Average monthly net cash burn	$ (24,759)	$ (16,581)	$ (17,964)

19. RECONCILIATION: WORLD GAMING NETWORK LP

During the quarter ended September 30, 2019, Cineplex initiated a review process of WorldGaming Network LP's ("WGN") online esports business, engaging a third-party adviser to identify a strategic equity partner. On June 29, 2020, Cineplex sold all of its interest in WGN for a nominal amount. Cineplex has measured, presented and disclosed the financial information of WGN as a discontinued operation in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations.* As a result, prior period figures have been retroactively restated to exclude the results related to discontinued operations in order to provide comparability to the current year period.

The following table discloses the changes to the other operating expenses for the first two quarters in 2019:

Other operating expenses	Restated 2019	
	Q1	Q2
Theatre payroll	$ 36,710	$ 41,072
Theatre operating expenses	28,562	30,225
Media	16,742	21,185
P1AG	40,965	40,529
LBE (i)	11,148	13,957
LBE pre-opening (ii)	691	673
SCENE	5,038	4,060
Marketing	2,851	4,192
Other (iii)	8,174	7,892
Other operating expenses including cash lease payments	$ 150,881	$ 163,785
Cash rent related to lease obligations (iv)	(4,312)	(4,652)
Other operating expenses from continuing operations as reported	$ 146,569	$ 159,133
Other operating expenses from discontinued operations as reported	1,614	2,525
Total other operating expenses	$ 148,183	$ 161,658

(i) Includes operating costs of LBE. Overhead relating to management of LBE portfolio are included in the 'Other' line.
(ii) Includes pre-opening costs of LBE.
(iii) Other category includes overhead costs related to LBE and other Cineplex internal departments.
(iv) Cash rent that has been reallocated to offset the lease obligations.

The following tables show the changes to the previously disclosed balances for other expenses for the first two quarters in 2019:

Other	Restated 2019	
	Q1	Q2
Other expenses included in other operating expense as previously reported	$ 9,809	$ 10,427
Other expenses included in other operating expense from discontinued operations	(1,635)	(2,535)
Other expenses included in other operating expense as restated	$ 8,174	$ 7,892

The following tables show the changes to the previously disclosed balances for cash rent related to lease obligation in 2019:

Other	Restated 2019	
	Q1	Q2
Cash rent related to lease obligations as reported	$ (4,333)	$ (4,662)
Cash rent related to lease obligations from discontinued operations	21	10
	$ (4,312)	$ (4,652)

The following table shows the calculation of adjusted EBITDAaL from adjusted EBITDA as previously disclosed for the first two quarters in 2019.

Adjusted EBITDAaL	Restated 2019	
	Q2	Q1
Adjusted EBITDA as previously reported	$ 112,249	$ 77,442
Net loss from discontinued operations	2,680	2,031
Depreciation and amortization from discontinued operations	(1,186)	(1,222)
Income tax recovery from discontinued operations	658	671
Foreign exchange (gain) loss from discontinued operations	(18)	(180)
Adjusted EBITDA from continuing operations	$ 114,383	$ 78,742
Cash rent related to lease obligations	(43,775)	(44,150)
Cash rent paid not pertaining to current period	(353)	1,060
Adjusted EBITDAaL as restated	$ 70,255	$ 35,652

The following tables show the changes to the previously disclosed balances in cash provided by operating activities and in cash used in investing activities, for the first two quarters in 2019.

Cash provided by operating activities	Restated 2019	
	Q2	Q1
Cash provided by operating activities as previously reported	$ 57,494	$ 60,580
Less:		
Operating cash flows in discontinued operations	(852)	(846)
Cash provided by operating activities as restated	$ 58,346	$ 61,426

Cash used in investing activities	Restated 2019	
	Q2	Q1
Cash used in investing activities as previously reported	$ (25,110)	$ (27,885)
Less:		
Investing cash flows in discontinued operations	(259)	(117)
Cash used in investing activities as restated	$ (24,851)	$ (27,768)

Management's Report to Shareholders

Management is responsible for the preparation of the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, which involve management's best estimates and judgments, based on available information.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are reliable for preparing consolidated financial statements.

The Board of Directors of Cineplex Inc. (the "Board" of the "Company") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board (the "Audit Committee"). The Audit Committee meets periodically with management and the independent auditor to satisfy itself that management's responsibilities are properly discharged and to recommend approval of the consolidated financial statements to the Board.

PricewaterhouseCoopers LLP serves as the Company's auditor. PricewaterhouseCoopers LLP's report on the accompanying consolidated financial statements follows. It outlines the extent of its examination as well as an opinion on the consolidated financial statements.

Ellis Jacob
Chief Executive Officer

Gord Nelson
Chief Financial Officer

Toronto, Ontario

February 10, 2021

Independent auditor's report

To the Shareholders of Cineplex Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Cineplex Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2020 and 2019;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive (loss) income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 2 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers LLP
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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill, indefinite lived intangible assets, property, equipment and leaseholds, right-of-use assets and definite lived intangible assets *Refer to note 11 – Goodwill and impairment of long-lived assets and investments and note 32 – Significant accounting policies, judgments and estimation uncertainty to the consolidated financial statements.* As at December 31, 2020, the Company had $636 million of goodwill, $555 million of property, equipment and leaseholds (PPE), $881.4 million of right-of-use assets (ROU), $21 million of definite lived intangible assets and $64 million of indefinite lived intangible assets. Goodwill and indefinite lived intangible assets are tested for impairment annually or more frequently if specific events or circumstances dictate that the carrying amount of the asset group may not be fully recoverable. Property, equipment and leaseholds, right-of-use assets and definite lived intangible assets (collectively, long-lived assets) are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows relating to the relevant intangible asset (cash-generating units or CGUs).	Our approach to addressing the matter included the following procedures, among others: ● Evaluated how management determined the recoverable amounts of all goodwill and indefinite lived intangible assets CGUs and a sample of long-lived assets CGUs, which included the following: – Tested the appropriateness of the method used and the mathematical accuracy of the discounted cash flow models. – Tested the reasonableness of attendance and the related revenue growth rates, operating margins, variable and fixed cash flows and discount rates applied by management by comparing them to the budget, management's strategic plans approved by the Board of Directors and available third party published economic data, industry forecasts and historical trends. – Professionals with specialized skill and knowledge in the field of valuation assisted in testing the reasonableness of the discount rates applied by management based on available data of comparable companies. – Tested the underlying data used in the discounted cash flow models.

An impairment loss is recognized for the amount by which the CGU's carrying value exceeds its recoverable amount. The recoverable amounts were determined based on the fair value less costs to sell method using discounted cash flow models. The key assumptions applied by management in estimating the recoverable amounts of the CGUs included attendance and the related revenue growth rates, operating margins, variable and fixed cash flows and discount rates.

Due to the COVID-19 pandemic, Cineplex noted during the year a material decreases in revenues, results of operations and cash flows which represented an indicator to trigger impairment testing for both long-lived assets, indefinite lived intangible assets and goodwill. The impairment tests resulted in property, equipment and leaseholds and right of use assets impairment charges of $111 million and an impairment loss of $181 million with respect to goodwill. No impairment loss was required for definite and indefinite lived intangible assets.

We considered this a key audit matter due to (i) the significance of the balances and (ii) the significant judgment made by management in determining the recoverable amounts of all of the goodwill and indefinite lived intangible assets CGUs and certain long-lived assets CGUs, including the use of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing audit procedures to test the key assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.

– Tested the disclosures made in the consolidated financial statements, particularly with regard to the sensitivity of the key assumptions used.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Paul Feetham.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 10, 2021

Cineplex Inc.

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	December 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents (note 3)	$ 16,254	$ 26,080
Trade and other receivables (note 4)	51,834	168,065
Income taxes receivable (note 8)	66,551	9,757
Inventories (note 5)	21,712	30,995
Prepaid expenses and other current assets	11,613	14,226
Fair value of interest rate swap agreements (note 29)	—	1,022
Assets held for sale (note 31)	—	6,573
	167,964	256,718
Non-current assets		
Property, equipment and leaseholds (note 6 and 11)	555,340	662,798
Right-of-use assets (note 7 and 11)	881,418	1,232,849
Deferred income taxes (note 8)	—	14,197
Fair value of interest rate swap agreements (note 29)	—	472
Interests in joint ventures and associates (note 9)	8,644	28,221
Intangible assets (note 10)	84,922	88,367
Goodwill (note 11)	635,582	816,790
	$ 2,333,870	$ 3,100,412

COVID-19 business impacts and risks and going concern (note 2)

Subsequent events (note 34)

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

(expressed in thousands of Canadian dollars)

	December 31, 2020	December 31, 2019
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	$ 82,992	$ 220,188
Share-based compensation (note 13)	482	25,681
Dividends payable (note 14)	—	9,500
Income taxes payable	802	1,183
Deferred revenue (note 21)	219,983	222,998
Lease obligations (note 15)	97,259	106,352
Fair value of interest rate swap agreements (note 29)	7,202	1,874
Liabilities related to assets held for sale (note 31)	—	2,808
	408,720	590,584
Non-current liabilities		
Share-based compensation (note 13)	2,670	—
Long-term debt (note 16)	506,000	625,000
Fair value of interest rate swap agreements (note 29)	19,157	10,837
Lease obligations (note 15)	1,073,666	1,261,243
Post-employment benefit obligations (note 18)	11,503	10,678
Other liabilities (note 19)	68,649	9,813
Deferred income taxes (note 8)	—	1,263
Convertible debentures (note 17)	219,271	—
	1,900,916	1,918,834
Total liabilities	2,309,636	2,509,418
Equity		
Share capital (note 20)	852,379	852,379
Deficit	(903,394)	(264,310)
Hedging reserves and other	(131)	(131)
Contributed surplus	75,882	4,052
Cumulative translation adjustment	(502)	(887)
Total equity attributable to owners of Cineplex	24,234	591,103
Non-controlling interests	—	(109)
Total equity	24,234	590,994
	$ 2,333,870	$ 3,100,412

Approved by the Board of Directors

Director

Director

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

Cineplex Inc.

Consolidated Statements of Operations
For the years ended December 31, 2020 and 2019

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

	2020	2019
Revenues (note 21)		
Box office	$ 132,820	$ 705,521
Food service	108,632	483,330
Media	65,358	196,755
Amusement	77,901	228,231
Other	33,552	51,309
	418,263	1,665,146
Expenses		
Film cost	66,922	369,386
Cost of food service	30,667	106,823
Depreciation - right-of-use assets	128,393	145,946
Depreciation and amortization - other assets	124,846	128,883
(Gain) loss on disposal of assets (note 7)	(13,101)	1,764
Other costs (note 22)	375,690	782,693
Share of loss (income) of joint ventures and associates (note 9)	8,409	(4,169)
Interest expense - lease obligations (note 15)	49,085	48,659
Interest expense - other	61,483	36,063
Interest income	(182)	(252)
Foreign exchange	57	1,065
Impairment of long-lived assets, goodwill and investments (notes 9 and 11)	294,863	—
	1,127,132	1,616,861
(Loss) income from continuing operations before income taxes	(708,869)	48,285
Provision for income taxes (note 8)		
Current	(73,495)	21,759
Deferred	(11,373)	(9,990)
	(84,868)	11,769
Net (loss) income from continuing operations	$ (624,001)	$ 36,516
Net loss from discontinued operations, net of taxes (note 31)	(4,952)	(7,625)
Net (loss) income	$ (628,953)	$ 28,891
Net (loss) income from continuing operations attributable to:		
Owners of Cineplex	$ (623,996)	$ 36,540
Non-controlling interests	(5)	(24)
Net (loss) income from continuing operations	$ (624,001)	$ 36,516
Net (loss) income attributable to:		
Owners of Cineplex	$ (628,948)	$ 28,915
Non-controlling interests	(5)	(24)
Net (loss) income	$ (628,953)	$ 28,891
Net (loss) income per share attributable to owners of Cineplex - basic and diluted:		
Continuing operations (note 23)	$ (9.85)	$ 0.58
Discontinued operations (note 23)	(0.08)	(0.12)
Total operations	$ (9.93)	$ 0.46

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

Cineplex Inc.

Consolidated Statements of Comprehensive (Loss) Income
For the years ended December 31, 2020 and 2019

(expressed in thousands of Canadian dollars)

	2020	2019 Restated (note 33)
Net (loss) income from continuing operations	$ (624,001)	$ 36,516
Other comprehensive (loss) income from continuing operations		
Items that will be reclassified subsequently to net income:		
Gain on hedging instruments	—	4,853
Associated deferred income taxes recovery	—	(1,306)
Foreign currency translation adjustment	378	(3,398)
Recognition of currency translation adjustment on disposition of discontinued operations (note 31)	(160)	—
Items that will not be reclassified to net income:		
Actuarial loss of post-employment benefit obligations	(495)	(1,054)
Associated deferred income taxes expense	133	282
Other comprehensive loss	(144)	(623)
Comprehensive (loss) income from continuing operations	(624,145)	35,893
Net loss from discontinued operations, net of taxes (note 31)	(4,952)	(7,625)
Foreign currency translation adjustment from discontinued operations	7	210
Comprehensive (loss) income	$ (629,090)	$ 28,478
Comprehensive (loss) income from continuing operations attributable to:		
Owners of Cineplex	$ (624,140)	$ 35,917
Non-controlling interests	(5)	(24)
	$ (624,145)	$ 35,893
Comprehensive (loss) income attributable to:		
Owners of Cineplex	$ (629,085)	$ 28,502
Non-controlling interests	(5)	(24)
	$ (629,090)	$ 28,478

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

Cineplex Inc.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2020 and 2019

(expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Hedging reserves and other	Cumulative translation adjustment	Deficit	Non-controlling interests	Total
January 1, 2020	$ 852,379	$ 4,052	$ (131)	$ (887)	$ (264,310)	$ (109)	$ 590,994
Net loss	—	—	—	—	(628,948)	(5)	(628,953)
Other comprehensive loss (page 4)	—	—	—	385	(522)	—	(137)
Total comprehensive loss	**—**	**—**	**—**	**385**	**(629,470)**	**(5)**	**(629,090)**
Dividends declared	—	—	—	—	(9,500)	—	(9,500)
Share option expense	—	1,152	—	—	—	—	1,152
PSU/RSU expense	—	76	—	—	—	—	76
Settlement for cancelled options	—	(453)	—	—	—	—	(453)
Conversion to equity-settled option plan (note 13)	—	3,944	—	—	—	—	3,944
Conversion to equity-settled PSU/RSU plan	—	311	—	—	—	—	311
Issuance of convertible debentures (note 17)	—	66,800	—	—	—	—	66,800
Non-controlling interests acquired	—	—	—	—	(114)	114	—
December 31, 2020	$ 852,379	$ 75,882	$ (131)	$ (502)	$ (903,394)	$ —	$ 24,234
January 1, 2019	$ 852,379	$ 7,815	$ (3,678)	$ 2,301	$ (179,721)	$ (85)	$ 679,011
Net income	—	—	—	—	28,915	(24)	28,891
Other comprehensive loss (page 4)	—	—	3,547	(3,188)	(772)	—	(413)
Total comprehensive income	**—**	**—**	**3,547**	**(3,188)**	**28,143**	**(24)**	**28,478**
Dividends declared	—	—	—	—	(112,732)	—	(112,732)
Share option expense	—	1,607	—	—	—	—	1,607
Conversion to cash-settled option plan	—	(5,370)	—	—	—	—	(5,370)
December 31, 2019	$ 852,379	$ 4,052	$ (131)	$ (887)	$ (264,310)	$ (109)	$ 590,994

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

Cineplex Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019

(expressed in thousands of Canadian dollars)

	2020	2019
Cash provided by (used in)		
Operating activities		
Net (loss) income from continuing operations	$ (624,001)	$ 36,516
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	124,846	128,883
Depreciation of right-of-use assets	128,393	145,946
Unrealized foreign exchange	342	698
Interest rate swap agreements - non-cash interest	13,922	10,472
Accretion of convertible debentures	7,471	—
Other non-cash interest	1,396	1,745
(Gain) loss on disposal of assets	(13,101)	1,764
Deferred income taxes	(11,373)	(9,990)
Non-cash share-based compensation	1,228	1,608
Impairment of long-lived assets, goodwill and investments (note 11)	294,863	—
Net change in interests in joint ventures and associates	12,878	(4,704)
Changes in operating assets and liabilities (note 27)	(43,178)	8,727
Net cash (used in) provided by operating activities	(106,314)	321,665
Investing activities		
Proceeds from disposal of assets, including sale of discontinued operations (notes 7 and 9)	80,920	—
Purchases of property, equipment and leaseholds	(73,411)	(146,367)
Intangible assets additions	(9,005)	(7,865)
Tenant inducements	24,296	13,985
Net cash received from CDCP	3,910	15,394
Net cash provided by (used in) investing activities	26,710	(124,853)
Financing activities		
Dividends paid	(19,000)	(112,415)
(Repayments) borrowings under credit facilities, net	(119,000)	45,000
Repayments of lease obligations - principal	(91,946)	(128,252)
Issuance of convertible debentures, net (note 17)	303,063	—
Financing fees	(1,500)	(243)
Net cash provided by (used in) financing activities	71,617	(195,910)
Effect of exchange rate differences on cash	552	483
(Decrease) increase in cash and cash equivalents from continuing operations	(7,435)	1,385
Cash flows used in discontinued operations (note 31)	(2,391)	(547)
Cash and cash equivalents - Beginning of period	26,080	25,242
Cash and cash equivalents - End of period	$ 16,254	$ 26,080
Supplemental information		
Cash paid for interest - lease obligation	$ 32,371	$ 47,018
Cash paid for interest - other	$ 47,859	$ 25,302
Cash (received) paid for income taxes, net	$ (16,297)	$ 36,402

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

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

1. General information

Cineplex Inc. ("Cineplex") an Ontario, Canada corporation, is one of Canada's largest entertainment organizations, with theatres and location-based entertainment venues in ten provinces. Cineplex also operates businesses in digital commerce, cinema media, digital place-based media and amusement solutions 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"), and Player One Amusement Group Inc. ("P1AG"). Cineplex is headquartered at 1303 Yonge Street, Toronto, Ontario, M4T 2Y9.

On December 15, 2019, Cineplex entered into an arrangement agreement (the "Arrangement Agreement") with Cineworld Group, plc ("Cineworld"), pursuant to which an indirect wholly-owned subsidiary of Cineworld agreed to acquire all of the issued and outstanding common shares of Cineplex ("Shares") for $34.00 per share in cash (the "Cineworld Transaction"). The Cineworld Transaction was to be implemented by way of a statutory plan of arrangement under the *Business Corporation Act* (Ontario).

On June 12, 2020, Cineworld delivered a notice (the "Termination Notice") to Cineplex purporting to terminate the Arrangement Agreement. In the Termination Notice, Cineworld alleged that Cineplex took certain actions that constituted breaches of Cineplex's covenants under the Arrangement Agreement including failing to operate its business in the ordinary course. In addition, Cineworld alleged that a material adverse effect had occurred with respect to Cineplex. Cineworld's repudiation of the Arrangement Agreement has been acknowledged by Cineplex and the Cineworld Transaction will not proceed. Cineplex vigorously denies Cineworld's allegations. The Arrangement Agreement explicitly excludes any "outbreaks of illness or other acts of God" from the definition of material adverse effect and all of Cineworld's allegations stem from an outbreak of illness and act of God (COVID-19). Cineplex believes that Cineworld had no legal basis to terminate the Arrangement Agreement and that Cineworld breached the Arrangement Agreement and its other contractual obligations because, among other failures, it did not use reasonable best efforts to obtain approval under the *Investment Canada Act* as soon as reasonably practicable ("ICA Approval"). If Cineworld had complied with its obligation to obtain ICA Approval, Cineplex believes the ICA Approval would have been obtained and the Cineworld Transaction would have closed well before the outside date for completion in the Arrangement Agreement. No amounts are due to be paid by Cineplex as a result of the Termination Notice and no amounts have been accrued in the financial statements with respect to the Termination Notice.

On July 3, 2020, Cineplex announced that it had commenced an action in the Ontario Superior Court of Justice against Cineworld and 1232743 B.C. Ltd. seeking damages arising from what Cineplex claims was a wrongful repudiation of the Arrangement Agreement. The claim seeks damages, including the approximately $2,180,000 that Cineworld would have paid upon the closing of the Cineworld Transaction for Cineplex's securities, reduced by the value of the Cineplex securities retained by its security holders, as well as compensation for other losses including the failure of Cineworld to repay or refinance Cineplex's approximately $664,000 in debt and transaction expenses. Cineplex has also advanced alternative claims for damages for the loss of benefits to its security holders, and to require Cineworld to disgorge the benefits it improperly received by wrongfully repudiating the Cineworld Transaction.

Cineplex claims that Cineworld breached its contractual obligations and its duty of good faith and honesty in contractual performance. Cineworld purports to rely upon alleged adverse impacts of COVID-19 on Cineplex's business to terminate the Arrangement Agreement, which it is not entitled to do. The contractual agreements between the parties expressly exclude outbreaks of illness, such as the COVID-19 pandemic, as a circumstance entitling Cineworld to terminate the Arrangement Agreement.

On July 6, 2020, Cineworld announced that it would defend Cineplex's claim, and on September 2, 2020, filed its Statement of Defence and Counterclaim in which it denied Cineplex's claims and advanced a counterclaim seeking

reimbursement of an unspecified amount for costs incurred with respect to the transaction and an unspecified amount for punitive damages. Cineplex responded to Cineworld's defence and counterclaim on September 15, 2020, denying all claims levied by Cineworld.

While a trial date has been set for September 2021, due to uncertainties inherent in litigation, it is not possible for Cineplex to predict the timing or final outcome of the legal proceedings against Cineworld or to determine the amount of damages, if any, that may be awarded. Further, even if Cineplex's action against Cineworld is successful, Cineworld may not have the ability to pay the full amount of any damages awarded.

The Board of Directors approved these consolidated financial statements on February 10, 2021.

2. COVID-19 business impacts, risks and going concern

In early 2020, the outbreak of COVID-19 was confirmed in multiple countries throughout the world and on March 11, 2020, it was declared a global pandemic by the World Health Organization. In response, Cineplex immediately introduced enhanced cleaning protocols and reduced theatre capacities to promote social distancing. By mid-March, each of Canada's provinces and territories had declared a state of emergency resulting in, among other things, the mandated closure of non-essential businesses, restrictions on public gatherings and quarantining of people who may have been exposed to the virus.

On March 16, 2020, Cineplex announced the temporary closure of all of its theatres and LBE venues across Canada, as well as substantially all route locations operated by P1AG. On April 1, 2020, in response to applicable government directives and guidance from Canadian public health authorities, Cineplex announced that the closure of its theatres and LBE venues across Canada would remain in effect and that the reopening of such locations would be reassessed as further guidance is provided by Canadian public health authorities and applicable government authorities.

Cineplex was able to reopen a limited number of venues in late June, and as government restrictions across the country were eased, additional locations were opened. On August 21, 2020, Cineplex became one of the first of all the major film exhibitors in the world to reopen its entire circuit of theatres across Canada, including location based entertainment venues. During this period, Cineplex continued its negotiations with landlords, finalizing the majority of discussions and realizing material reductions in rent payments for both the closure period in the second, third, as well as for the fourth quarter and future periods.

To mitigate the negative impact of COVID-19 and support its long-term stability, Cineplex has undertaken a variety of measures including:

Liquidity measures:

- entered into amendment agreements with The Bank of Nova Scotia as administrative agent to the seventh amended and restated credit agreement that provided Cineplex with certain financial covenant relief in light of the COVID-19 pandemic and its effects on Cineplex's business. Refer to note 16, Long-term debt and note 34, Subsequent events, for a summary of key terms of the First, Second and Third Credit Agreement Amendments;
- issued convertible unsecured subordinated debentures for net proceeds of $303,063 (the "Debentures"), refer to note 17, Convertible debentures;
- entered into an agreement to enhance and expand the SCENE Scotiabank Loyalty program receiving $60,000 with respect to the reorganization;

- focused on revenue driving opportunities including the expansion of Cineplex Store offerings and expansion of food home delivery from theatres and LBE venues; and
- filed corporate tax returns for income tax recoveries in a timely manner.

Cost reduction and subsidy measures:

- temporary layoffs of all part-time and full-time hourly employees as well as a number of full-time employees who chose a temporary layoff rather than a salary reduction;
- reduced full-time employee salaries by agreement with such employees during the second and third quarters;
- suspended or deferred current capital spending and reviewing all capital projects to consider either deferral or cancellation;
- reduced non-essential discretionary operational expenditures (such as spending on marketing, travel and entertainment);
- implemented a more stringent review and approval process for all outgoing procurement and payment requests;
- continued negotiations with landlords for rent relief, including abatements and converting fixed rent to variable rent depending on attendance, until attendance returns to previous levels;
- worked with major suppliers and other business partners to modify the timing and quantum of certain contractual payments;
- reviewed and applied for government subsidy programs where available, including municipal and provincial property tax and energy rebates or subsidies;
- applied for the ongoing Canada Emergency Wage Subsidy ("CEWS") made available by the Government of Canada since March 2020;
- applied for the ongoing Canada Emergency Rent Subsidy ("CERS"), which was launched by the Government of Canada as a result of government mandated lockdowns, providing a variable subsidy for rent and other occupancy-related costs incurred from September 27, 2020 through June, 2021;
- continued evaluation of Cineplex's eligibility under other relief programs; and
- continued the suspension of dividends.

In addition to cost savings associated with the temporary layoffs of its employees, reductions in salaries and other mitigation efforts, Cineplex has suspended or deferred certain capital spending and is reviewing all capital projects to consider further deferrals or cancellations and has plans to reduce purchases of property, plant and equipment (net of tenant inducements) to approximately $50,000 over the next 12 months.

Since the closure of its theatres and LBE venues in March 2020, Cineplex diligently prepared for their safe reopening, with the health and well-being of its employees and guests being its top priority. Cineplex carefully re-examined all of its buildings and processes, so that when its theatres and LBE venues reopened, it had implemented an industry-leading program with end-to-end health and safety protocols.

Some of the new measures implemented on reopening included:

- launching reserved seating in all auditoriums across Canada; seating options are automatically blocked off to ensure proper distance in every direction between guests;
- reducing capacity in all auditoriums to allow for physical distancing in accordance with government regulations;
- enhancing cleaning practices throughout our facilities, with particular focus on high-contact surfaces, restrooms and seats;
- accepting debit and credit payments only, with the exception of gift card purchases;
- limiting food offerings in theatres;
- ensuring employees have the personal protective equipment they need and as required by provincial regulations; and

- making hand sanitizer readily available for guests and employees throughout the buildings.

Although restrictions on social gatherings were partially lifted in many of the markets in which Cineplex operated during the third quarter, social gathering restrictions were reinstituted in the fourth quarter with the increased number of COVID-19 cases throughout the country. The second wave of increased cases during the fall months resulted in several provinces across Canada implementing mandatory lockdown measures which have resulted in prolonged mandatory theatre closures and operating restrictions on the LBE businesses. Due to the uncertainty of the timing of the reductions of many government-imposed restrictions and the potential long-term effects that the COVID-19 pandemic may have on the exhibition and amusement and leisure businesses, COVID-19 may have a prolonged negative impact on Cineplex's operations. In addition, with the global delay of exhibitors reopening, specifically those in California and New York, distributors shifted the release dates of major movie titles out of 2020 into 2021 and beyond, in an effort to maximize box office revenues on the eventual release of such titles. This included the following releases*: Godzilla vs. Kong, Black Widow, Fast & Furious 9, Cruella, Peter Rabbit 2, Venom: Let There Be Carnage, Minions: The Rise of Gru, Top Gun: Maverick, Shang-Chi and the Legend of the Ten Rings, Space Jam: A New Legacy, Jungle Cruise, The Suicide Squad, The King's Man, A Quiet Place Part II, Dune, No Time To Die, Eternals, Ghostbuster: Afterlife, Mission: Impossible 7, Spider-Man 3, West Side Story and The Matrix 4.*

In addition, some previously expected theatrical releases have instead been redirected to streaming services. The impact of the reduction of new releases in the fourth quarter as a result of these postponements in combination with the ongoing and potentially expanded restrictions on the reopening of Cineplex's businesses, also negatively impacted the timing of Cineplex's return to profitability.

In December 2020, Health Canada approved and authorized the Pfizer-BioNTech and Moderna COVID-19 vaccines for use in Canada with the first doses arriving during the holiday season. Canada has begun the inoculation process of Canadians, starting with front line workers and high-risk individuals with plans to start vaccinating the general population during the spring of 2021, and having all Canadians immunized by the fall of 2021. The efficient rollout of vaccines is a significant leap forward to the return of normalcy and end of the COVID-19 pandemic. However, the supply and roll-out of approved vaccines in Canada has been inconsistent to date and there can be no assurance that vaccines will be widely available or distributed as currently anticipated, which would delay a return to normalcy.

With the unknown duration of the pandemic and yet to be determined timing of the phased complete reopening of Cineplex's businesses, as well as consumers' future risk tolerance regarding health matters, it is not possible to know the impact of the pandemic on future results. However, Cineplex is optimistic that the exhibition and amusement and leisure industries will recover over time. Cineplex believes consumer demand for the theatrical experience combined with a backlog of anticipated releases of strong film content will help drive visitation, and that LBE activities will increase as people seek out-of-home experiences they have been restricted from enjoying for almost a year.

Management continues to pursue all viable options to maintain adequate liquidity to fund operations for the foreseeable future. This includes but is not limited to planned asset sales such as Cineplex's head office building in Toronto which was completed subsequent to period end (note 34, Subsequent events), additional financing sources and amendments to existing credit facilities. The proceeds received are primarily used to repay Cineplex's existing credit facilities and fund continuing operations.

As of December 31, 2020, Cineplex was in compliance with all financial covenants under the terms of its senior secured credit facilities ("Credit Facilities"). However, management's forecasts indicate a potential breach of covenants within the next twelve months as a result of the ongoing pandemic. Management's forecasts may change materially as the impact of COVID-19 on Cineplex's business is better understood over the course of time. A

violation of its covenants would represent an event of default under the terms of the Credit Facilities, enabling the lenders to demand immediate repayment of all amounts due. See note 34, Subsequent events, for a description of certain amendments to the Credit Facilities entered into after year end.

As of December 31, 2020, Cineplex had a cash balance of $16,254 and $153,766 available under its Credit Facilities subject to the liquidity covenants set forth in the Credit Facilities as amended (note 34, Subsequent events). Cineplex also reported a loss from continuing operations during the year of $624,001 and an accumulated deficit of $903,394. Subsequent to year end, Cineplex entered into an amendment to the credit agreement governing the Credit Facilities to obtain certain financial covenant relief from the syndicate of lenders under its Credit Facilities, see note 34, Subsequent events. Cineplex continues to pursue a variety options to maintain adequate liquidity to fund operations for the currently anticipated duration of the pandemic and is investigating additional sources of financing including further asset sales, such as the sale of the head office completed subsequent to year end, however as of the date of the consolidated financial statements, no further financing had been concluded, and there can be no assurance that such financing initiatives will be successful.

Cineplex has prepared its condensed consolidated financial statements on a going concern basis, which presumes it will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business as they become due. While Cineplex currently has sufficient liquidity to satisfy its immediate financial obligations, there can be no assurance that the steps that management is taking will provide sufficient liquidity in the near term to meet its ongoing obligations, nor can it be assured that it will be able to obtain additional financing at favorable terms, or at all. These material uncertainties lend significant doubt about the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The consolidated financial statements do not reflect adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if Cineplex were unable to continue as a going concern. Such adjustments could be material.

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

3. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2020	2019
Cash at bank and on hand, net of outstanding cheques	$ 16,254	$ 26,080

4. Trade and other receivables

Trade and other receivables comprise the following:

	2020	2019
Trade receivables	$ 29,188	$ 136,647
Other receivables	22,646	31,418
	$ 51,834	$ 168,065

5. Inventories

Inventories comprise the following:

	2020	2019
Food service inventories	$ 3,023	$ 9,304
Gaming inventories	12,088	14,447
Other inventories, including work-in-progress	6,601	7,244
	$ 21,712	$ 30,995

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

6. Property, Equipment, and Leaseholds

Property, equipment and leaseholds consist of:

	Land	Buildings and leasehold improvements	Buildings and leasehold improvements under finance lease	Equipment	Construction-in-progress	Total
At January 1, 2020						
Cost	$ 19,372	$ 823,965	$ —	$ 841,572	$ 45,324	$ 1,730,233
Accumulated depreciation	—	(480,554)	—	(586,881)	—	(1,067,435)
Net book value	$ 19,372	$ 343,411	$ —	$ 254,691	$ 45,324	$ 662,798
Year ended December 31, 2020						
Opening net book value	$ 19,372	$ 343,411	$ —	$ 254,691	$ 45,324	$ 662,798
Additions, net of transfers	10	19,152	—	17,499	11,664	48,325
Reclassification to assets held for sale	—	1	—	723	—	724
Disposals	—	(481)	—	(2,118)	(1,125)	(3,724)
Impairment (note 11)	—	(34,117)		(881)	(4,194)	(39,192)
Foreign exchange rate changes	—	(7)	—	(237)	—	(244)
Depreciation for the year - continuing operations	—	(43,956)	—	(69,391)	—	(113,347)
Closing net book value	$ 19,382	$ 284,003	$ —	$ 200,286	$ 51,669	$ 555,340
At December 31, 2020						
Cost	$ 19,382	$ 804,439	$ —	$ 837,073	$ 51,669	$ 1,712,563
Accumulated amortization	—	(520,436)	—	(636,787)	—	(1,157,223)
Net book value	$ 19,382	$ 284,003	$ —	$ 200,286	$ 51,669	$ 555,340
At January 1, 2019						
Cost	$ 19,372	$ 759,661	$ 34,498	$ 772,298	$ 30,652	$ 1,616,481
Accumulated depreciation	—	(436,153)	(23,259)	(522,715)	—	(982,127)
Net book value	$ 19,372	$ 323,508	$ 11,239	$ 249,583	$ 30,652	$ 634,354
Year ended December 31, 2019						
Opening net book value	$ 19,372	$ 323,508	$ 11,239	$ 249,583	$ 30,652	$ 634,354
Additions, net of transfers	—	67,325	—	79,588	14,915	161,828
Reclassification to right-of-use assets	—	(405)	(11,239)	—	—	(11,644)
Reclassification to assets held for sale	—	(1)	—	(723)	—	(724)
Disposals	—	(355)	—	(999)	(243)	(1,597)
Foreign exchange rate changes	—	(98)	—	(2,135)	—	(2,233)
Depreciation for the year - continuing operations	—	(46,562)	—	(70,349)	—	(116,911)
Depreciation for the year - discontinued operations	—	(1)	—	(274)	—	(275)
Closing net book value	$ 19,372	$ 343,411	$ —	$ 254,691	$ 45,324	$ 662,798

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

7. Right-of-use assets

Right-of-use assets consists of:

	Property	Equipment	Total
At December 31, 2020			
Cost	$ 1,132,613	$ 19,843	$ 1,152,456
Accumulated depreciation	(260,872)	(10,166)	(271,038)
Net book value	$ 871,741	$ 9,677	$ 881,418
Year ended December 31, 2020			
Balance - December 31, 2019	$ 1,218,054	$ 14,795	$ 1,232,849
Modifications, net of additions	(144,078)	(4)	(144,082)
Disposals	(7,151)	—	(7,151)
Foreign exchange rate changes	39	2	41
Depreciation for the period	(123,277)	(5,116)	(128,393)
Impairment (note 11)	(71,846)	—	(71,846)
Closing net book value	$ 871,741	$ 9,677	$ 881,418

	Property	Equipment	Total
At December 31, 2019			
Cost	$ 1,358,671	$ 19,849	$ 1,378,520
Accumulated depreciation	(140,617)	(5,054)	(145,671)
Net book value	$ 1,218,054	$ 14,795	$ 1,232,849
Year ended December 31, 2019			
Opening net book value upon adoption of IFRS 16	$ 1,323,187	$ 19,406	$ 1,342,593
Additions, net of modifications	36,372	446	36,818
Foreign exchange rate changes	(614)	(2)	(616)
Depreciation for the period	(140,891)	(5,055)	(145,946)
Closing net book value	$ 1,218,054	$ 14,795	$ 1,232,849

During the third quarter of 2020, Cineplex disposed of certain protective rights on leased properties in exchange for $21,000 cash proceeds. Cineplex recognized a gain of $13,780 on the derecognition of $7,220 of right-of-use assets.

COVID-19 resulted in closures of substantially all leased properties and the suspension of use of most equipment for a period in 2020. During the third and fourth quarters of 2020, Cineplex agreed to a variety of arrangements with landlords to reduce or defer payments. The effect of those reductions or deferrals reduced both lease obligations and right-of-use assets by approximately $129,085.

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

8. Deferred income taxes

Based on substantively enacted corporate tax rates, expected timing of reversals and expected taxable income allocation to various tax jurisdictions, deferred income taxes are as follows:

	2020	2019
Deferred income tax assets		
Property, equipment and leaseholds and deferred tenant inducements - difference between net carrying value and undepreciated capital cost	$ 12,494	$ 10,534
Accounting provisions not currently deductible	83,900	46,316
Deferred revenue	16,243	958
Interest rate swap agreements	6,943	2,882
Income tax credits available	397	381
Operating losses available for carry-forward and carry-back	24,656	17,022
Total gross deferred income tax assets	144,633	78,093
Future deferred tax liabilities		
Intangible assets	(10,151)	(11,871)
Goodwill	(27,841)	(54,146)
Other	4,892	858
Convertible debentures	(24,464)	—
Total gross deferred income tax liabilities	(57,564)	(65,159)
Net deferred income tax recognized	$ —	$ 12,934

The recognition of non-cash impairment related to long-lived assets in the first and fourth quarters of 2020 has resulted in deferred income tax assets of $29,736. The non-cash goodwill impairment losses in the first, third and fourth quarters of 2020 resulted in additional deferred income tax assets of $29,073.

Due to the material uncertainties described in note 2, COVID-19 business impacts, risks and going concern, the recoverability of the net deferred income tax assets in the normal course of business is uncertain and accordingly the net deferred tax assets have been derecognized at December 31, 2020. Cineplex expects to recover income taxes paid in prior periods of $65,963 when it files its tax returns for the 2020 taxation year. That amount has been recognized as income taxes receivable on the consolidated balance sheet.

The provision for income taxes included in the consolidated statement of operations differs from the statutory income tax rate for the years ended December 31, 2020 and 2019 as follows:

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

	2020	2019
Income from continuing operations before income taxes	$ (708,869)	$ 48,285
Combined statutory income tax rates for the current year	26.81 %	26.79 %
Income taxes (recoverable) payable at statutory rate	(190,020)	12,934
Adjustments relating to prior periods	2,244	(2,126)
Goodwill impairment - permanent differences	19,447	—
Other permanent differences	(3,608)	961
Derecognition of deferred income tax assets	87,069	—
Provision for income taxes	$ (84,868)	$ 11,769

Adjustments relating to prior periods include differences between the prior year provision and the income tax returns as filed.

Non-capital losses available for carry-forward expire as follows:

2027	$3,258
2028	8,822
2029	5,122
2030	2,184
2032	254
2034	1,947
2035	2,770
2036	2,749
2037	18,546
2038	3,110
2040	18,936
Indefinite	22,397
	$ 90,095

Losses denominated in US dollars reflect changes in the foreign exchange rate

In October 2018, Cineplex received a proposal letter from the Canada Revenue Agency ("CRA") proposing to deny a portion of the losses of AMC Ventures Inc. ("AMC"), which was acquired by Cineplex in 2012. In 2019, the CRA issued a notice of reassessment ("NOR") denying the use of $26,600 of losses by Cineplex, which offset taxable income generated in 2014, thereby increasing taxes and interest payable by approximately $8,600, 50% of which was payable immediately. Cineplex disagrees with the CRA's position and has filed a notice of objection in respect of the NOR. Cineplex believes that it should prevail in defending its original filing position although no assurance can be given in this regard. The payment relating to the disputed tax reassessment of Cineplex's 2014 tax return is reflected in income taxes receivable.

As a result of reducing taxable income through losses, Cineplex is subject to minimum tax in certain jurisdictions which may be credited against income taxes payable on taxable income earned in periods after the losses have been fully used. In 2020, an additional $16 of minimum taxes were payable such that the minimum income tax credits totaled $397 through December 31, 2020 (2019 - $381) and have been recorded as deferred income tax assets and a reduction of deferred income tax expense.

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

9. Interests in joint ventures and associates

Cineplex participates in incorporated and unincorporated joint ventures with other parties and accounts for its interests using the equity method.

Cineplex Digital Cinemas Partnership, ("CDCP"), is a joint venture formed by Cineplex and Empire Theatres Limited to finance the implementation of digital projectors. Cineplex leases its digital projectors from CDCP.

Other joint ventures include a 50% interest in a theatre operation (2019 - 50%), and a 50% interest in YoYo's (2019 - 50%), and a 34.7% interest in VR Studios Inc (2019 - 34.7%). In the fourth quarter of 2020, Cineplex assessed the recoverability of its investment in VR Studios Inc. and recognized an impairment loss of $2,790, reducing the carrying value to nil.

The joint ventures and associates are headquartered in Canada and the United States.

The net interest in joint ventures is summarized as follows as at December 31, 2020 and 2019:

2020	**CDCP**	**Other**	**Total**
Ownership percentage	78.2%	34.7%-50%	
Voting percentage	50%	34.7%-50%	
Interest at beginning of year	$ 24,578	$ 3,643	$ 28,221
Dividends or distributions	(3,910)	—	(3,910)
Impairment	—	(2,790)	(2,790)
Net change in receivable or payable	(4,750)	282	(4,468)
Share of net (loss)	(7,279)	(1,130)	(8,409)
Net interest in joint ventures and associates	$ 8,639	$ 5	$ 8,644

2019	**CDCP**	**Other**	**Total**
Ownership percentage	78.2 %	34.7%-50%	
Voting percentage	50 %	34.7%-50%	
Interest at beginning of year	$ 34,451	$ 4,461	$ 38,912
Investments	246	—	246
Dividends or distributions	(15,640)	—	(15,640)
Net change in receivable or payable	694	(160)	534
Share of net income (loss)	4,827	(658)	4,169
Net interest in joint ventures	$ 24,578	$ 3,643	$ 28,221

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

The summarized balance sheets including 100% of the assets, liabilities and equity of each of the joint ventures at December 31 each year are as follows:

2020		**CDCP**		**Other**		**Total**
Assets						
Cash and cash equivalents	$	623	$	85	$	708
Trade and other receivables		2,079		183		2,262
Inventories		—		31		31
Prepaid expenses and other current assets		60		25		85
		2,762		324		3,086
Equipment		10,135		9		10,144
Total assets	$	12,897	$	333	$	13,230
Liabilities						
Accounts payable and accrued liabilities	$	1,804	$	641	$	2,445
Deferred revenue		158		—		158
		1,962		641		2,603
Long-term debt		—		2,669		2,669
Total liabilities		1,962		3,310		5,272
Equity (Deficit)		10,935		(2,977)		7,958
Total liabilities and equity	$	12,897	$	333	$	13,230

2019		**CDCP**		**Other**		**Total**
Assets						
Cash and cash equivalents	$	384	$	797	$	1,181
Trade and other receivables		7,078		476		7,554
Inventories		—		293		293
Prepaid expenses and other current assets		—		643		643
		7,462		2,209		9,671
Equipment		19,603		356		19,959
Total assets	$	27,065	$	2,565	$	29,630
Liabilities						
Accounts payable and accrued liabilities	$	1,663	$	2,674	$	4,337
Deferred revenue		158		639		797
		1,821		3,313		5,134
Long-term debt		—		4,052		4,052
Total liabilities		1,821		7,365		9,186
Equity (Deficit)		25,244		(4,800)		20,444
Total liabilities and equity	$	27,065	$	2,565	$	29,630

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

The summarized statements of comprehensive income (loss) including 100% of the revenue, expenses and income of each of the joint ventures for the years ending December 31 are as follows:

2020	**CDCP**	**Other**	**Total**
Revenues	$ 6,484	$ 464	$ 6,948
Depreciation and amortization	9,458	—	9,458
Interest expense	23	92	115
Other expenses	6,312	1,187	7,499
Total expenses	15,793	1,279	17,072
Net loss	$ (9,309)	$ (815)	$ (10,124)
Comprehensive loss	$ (9,309)	$ (815)	$ (10,124)

2019	**CDCP**	**Other**	**Total**
Revenues	$ 23,872	$ 3,318	$ 27,190
Depreciation and amortization	10,812	255	11,067
Interest (income) expense	(77)	180	103
Other expenses	6,965	11,927	18,892
Total expenses	17,700	12,362	30,062
Net income (loss)	$ 6,172	$ (9,044)	$ (2,872)
Comprehensive income (loss)	$ 6,172	$ (9,044)	$ (2,872)

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

SCENE

In addition to the joint ventures which are equity accounted, Cineplex consolidates its 50% share of assets, liabilities, revenues and expenses of its joint operation in the Scene loyalty program (Scene). In the fourth quarter, Cineplex announced that it had entered into an agreement with its existing partner to enhance and expand the Scene loyalty program. Cineplex received $60,000 from its existing partner with respect to the agreement to reorganize the program and reposition it for future growth. In conjunction with the agreement, Cineplex's interest in the operations of Scene was reduced to 33.3%. Cineplex continues to have joint control of the joint operation and is entitled to and responsible for 50% of the economic benefits and obligations until specific non-financial milestones are met, resulting the deferral of recognition of the proceeds in other liabilities, and the continued consolidation of 50% of Scene. The summarized combined balance sheets of SCENE GP and SCENE LP at December 31 are as follows:

		2020		2019
Assets				
Cash and cash equivalents	$	13,527	$	3,299
Trade and other receivables		16,460		25,027
Prepaid expenses		1,320		—
		31,307		28,326
Intangible Assets		1,745		715
Equipment		137		252
Right-of-use assets		20		102
Total assets	$	33,209	$	29,395
Liabilities				
Accounts payable and accrued liabilities	$	7,604	$	29,926
Deferred revenue		72,643		42,979
Lease obligations		21		105
Total liabilities		80,268		73,010
Deficiency		(47,059)		(43,615)
	$	33,209	$	29,395

The summarized combined results of operations of SCENE GP and SCENE LP are as follows:

		2020		2019
Revenues	$	36,686	$	98,952
Expenses		52,130		122,408
Net loss	$	(15,444)	$	(23,456)

Cineplex and the other partner of SCENE GP and SCENE LP contribute capital as required to fund SCENE's operations.

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

10. Intangible assets

Intangible assets consist of the following:

	Customer relationships	Fair value of leases - assets	Other	Trademarks and trade names	Total
At January 1, 2020					
Cost	$ 32,988	$ —	$ 47,152	$ 63,599	$ 143,739
Accumulated amortization	(24,764)	—	(30,608)	—	(55,372)
Net book value	$ 8,224	$ —	$ 16,544	$ 63,599	$ 88,367
Year ended December 31, 2020					
Opening net book value	$ 8,224	—	$ 16,544	$ 63,599	$ 88,367
Additions	—	—	8,546	—	8,546
Disposals	—	—	(514)	—	(514)
Reclassification to right-of-use assets	—	—	—	—	—
Reclassification to assets held for sale	—	—	(21)	—	(21)
Foreign exchange rate changes	(17)	—	60	—	43
Amortization for the year - continuing operations	(4,388)	—	(7,111)	—	(11,499)
Closing net book value	$ 3,819	$ —	$ 17,504	$ 63,599	$ 84,922
At December 31, 2020					
Cost	$ 32,755	$ —	$ 55,224	$ 63,599	$ 151,578
Accumulated amortization	(28,936)	—	(37,720)	—	(66,656)
Net book value	$ 3,819	$ —	$ 17,504	$ 63,599	$ 84,922
At January 1, 2019					
Cost	$ 33,583	$ 21,911	$ 58,473	$ 63,599	$ 177,566
Accumulated amortization	(19,592)	(12,222)	(36,994)	—	(68,808)
Net book value	$ 13,991	$ 9,689	$ 21,479	$ 63,599	$ 108,758
Year ended December 31, 2019					
Opening net book value	$ 13,991	$ 9,689	$ 21,479	$ 63,599	$ 108,758
Additions	—	—	10,264	—	10,264
Reclassification to right-of-use assets	—	(9,689)	—	—	(9,689)
Reclassification to assets held for sale	—	—	(5,231)	—	(5,231)
Foreign exchange rate changes	(342)	—	(73)	—	(415)
Amortization for the year - continuing operations	(5,425)	—	(6,547)	—	(11,972)
Amortization for the year - discontinued operations	—	—	(3,348)	—	(3,348)
Closing net book value	$ 8,224	$ —	$ 16,544	$ 63,599	$ 88,367

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

11. Goodwill and impairment of long-lived assets, goodwill and investments

Cineplex performs its annual test for impairment of goodwill and indefinite-lived intangible assets in the fourth quarter, in accordance with the policy described in note 32, Significant accounting policies, judgements and estimation uncertainty. Assessment of impairment for long-lived assets, including property, equipment, leaseholds, right-of-use assets, intangible assets and goodwill is performed more frequently as specific events or circumstances dictate and changes in circumstances indicate that the carrying amount of the asset group may not be fully recoverable.

In early 2020, in response to the outbreak of COVID-19 pandemic declared by the WHO, the government of Canada announced mandated closure of schools, public facilities and non-essential businesses, effective March 16, 2020 Cineplex temporarily closed all of its theatres and location-based entertainment venues across Canada, resulting in material decreases in revenues, results of operations and cash flows which represented an indicator to trigger impairment testing for both long-lived assets and goodwill as of March 31, 2020. The recoverable amount was determined based on the fair value less costs to sell method using discounted cash flow models. Based on the results of the impairment tests completed, Cineplex recognized impairment charges of $88,495 to goodwill, non-cash impairment losses of $52,341 with respect to theatres and $32,218 with respect to location-based entertainment venues inclusive of the related right of use assets for the three months ended March 31, 2020.

A triggering event occurred on June 30,2020 as a result of the material decrease in Cineplex's market value due to sharp decline in its share price at that date from March 31, 2020. Cineplex reassessed the underlying key assumptions and inputs used during the impairment testing completed as at March 31, 2020. Cineplex determined that there were no material changes in those key judgements and conclusions and therefore concluded that there was no further impairment.

A triggering event occurred on September 30, 2020 as a result of the material decrease in Cineplex's market value due to a sharp decline in its share price at that date from June 30, 2020. Cineplex reassessed the underlying key assumptions and inputs used during the impairment testing completed as at March 31, 2020 and June 30, 2020. Based on the results of the impairment tests completed, Cineplex recognized impairment charges of $65,634 to goodwill for the three months ended September 30, 2020.

In addition to its required annual testing for impairment of goodwill and indefinite-lived intangible assets in the fourth quarter, the closure of most theatre and location-based entertainment operations resulted in further decreases in revenues, results of operations and cash flows which represented an indicator to trigger impairment testing for both long-lived assets and goodwill at December 31, 2020. Based on the results of the impairment tests, Cineplex recognized non-cash impairment charges of $26,906 to goodwill and $26,479 with respect to theatres inclusive of the related right-of-use assets for the three months ended December 31, 2020.

Fair value less cost to sell is determined using Level 3 inputs such as attendance and the related revenue growth rates, variable and fixed cash flows, operating margins, and discount rates based on Cineplex's internal budget. Cineplex projects revenue, operating margins and cash flows for a period of five years, and applies a perpetual long-term growth rate thereafter. In arriving at its forecasts, Cineplex considers past experience, economic trends such as inflation, as well as industry and market trends. Cineplex has considered the significant impact of COVID-19 on the business in 2020 with the majority of theatres and location based entertainment venues being closed for a significant portion of the year. Estimates have been applied for a reopening of both Cineplex and customer locations in 2021, with a growth in EBITDAaL of 102% for 2022 over 2021 during which Cineplex's businesses are expected to return to normal as the pandemic restrictions are removed. In arriving at its estimates, Cineplex undertook a review of multiple cash flow scenarios, applying a weighted average to potential outcomes, taking into consideration the probability of each scenario being realized. Subsequent to 2022, a range of estimates for growth in EBITDAaL from

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

3% to 7% has been applied across locations for the period 2023-2025 to reflect a staged reopening and other scenarios. Cineplex's estimated EBITDAaL for 2021 contemplates the latest information provided by government, at the measurement date, related to the timing of lifting of restrictions on locations and available information related to the release of film content, as well as observable evidence from other territories of consumer behaviour upon the reopening of theatres.

Cineplex's 2021 base case scenario assumes business will resume during the second quarter with a return to operations referencing 2019 levels in the third and fourth quarters, as vaccine roll-outs in Canada and United States and expected film releases take place as currently scheduled. However, in recognition of uncertainties surrounding the timing of the lifting of government mandated closures and operating restrictions during the re-opening phase as well as vaccine roll-outs and the potential for shifting film releases, plausible downside scenarios were also considered. Under these scenarios, the resumption of business, referenced against the 2019 levels, was delayed in varying extents, to 2022. Weightings were applied to each of the scenarios based on management's expectations of each outcome, to arrive at a blended result for 2021. The potential impact on impairment charges of a delay of a return to business of one quarter might reasonably be expected to be approximately $10,000 - $15,000 for each quarter that business openings are delayed.

Discount rates applied to the groups of goodwill CGUs represent Cineplex's assessment of the risks specific to each group of CGUs regarding the time value of money and individual risks of the underlying assets. Cineplex used discount rates between 11.0% and 16.7% (2019 - between 9.0% and 14.0%), and perpetual growth rates between 0.5% and 1% (2019 - between 0.5% and 1%), which are consistent with the observed long-term average growth rates in the exhibition, amusement and leisure, and digital media industries.

The determination of fair value less costs of disposal is sensitive to the growth rates, discount rates, and long-term growth rates used. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ, depending on economic conditions and other events. Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future assessments of the recoverable amount for groups of CGUs.

Impairment of long-lived assets, goodwill and investments for the year ended December 31, 2020 and 2019 were as follows:

	2020	2019
Impairment of property, equipment and leaseholds	$ 39,192	$ —
Impairment of right-of-use assets	71,846	—
Impairment of investments	2,790	
Impairment of goodwill	181,035	—
Impairment of long-lived assets, goodwill and investments	$ 294,863	$ —

The following table discloses the change in goodwill for the years ended and December 31:

	2020	2019
Balance - Beginning of year	$ 816,790	$ 817,235
Goodwill impairment	(181,035)	—
Foreign exchange rate changes	(173)	(445)
Balance - End of year	$ 635,582	$ 816,790

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

For the purpose of impairment testing, goodwill has been allocated to CGUs or groups of CGUs. Total goodwill of the reportable segments are as follows:

	2020	2019
Exhibition	$ 413,915	$ 594,950
Media	206,385	206,385
Amusement and leisure	15,282	15,455
	$ 635,582	$ 816,790

For goodwill, Cineplex concluded there were non-cash impairment losses in the exhibition business within the Film Entertainment and Content segment. Six CGU's, defined in this segment as theatre districts, recognized impairment losses totaling $181,035. In addition to the groups of CGUs which recognized impairments during the year, for one group of CGUs in the Film Entertainment and Content segment, if the discount rates were to increase by 2.0%, assuming a constant cash flow margin, or discounted cash flows were more than 13% less than estimated, the carrying amount of the group of CGUs would exceed the reasonable range for the recoverable amounts. The goodwill for this CGU represents 6% of the total carrying amount of goodwill. For all other CGUs, no reasonably possible change in assumption would cause the recoverable amount to fall below the carrying value.

In addition to the impairment charges noted, Cineplex recognized a non-cash impairment charge for its investment in VRStudios Inc. of $2,790 (note 9, Interests in joint ventures and associates).

At the end of each future reporting period the Company will assess whether there are indications that the impairment loss recognised for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company will estimate the recoverable amount of that asset and may reverse previously recorded impairment losses.

If the return to business continues to be delayed as a result of actions outside of the control of management, including but not limited to additional changes to the film slate release schedule, ongoing government restrictions impacting the re-opening of entertainment venues and delays in the vaccine roll out, management's estimates of operating results and further cash flows for the forecasted period may be negatively impacted. As a result, they may be insufficient to support the recoverability of goodwill and long lived assets in certain CGUs, thus requiring further impairment charges. Cineplex will continue to evaluate the recoverability of goodwill at the cash generating unit level on an annual basis during its fourth quarter and whenever events or changes in circumstances indicate there may be a potential impairment.

12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of:

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

	2020	2019
Accounts payable - trade	$ 39,098	$ 100,326
Film payables and accruals	3,700	44,103
Accrued salaries and benefits	14,915	27,594
Sales taxes payable	6,017	10,915
Accrued occupancy costs	4,868	3,474
Other payables and accrued liabilities	14,394	33,776
	$ 82,992	$ 220,188

13. Share-based compensation

Omnibus Incentive Plan ("Incentive Plan")

On November 12, 2020, the Board of Directors approved the new Omnibus Incentive Plan (the "Incentive Plan"). This plan supersedes the former Incentive Plans ("Legacy Plan") that included Options, Performance Share Units ("PSUs") and Restricted Share Units ("RSUs"). All employees and consultants are eligible to participate in the Incentive Plan. The Incentive Plan consists of stock options, RSUs and PSUs. Awards of RSUs and PSUs granted during a service year will be subject to a three year service period. The aggregate number of Shares that may be issued under the Incentive Plan is 1,756,834 provided that no more than 1,200,000 Shares may be issued in aggregate pursuant to the settlement of RSUs and PSUs. Options that were issued under the Legacy Plan and cancelled subsequent to the approval of the Incentive Plan will be available to be issued under the Incentive Plan. The base Share equivalents granted as RSU and PSU awards attract compounding notional dividends at the same rate as outstanding Shares, which are notionally re-invested as additional base Share equivalents. PSU and RSU awards may be settled in Shares issued from treasury, cash, or a mix of Shares and cash, at Cineplex's option at the time of settlement. Cineplex has determined that the 2020 award will be settled in Shares, and as a result are accounted for as equity-settled. Awards outstanding under prior plans shall remain in full force and effect under the prior plans according to their respective terms. Under the prior plans, the effects of changes in estimates of performance results are recognized in the year of change. As at December 31, 2020, 2,111,140 Shares are available to be issued under the Incentive Plan.

Stock Options

Stock options issued under the Incentive Plan will be administered by the Board of Directors who will establish the exercise price at the time each option is granted, which in all cases will not be less than the market price on the grant date. All of the options must be exercised over specified periods not to exceed ten years from the date granted. Options issued under the Incentive Plan may be exercised for cash or on a cashless basis, both of which result in the issuance of Shares from treasury. Options will be accounted for as equity-settled.

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

Stock options have been granted as follows:

Grant date	Number of options granted	Exercise price	Number of employees granted options	Vesting period	Expiry
February 15, 2011	529,774	23.12	41	One third on each successive anniversary of the grant date	February 14, 2021
February 15, 2011	500,000	23.12	1	One fourth on each successive anniversary of the grant date	February 14, 2021
February 14, 2012	474,000	27.33	42	One third on each successive anniversary of the grant date	February 13, 2022
February 12, 2013	385,834	33.49	42	One third on each successive anniversary of the grant date	February 11, 2023
September 3, 2013	20,000	39.12	1	One third on each successive anniversary of the grant date	September 2, 2023
February 14, 2014	440,519	40.45	54	One third on each successive anniversary of the grant date	February 14, 2024
February 14, 2014	100,000	40.45	1	One fourth on each successive anniversary of the grant date	February 14, 2024
February 18, 2015	446,004	49.14	59	One fourth on each successive anniversary of the grant date	February 18, 2025
February 12, 2016	501,270	47.86	76	One fourth on each successive anniversary of the grant date	February 12, 2026
February 21, 2017	544,922	51.25	80	One fourth on each successive anniversary of the grant date	February 21, 2027
February 27, 2018	559,703	33.59	74	One fourth on each successive anniversary of the grant date	February 27, 2028
February 20, 2019	709,092	25.05	78	One fourth on each successive anniversary of the grant date	February 20, 2029
April 26, 2019	48,547	25.06	1	One fourth on each successive anniversary of the grant date	April 26, 2029
August 17, 2020	725,758	8.25	76	One fourth on February 17, 2021, 2022, 2023 and 2024	August 17, 2030

The exercise price was equal to the market price of Cineplex shares or units at the grant date.

Until December 15, 2019, the options could only be equity-settled, and were accounted for as equity, not liabilities. Upon cashless exercises, the options exercised in excess of Shares issued were cancelled and returned to the pool available for future grants. The expense amount for options was determined at the time of their issuance, recognized over the vesting period of the options. Effective December 15, 2019, as a result of the terms of the Arrangement Agreement, the options were considered cash-settled, and the fair value of the options outstanding in excess of their respective exercise price was recognized as a current share-based compensation liability, and changes in value were reflected in the statement of operations. With the Termination Notice delivered by Cineworld on June 12, 2020 to terminate the Arrangement Agreement, the options were revalued and accounted for as equity-settled, with expected lives of the lesser of four years and their contractual lives. The value of vested options at March 31, 2020 of $3,944 was reclassified from liability to contributed surplus. Unvested options will be recognized over their remaining vesting periods at the value determined at March 31, 2020. Forfeitures are estimated at nil, based on historical forfeiture rates.

Cineplex recorded $1,203 of employee benefits recovery with respect to the options during the year ended December 31, 2020 (2019 - $2,537). At December 31, 2020, $nil associated with the options is reflected in current

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

share-based compensation liability on the consolidated balance sheets (2019 - $6,299). The intrinsic value of vested share options at December 31, 2020 is $nil (2019 - $632), based on the purchase price of $9.27 per share (2019 - $34.00). Cineplex undertook a one-time voluntary stock option cancellation program in December 2020 under which qualified holders of outstanding options granted from 2012 to 2017 were given the opportunity to cancel their options in exchange for a market value payment. In December, 1,307,301 options were cancelled for aggregate proceeds of $453.

A summary of option activities in 2020 and 2019 is as follows:

		2020		2019	
	Weighted average remaining contractual life (years)	Number of underlying shares	Weighted average exercise price	Number of underlying shares	Weighted average exercise price
Options outstanding, January 1	6.67	3,123,521	$ 38.62	2,433,589	$ 42.84
Granted		725,758	8.25	757,639	25.05
Cancelled		(1,408,439)	44.7	—	—
Forfeited		(398,821)	29.64	(67,707)	38.51
Options outstanding, December 31	7.64	2,042,019	$ 25.37	3,123,521	$ 38.62

At December 31, 2020 and 2019, options are vested and exercisable as follows:

	2020	2019
Options vested and exercisable at $25.05	140,996	—
Options vested and exercisable at $33.59	211,378	123,413
Options vested and exercisable at $51.25	76,416	231,377
Options vested and exercisable at $47.86	96,478	300,249
Options vested and exercisable at $49.14	81,574	374,061
Options vested and exercisable at $40.45	69,985	430,282
Options vested and exercisable at $33.49	44,634	169,977
Options vested and exercisable at $27.33	15,237	53,351
Options vested and exercisable at $23.12	9,186	12,746
	745,884	1,695,456

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

The fair values of options granted in 2020 and 2019 were determined using the Black-Scholes valuation model using the following significant inputs:

		2020		2019
Number of options granted		725,758		757,639
Share price	$	8.25		$25.05 - $25.06
Exercise price	$	8.25		$25.05 - $25.06
Expected option life (years)		4.0		4.0
Volatility		60 %		16 %
Dividend yield		— %		3.38 %
Annual risk-free rate		0.27 %		2.06 %
Fair value of options granted	$	3.15	$	2.34

The expected volatility was estimated based on the historical volatility of the Company's shares that covers the expected life of the options granted. The expected option life was estimated based on historical data and represents the numbers of years the options are expected to be outstanding. The risk-free rate was estimated based on the Government of Canada marketable bonds with a term that covers the expected life of the options granted.

The 2020 RSU and PSU awards were accounted as cash-settled from the grant date. On November 12, 2020, the Board approved the settlement of 2020 RSU and PSU awards issued under the Incentive Plan in equity. Cineplex revised the previous estimates and recognized the services received based on the revised grant date fair value at November 12, 2020 for RSU and PSU awards issued. The revised grant date fair value per unit was $6.37 and $1.71, respectively. The 2019 RSU and PSU awards are accounted for as cash-settled, and included in current hare-based compensation liability.

RSU

Valuation of restricted stock units is based on Cineplex's closing share price on the grant date. On August 17, 2020, Cineplex granted 277,105 RSUs with a fair value of $8.19 per unit (total fair value of $2,269), that will fully vest in September 2022, at the completion of the three year performance period.

A summary of RSU activities during the year ended December 31, 2020 is as follows:

	2020	2019
RSUs outstanding, January 1	93,835	35,895
Granted	277,105	54,940
Notional dividends	415	5,803
Settled	(37,572)	(243)
Cancelled	(38,594)	(2,560)
RSUs outstanding, December 31	295,189	93,835

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

PSU

On August 17, 2020, Cineplex granted 284,214 PSUs which will be equity-settled in September 2022, representing the completion of the three year performance period. Compensation expense is recorded based on the number of units expected to vest, the current market price of Cineplex's common shares, and the application of a performance multiplier that ranges from a minimum of zero to a maximum of two. Performance multipliers are developed based on Total Shareholder Return percentile rank relative to a select peer group and composite group. Participants will receive one fully paid Share issued from treasury that can vary depending on the achievement of established performance targets.

A summary of PSU activities during the year ended December 31, 2020 is as follows:

	2020	**2019**
PSUs outstanding, January 1	183,323	316,743
Granted	284,214	105,777
Notional dividends	1,624	20,611
Settled	(18,455)	(179,459)
Cancelled	(116,798)	(80,349)
PSUs outstanding, December 31	333,908	183,323

Incentive Plan costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. Forfeitures are estimated at $nil. For the year ended December 31, 2020, Cineplex recognized compensation recovery of $(6,858) (2019 cost - $7,140) under the Incentive Plan relating to RSU and PSU. At December 31, 2020, $384 (2019 - $8,104) was included in current 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 year ended December 31, 2020, Cineplex recognized compensation recovery of $8,246 (2019 - $3,385) associated with the deferred equity units. At December 31, 2020, $2,768 (2019 - $11,278) was included in share-based compensation liability.

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

14. Dividends payable

Cineplex has declared the following dividends during the years:

	2020		2019	
Record date	**Amount**	**Amount per share**	**Amount**	**Amount per share**
January	$ 9,500	$ 0.1500	$ 9,183	$ 0.1450
February	—	—	9,183	0.1450
March	—	—	9,183	0.1450
April	—	—	9,183	0.1450
May	—	—	9,500	0.1500
June	—	—	9,500	0.1500
July	—	—	9,500	0.1500
August	—	—	9,500	0.1500
September	—	—	9,500	0.1500
October	—	—	9,500	0.1500
November	—	—	9,500	0.1500
December	—	—	9,500	0.1500

The dividends are paid on the last business day of the following month. Dividends are at the discretion of the Board of Directors of Cineplex. Cineplex has not paid any dividends after the monthly dividend was paid on February 28, 2020 and does not expect to return to paying dividends as a result of Credit Facilities restrictions and the negative impact of the COVID-19 crisis on liquidity.

15. Lease obligations

The following table presents lease obligations for Cineplex for the year ended December 31, 2020 and 2019:

	Property	Equipment	Total
Year ended December 31, 2020			
Opening balance	$ 1,352,541	$ 15,054	$ 1,367,595
Modifications, net of additions	(143,954)	(4)	(143,958)
Tenant inducement	22,587	—	22,587
Lease payment	(118,922)	(5,394)	(124,316)
Interest expense	48,664	420	49,084
Foreign exchange rate changes	(67)	—	(67)
Closing lease obligations	$ 1,160,849	$ 10,076	$ 1,170,925
Less: current portion	92,869	4,390	97,259
Non-current portion of lease obligations	$ 1,067,980	$ 5,686	$ 1,073,666

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

	Property	Equipment	Total
Year ended December 31, 2019			
Opening balance	$ 1,422,579	$ 19,277	$ 1,441,856
Additions, net of modifications	36,238	446	36,684
Tenant inducement	16,289	—	16,289
Lease payment	(170,029)	(5,241)	(175,270)
Interest expense	48,086	573	48,659
Foreign exchange rate changes	(622)	(1)	(623)
Closing lease obligations	$ 1,352,541	$ 15,054	$ 1,367,595
Less: current portion	101,398	4,954	106,352
Non-current portion of lease obligations	$ 1,251,143	$ 10,100	$ 1,261,243

Current portion of lease obligations are net of estimate tenant inducements.

The following table discloses the undiscounted cash flow for lease obligations as of December 31:

	2020	2019
Less than one year	$ 159,928	$ 178,205
One to five years	635,088	661,979
More than five years	695,714	815,621
Total undiscounted lease obligations	$ 1,490,730	$ 1,655,805

The following table provides the lease amounts recognized in the statement of operations for the period ended December 31:

	2020	2019
Depreciation expense on right-of-use assets	$ 128,393	$ 145,946
Interest expense on lease obligations	$ 49,085	$ 48,659
Expense relating to variable lease payments not included in the measurement of the lease obligations (i)	$ 52,993	$ 56,235

(i) Variable lease payments include realty taxes and insurance.

Cineplex conducts a significant part of its operations in leased premises. Leased premises include leases for theatre locations, location-based entertainment venues, route operation locations, warehouses and offices. Cineplex also leases equipment for use in its theatre operations and offices. Leases for premises generally provide for minimum rentals and, in certain situations, percentage rentals based on sales volume or other identifiable targets; and may require the tenant to pay a portion of realty taxes and other property operating expenses. Property lease terms generally range from 15 to 20 years and contain various renewal options, generally, in intervals of five to ten years. Equipment lease terms generally range from one to five years and may contain renewal options.

Cineplex records the landlord's share of amusement revenue under venue revenue share (note 22, Other Costs). This balance consists of all variable rental payments paid to landlords. Certain contracts may contain a lease under the definition in IFRS 16, however no obligation is recorded because the payment is variable. Venue revenue share also includes fixed payments where Cineplex has concluded the contract does not contain a lease under IFRS 16.

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

Some of the property leases in which Cineplex is the lessee contain fixed lease payments and variable lease payments that are derived from sales or attendance generated from the leased properties. Variable payments related to these leases for the period ended December 31, 2020 were not material.

16. Long-term debt

In the fourth quarter of 2018, Cineplex increased and extended its bank credit facilities, primarily with the same syndicate of lenders to November 13, 2023 for the revolving credit facility (the "Revolving Facility") and to November 13, 2025 for the non-revolving credit facility (the "Term Facility", and together with the Revolving Facility, the "Credit Facilities"). The amendment to the Revolving Facility required no cash flow but was accounted for as an extinguishment under IFRS 9 as it included a prepayment option at par with no significant penalty at the date of negotiation. The Term Facility was accounted for as a modification under IFRS 9 but there was no material adjustment to be recognized.

The Credit Facilities consisted of the following until the First Amendment Agreement, described below:
a) a five-year, $650,000 senior, secured, Revolving Facility; and
b) a seven-year, $150,000, senior, secured, Term Facility.

There were provisions to increase the Revolving Facility commitment amount by an additional $150,000 with the consent of the lenders. The financial covenants and nominal variable interest rates of the Credit Facilities were substantially similar to the prior Credit Facilities.

The Credit Facilities contain numerous 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 Revolving Facility is drawn upon and repaid on a regular basis and as such is presented on a net basis in the Statement of Operations.

On June 29, 2020, Cineplex and Cineplex Entertainment Limited Partnership entered into the First Amendment Agreement with The Bank of Nova Scotia, as administrative agent, and the lenders from time to time named therein, to the seventh amended and restated credit agreement with a syndicate of lenders. The First Amendment Agreement (along with the Second Credit Amendment and Third Credit Agreement Amendment described below) provides Cineplex with certain financial covenant relief in light of the COVID-19 pandemic and its effects on Cineplex's businesses.

The following is a summary of the key terms of the First Credit Agreement Amendment (certain of which have been modified further by the Second Credit Agreement Amendment and Third Credit Agreement Amendment described below):

- Financial covenant testing was suspended effective upon execution of the First Credit Agreement Amendment, and subsequently extended for the second and third quarters of 2020 following a $100,000 permanent repayment of the Term Facility from the proceeds of the offering of the Debentures (note 17, Convertible debentures). On the resumption of financial covenant testing at the beginning of the fourth quarter of 2020, it will be based on an annualized calculation of Adjusted EBITDA for the following four fiscal quarters;
- The leverage ratio of 3.75x will apply when financial covenants are reinstated, and will be reduced over the course of 2021 each quarter until it is at 3.00x for the fourth fiscal quarter of 2021;
- The maturity date for the Term Facility was advanced by two years to be coincident with the maturity date for the Revolving Facility of November 13, 2023;

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

- If Cineplex chooses to undertake any new debt, equity or equity-related issuances or the sale of certain assets, Cineplex will be required to make certain mandatory permanent repayments of the Credit Facilities from the proceeds of such issuances or asset sales;
- Growth capital expenditures will be limited to certain agreed projects. After December 31, 2020, additional growth capital expenditures will be permitted subject to a pro forma leverage covenant of 2.75x (both prior to and immediately after giving effect to any such growth capital expenditure);
- Distributions will be limited to free cash flow and only permitted when the leverage ratio is less than 2.75x (both prior to and immediately after giving effect to any such distribution);
- Cineplex will not be permitted to make any acquisitions without consent from at least three of its lenders holding, in the aggregate, a minimum of 51% of the commitments under its Credit Facilities;
- The applicable margins for the interest rates on all borrowings will increase;
- Cineplex will no longer be able to request an increase in the total commitments under the Credit Facilities pursuant to the "accordion" provisions of the Credit Agreement prior to amendment; and
- Payments of interest on the Debentures (as defined below) will be permitted so long as no default or event of default has occurred under the Credit Agreement.

On November 12, 2020, Cineplex and Cineplex Entertainment Limited Partnership entered into the Second Credit Agreement Amendment. Without the provisions of the Second Credit Agreement Amendment, management's internal forecasts indicated a potential breach of the financial covenants as of December 31, 2020.

The following is a summary of the key terms of the Second Credit Agreement Amendment that are updated from the First Credit Agreement Amendment (certain of which have been modified further by the Third Credit Agreement Amendment described in note 34, Subsequent events):

- Financial covenant testing will be suspended until the second quarter of 2021. On resumption of financial covenant testing in the second quarter of 2021, the testing will be based on an annualized calculation of Adjusted EBITDA for the following four fiscal quarters;
- The leverage ratio of 3.75x will apply when financial covenants are reinstated, and will be reduced over the course of successive four quarters until the first quarter of 2022 at which point it will reach a level of 3.00x;
- Effective with the second quarter of 2021, additional growth capital expenditures will be subject to pro-forma leverage covenant of 2.75x (both prior to and immediately after giving effect to any such growth capital expenditure) based on actual last twelve month EBITDA;
- A liquidity covenant effective at all times through the covenant suspension period beginning in November 2020, through to and including June 2021, requiring available liquidity as defined on a monthly basis;
- Distributions continue to be blocked during the extended financial covenant suspension period and only permitted when the leverage ratio is less than 2.75x (both prior to and immediately after giving effect to any such distribution); and
- An anti-cash hoarding provision has been added limiting the request for advances under the Credit Facilities to those amounts required to fund costs and expenses reasonably anticipated to be incurred in the ordinary course of business. No amounts may be requested if sufficient cash on hand exists to pay such costs.

Following the First and Second Credit Agreement Amendments, including mandatory repayments, the Credit Facilities consist of the following:

a) a five-year, $620,000 senior, secured, Revolving Facility; and
b) a five-year, $50,000, senior, secured, Term Facility.

Subsequent to year end, Cineplex completed a sale-leaseback transaction for its head office buildings located at 1303 Yonge Street and 1257 Yonge Street, Toronto, Ontario for gross proceeds of $57,000. Fifty percent of the net proceeds were used to permanently reduce Cineplex's Revolving Facility to $591,668 (see note 34, Subsequent events).

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

Subsequent to year end, on February 8, 2021, Cineplex entered into the Third Credit Agreement Amendment, which, among other things, extended the suspension of financial covenant testing for two additional fiscal quarters and extended the liquidity covenant requirement until December 2021 (see note 34, Subsequent events).

The Credit Facilities mature and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity. The Credit Facilities bear interest at a floating rate, based on the Canadian dollar prime rate, or bankers' acceptances rate plus, in each case, an applicable margin to those rates. Borrowings on the Revolving Facility and the Term Facility can be made in either Canadian or US dollars.

As of December 31, 2020, Cineplex was in compliance with all financial covenants under the terms of the Credit Facilities. However, management's forecasts indicate a potential breach of its covenants within the next twelve months. Management's forecasts may change materially as the impact of COVID-19 on Cineplex's business is better understood. A violation of its covenants would represent an event of default under the terms of the Credit Facilities, enabling the lenders to demand immediate repayment of all amounts due.

Cineplex has entered into interest rate swap agreements to act as a cash flow hedge on the floating interest rate payable on Cineplex's first $450.0 million of borrowings. Cineplex ceased the use of hedge accounting for the interest rate swaps during the fourth quarter of 2019 as a result of the terms of the Arrangement Agreement. The interest rate swaps are measured at fair market value at each reporting period with changes in fair market value recognized in the consolidated statement of operations.

The following table outlines Cineplex's current interest rate swap agreements as of December 31, 2020:

Interest rate swap agreements					
	Notional amount	**Inception date**	**Effective date**	**Maturity date**	**Fixed rate payable**
Swap - 1	$200.0 million	April 25, 2016	October 24, 2018	April 26, 2021	1.484 %
Swap - 2	$200.0 million	November 13, 2018	April 26, 2021	November 14, 2023	2.945 %
Swap - 3	$100.0 million	November 13, 2018	November 13, 2018	November 14, 2023	2.830 %
Swap - 4	$150.0 million	November 13, 2018	November 13, 2018	November 14, 2025	2.898 %

Long-term debt consists of:

		2020		**2019**
Term Facility	$	50,000	$	150,000
Revolving Facility		456,000		475,000
	$	506,000	$	625,000
Letters of credit reserved against Revolving Facility	$	10,234	$	8,748
Revolving Facility available (note 34)		153,766		166,252

At December 31, 2020, Cineplex was subject to a margin of 3.00% (2019 - 0.70%) on the prime rate and 4.00% (2019 - 1.70%) on the bankers' acceptance rate, plus a 0.25% (2019 - 0.25%) per annum fee for letters of credit issued on the Revolving Facility. The average interest rate on borrowings under the Credit Facilities was 4.87% for the year ended December 31, 2020 (2019 - 3.85%). Cineplex pays a commitment fee on the daily unadvanced portion of the Revolving Facility, which will vary based on certain financial ratios and was 1.00% at December 31, 2020 (2019 - 0.34%).

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

17. Convertible debentures

Convertible debentures consist of the following:

		2020
Opening face value of convertible debentures	$	316,250
Equity component of convertible debentures		(91,264)
Fees and costs of issuing debentures	$	(13,187)
Accretion expense	$	7,472
Convertible debentures	$	219,271

On July 15, 2020, Cineplex completed the offering of $275,000 aggregate principal amount of convertible unsecured subordinated debentures. On July 17, 2020, the underwriters purchased an over-allotment option for an additional $41,250 aggregate principal amount. The debentures will mature and be repayable on September 30, 2025 (the "Maturity Date") and bear interest at a rate of 5.75% per annum, payable semi-annually in arrears on September 30 and March 31 in each year.

The Debentures will not be redeemable by Cineplex prior to September 30, 2023. On or after September 30, 2023 and prior to September 30, 2024, Cineplex may, at its option, redeem the debentures in whole or in part from time to time provided that the volume weighted average trading price of the Shares on the Toronto Stock Exchange during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after September 30, 2024, the 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.

At the holder's option, the Debentures may be converted into shares at a conversion price of $10.94 per share at any time prior to the close of business on the earlier of: (i) five business days prior to the Maturity Date, and (ii) if called for redemption, five business days immediately preceding the dated fixed for redemption of the Debentures, at a conversion price to be determined at the time of pricing. Holders who convert their Debentures into shares will receive accrued and unpaid interest for the period from the date of the latest interest payment date to the date of conversion.

The fair value of the liability component of the Debenture was assessed at inception based on an estimated market discount rate of 14.1% less the pro-rata portion of transaction costs, and will be accreted to the full face value over the term of the Debenture. Cineplex recorded accretion on the Debentures of $7,472. Accretion on the Debentures is included as part of the interest expense on the consolidated statement of operations. The residual value was allocated to the equity component less the pro-rata portion of transaction costs as prescribed by IFRS 9, *Financial instruments*.

Deferred income tax liabilities of $24,464 associated with the equity component of the Debentures were recognized, resulting in a net increase of equity of $66,800.

18. Post-employment benefit obligations

Cineplex sponsors a defined benefit supplementary executive retirement plan ("DB SERP"). The DB SERP has a defined benefit obligation of $10,966 at December 31, 2020 (December 31, 2019 - $9,936), which is substantially

unfunded. Annual benefits payable are between $575 and $650, depending on the retirement date of the sole beneficiary. The DB SERP does not have a material effect on the operations or cash flows of Cineplex.

Cineplex also sponsors the Retirement Plan for Salaried Employees of Famous Players Limited Partnership, a defined benefit pension plan, and the Famous Players Retirement Excess Plan (collectively known as the "Famous Players Plans"). Effective October 23, 2005, Cineplex elected to freeze future accrual of defined benefits under the Famous Players Plans. The Famous Players Plans do not have a material effect on the operations, cash flows or financial position of Cineplex.

Cineplex also provides a group registered retirement plan for the benefit of full-time employees.

The net post-retirement benefit obligation for each of the plans is as follows:

		2020		2019
DB SERP obligation, net of assets	$	9,868	$	9,032
Famous Players Plans obligations		1,635		1,646
Net post-retirement benefit obligation	$	11,503	$	10,678

Reconciliation of the net post-retirement benefit obligations

		2020		2019
Accrued benefit obligations				
Balance - Beginning of year	$	11,582	$	10,003
Current service cost		485		431
Interest cost		371		393
Benefits paid		(107)		(116)
Actuarial (gains) losses		270		871
Balance - End of year	$	12,601	$	11,582
Less: Fair value of plan assets	$	1,098	$	904
Net post-retirement benefit obligation	$	11,503	$	10,678

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

Significant assumptions

	2020	2019
Accrued benefit obligations at December 31		
Discount rate - all plans	2.10% - 2.40%	3.00% - 3.10%
Health care cost trend rates at December 31		
Initial rate	5.82%	6.16%
Ultimate rate	4.00%	4.46%
Year ultimate rate reached	2041	2028

Sensitivity analysis

The following table shows the impact of a 1% increase or decrease of the discount rate on the defined benefit obligation at the end of the year.

	2020	2019
Impact of 1% increase in the discount rate	$ (1,340)	$ (1,209)
Impact of 1% decrease in the discount rate	$ 1,529	$ 1,440

19. Other liabilities

Other liabilities consist of the following:

	2020	2019
Asset retirement obligations	$ 2,984	$ 3,296
Licensing obligations - non-current	2,120	2,142
Deferred consideration - AMC business acquisition	3,134	3,134
Other, including provisions	60,411	1,241
	$ 68,649	$ 9,813

Other liabilities includes $60,000 proceeds for the reorganization of SCENE (note 9, Interests in joint ventures and associates).

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

20. 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 balances at December 31, 2020 and 2019 and transactions during the periods are as follows:

		Amount	
	Number of common shares issued and outstanding	Common shares	Total
Balance - December 31, 2019 and 2020	63,333,238	$ 852,379	$ 919,179

21. Revenue

The following tables disclose the changes in deferred revenue for the years ended December 31, 2020 and 2019:

	December 31, 2019	Additions	Revenue Recognized	December 31, 2020
Gift cards	$ 184,755	$ 23,743	$ 44,473	$ 164,025
SCENE loyalty program	21,277	33,173	18,341	36,109
Advances and deposits	16,966	20,854	17,971	19,849
	$ 222,998	$ 77,770	$ 80,785	$ 219,983

The following tables provide the disaggregation of revenue into categories by nature for the years ended December 31, 2020 and 2019:

Box revenues	Year ended December 31, 2020	2019
Box office revenues	$ 132,820	$ 705,521

Food service revenues	Year ended December 31, 2020	2019
Food service - theatres	$ 91,384	$ 446,639
Food delivery - theatres	8,175	$ —
Food service - location-based entertainment	8,882	36,691
Food delivery - location-based entertainment	191	—
Total food service revenues	$ 108,632	$ 483,330

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

Media revenues	**Year ended December 31, 2020**	**2019**
Cinema media	$ 23,568	$ 115,415
Digital place-based media	41,790	81,340
Total media revenues	$ 65,358	$ 196,755

Amusement revenues	**Year ended December 31, 2020**	**2019**
Amusement solutions excluding exhibition	$ 60,027	$ 178,209
Amusement solutions - exhibition	2,457	10,907
Amusement solutions - location based entertainment	15,417	39,115
Total amusement revenues	$ 77,901	$ 228,231

Other revenues	**Year ended December 31, 2020**	**2019**
Other revenues	$ 33,552	$ 51,309

22. Other costs

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

	Year ended December 31,	
	2020	**2019**
Employee salaries and benefits	$ 106,942	$ 317,433
Rent	(2,278)	4,482
Realty and occupancy taxes and maintenance fees	67,381	75,132
Utilities	23,870	33,935
Purchased services	37,185	70,464
Other inventories consumed, including amusement and digital place-based media	40,256	93,524
Venue revenue share	15,577	48,629
Repairs and maintenance	25,271	36,182
Advertising and promotion	11,353	23,688
Office and operating supplies	6,122	15,304
Licences and franchise fees	15,028	19,454
Insurance	5,691	5,238
Professional and consulting fees	10,560	12,007
Telecommunications and data	5,195	7,750
Bad debts	1,735	869
Equipment rental	61	1,371
Other costs	5,742	17,231
	$ 375,691	$ 782,693

Management undertook several cost cutting measures to mitigate the negative impact of COVID-19 on Cineplex's business, in addition to applying for government subsidy programs where available. During the year ended December 31, 2020, Cineplex recorded wage subsidies of $57,014, rent subsidies of $2,761, realty tax subsidies of $3,249, and utilities subsidies of $1,838 which have all been offset in their related costs.

23. Net (loss) income per share

Basic

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

	2020	**2019**
Net (loss) income attributable to owners of Cineplex - continuing operations	$ (623,996)	$ 36,540
Net (loss) income attributable to owners of Cineplex	$ (628,948)	$ 28,915
Weighted average number of shares outstanding	63,333,238	63,333,238
Basic EPS from continuing operations	$ (9.85)	$ 0.58
Basic EPS from discontinued operations	(0.08)	(0.12)
Basic EPS	$ (9.93)	$ 0.46

Diluted

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

Diluted EPS is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all 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. The options and convertible debentures are anti-dilutive in 2020.

	2020	2019
Net (loss) income attributable to owners of Cineplex - continuing operations	$ (623,996)	$ 36,540
Net (loss) income attributable to owners of Cineplex	$ (628,948)	$ 28,915
Weighted average number of shares outstanding	63,333,238	63,333,238
Adjustments for stock options	—	2,446
Weighted average number of shares for diluted EPS	63,333,238	63,335,684
Diluted EPS from continuing operations	$ (9.85)	$ 0.58
Diluted EPS from discontinued operations	(0.08)	(0.12)
Diluted EPS	$ (9.93)	$ 0.46

24. Operating segments

Cineplex has four reportable segments; Film Entertainment and Content, Media, Amusement and Leisure and Location-Based Entertainment. The reportable segments are business units offering differing products and services and managed separately due to their distinct natures. These four 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.

Amusement and Leisure
The Amusement and Leisure reporting segment includes the amusement solutions operating segment. Amusement solutions is comprised of revenues and costs associated with operating and distributing amusement, gaming and vending equipment. Previously reported periods included results for eSports in the Amusement and Leisure segment. These financial statements present eSports in net loss from discontinued operations. Prior periods have been restated to reflect this presentation.

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

Location-Based Entertainment

Location-based entertainment is comprised of the social entertainment destinations featuring gaming, entertainment and dining. These entertainment options are complemented with an upscale casual dining environment, featuring an open kitchen and contemporary menu, as well as a larger bar with a wide range of digital monitors and a large screen for watching sporting and other major events.

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 adjusted EBITDAaL to measure the performance of its reportable segments.

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, (gain) loss on disposal of assets, foreign exchange, the equity (loss) income of CDCP, the non-controlling interests' share of adjusted EBITDA of TG-CPX Limited Partnership, and impairment, depreciation, amortization, interest and taxes of Cineplex's other joint ventures and associates. Adjusted EBITDAaL modifies adjusted EBITDA to deduct current period cash rent paid or payable related to lease obligations. During the year, Cineplex agreed to a variety of arrangements with landlords to reduce or defer cash rent paid or payable as a result of the impact of COVID-19. This includes agreements with landlords that are evidenced by way of written confirmation of the terms agreed upon to the date of approval of the financial statements, and are in the process of being formally documented.

Cineplex's management believes that adjusted EBITDAaL is an important supplemental measure of Cineplex's profitability at an operational level and provides analysts and investors with comparability in evaluating and valuing Cineplex's performance period over period. EBITDA, adjusted for various unusual items, is also used to define certain financial covenants in Cineplex's Credit Facilities.

The following tables disclose the results of the Film Entertainment and Content, Media, Amusement and Leisure and Location-Based Entertainment segments for the year ended December 31, 2020 and 2019:

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

Year ended December 31, 2020	Film Entertainment and Content (i)	Media (i)	Amusement and Leisure (restated - note 33)	Location-Based Entertainment	Corporate and other (iii)	Consolidated
Major product and service lines						
Box office	$ 132,820	$ —	$ —	$ —	$ —	$ 132,820
Food service	99,559	—	—	9,073	—	108,632
Media	—	64,758	—	600	—	65,358
Amusement	2,457	—	60,027	15,417	—	77,901
Other	33,112	—	—	440	—	33,552
Total revenues	$ 267,948	$ 64,758	$ 60,027	$ 25,530	$ —	$ 418,263
Primary geographical markets						
Canada	$ 267,948	$ 50,387	$ 18,259	$ 25,530	$ —	$ 362,124
United States and other countries	—	14,371	41,768	—	—	56,139
Total revenues	$ 267,948	$ 64,758	$ 60,027	$ 25,530	$ —	$ 418,263
Timing of revenue recognition						
Transferred at a point in time	$ 267,948	$ 17,624	$ 60,027	$ 24,930	$ —	$ 370,529
Transferred over time	—	47,134	—	600	—	47,734
Total revenues	$ 267,948	$ 64,758	$ 60,027	$ 25,530	$ —	$ 418,263
Adjusted EBITDAaL	(145,855)	21,775	(10,805)	(8,160)	(39,770)	(182,815)
Difference between the sum of depreciation of right-of-use assets and interest expense related to the lease obligations as compared to the cash rent paid or payable related to lease obligations with respect to the current period.						50,535
Other adjustments (ii)						(5,491)
Depreciation and amortization - other assets						124,846
Interest expense - other						61,483
Interest income						(182)
Income taxes recovery						(84,868)
Impairment of long-lived assets and goodwill						294,863
Net loss from continuing operations						$ (624,001)
Net loss from discontinued operations (note 32)						(4,952)
Net loss						$ (628,953)
Other operating segment disclosures						
Depreciation - right-of-use assets	$ 114,798	$ 3,360	$ 4,469	$ 5,065	$ 701	$ 128,393
Depreciation and amortization - other assets	$ 72,319	$ 10,318	$ 28,053	$ 14,156	$ —	$ 124,846
Interest expense - lease obligations	$ 44,153	$ 457	$ 617	$ 3,833	$ 25	$ 49,085
Impairment of long-lived assets, goodwill and investments	$ 262,645	$ —	$ —	$ 32,218	$ —	$ 294,863
Goodwill balance	$ 413,915	$ 206,385	$ 15,282	$ —	$ —	$ 635,582

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

Year ended December 31, 2019	Film Entertainment and Content (i)	Media (i)	Amusement and Leisure (restated - note 33)	Location-Based Entertainment	Corporate and other (iii)	Consolidated
Major product and service lines						
Box office	$ 705,521	$ —	$ —	$ —	$ —	$ 705,521
Food service	446,639	—	—	36,691	—	483,330
Media	—	195,680	—	1,075	—	196,755
Amusement	10,907	—	178,209	39,115	—	228,231
Other	48,993	—	—	2,316	—	51,309
Total revenues	$ 1,212,060	$ 195,680	$ 178,209	$ 79,197	$ —	$ 1,665,146
Primary geographical markets						
Canada	$ 1,212,060	$ 164,339	$ 53,939	$ 79,197	$ —	$ 1,509,535
United States and other countries	—	31,341	124,270	—	—	155,611
Total revenues	$ 1,212,060	$ 195,680	$ 178,209	$ 79,197	$ —	$ 1,665,146
Timing of revenue recognition						
Transferred at a point in time	$ 1,212,060	$ 51,445	$ 178,209	$ 79,197	$ —	$ 1,520,911
Transferred over time	—	144,235	—	—	—	144,235
Total revenues	$ 1,212,060	$ 195,680	$ 178,209	$ 79,197	$ —	$ 1,665,146
Adjusted EBITDAaL	178,860	106,350	21,757	7,391	(83,812)	230,546
Difference between the sum of depreciation of right-of-use assets and interest expense related to the lease obligations as compared to the cash rent paid or payable related to lease obligations with respect to the current period.						19,365
Other adjustments (ii)						(1,798)
Depreciation and amortization - other assets						128,883
Interest expense - other						36,063
Interest income						(252)
Income taxes expense						11,769
Net income from continuing operations						$ 36,516
Net loss from discontinued operations (note 32)						(7,625)
Net income						$ 28,891
Other operating segment disclosures						
Depreciation - right-of-use assets	$ 130,290	$ 3,437	$ 5,820	$ 5,756	$ 643	$ 145,946
Depreciation and amortization - other assets	$ 75,077	$ 13,607	$ 27,704	$ 12,495	$ —	$ 128,883
Interest expense - lease obligations	$ 44,466	$ 505	$ 715	$ 2,934	$ 39	$ 48,659

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

(ii) Other adjustments include gain/loss on disposal of assets, CDCP equity (loss) income, foreign exchange, non-controlling interest adjusted EBITDA, depreciation and amortization for joint ventures and taxes and interest - joint ventures.

(iii) Corporate and other represents the cost of centralized corporate overhead 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 not related to the lease obligations and interest 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.

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

25. Barter transactions

Cineplex occasionally enters into barter arrangements with other parties to exchange goods or services. During the year ended December 31, 2020, Cineplex provided advertising and media services to third parties and recognized advertising revenues of $144 (2019 - $1,140). Cineplex received sponsorship and advertising services in exchange, recording marketing expenses of $345 (2019 - $952). The exchanges were measured at the estimated fair value of the services provided by Cineplex, by reference to similar services provided by Cineplex for monetary consideration to arm's-length third parties other than those with whom the transactions were entered into.

26. 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") served as a Board member until May 5, 2020. Prior to his departure, Cineplex incurred theatre expenditures for theatres under lease commitments with Riocan in the amount of $20,217 (2019 - $42,989).

Joint ventures

Cineplex leased digital projection systems from CDCP in the amount of $1,178 for the year ended December 31, 2020 (2019 - $1,897).

Cineplex performs certain management and film booking services for the joint ventures in which it is either a joint venturer or an associate. During the year ended December 31, 2020, Cineplex earned revenue of $571 for these services (2019 - $780).

Compensation of key management

Compensation recognized in employee benefits for key management, who are defined as the Named Executive Officers, included:

	2020	2019
Salaries and short-term employee benefits	$ 2,155	$ 4,448
Post-employment benefits	1,037	972
Share-based payments	(5,492)	5,674
	$ (2,300)	$ 11,094

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

27. Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	2020	2019
Trade and other receivables	$ 115,122	$ (4,140)
Inventories	10,222	(188)
Prepaid expenses and other current assets	2,737	(140)
Accounts payable and accrued liabilities	(87,968)	14,028
Income taxes receivable	(56,825)	(14,479)
Deferred revenue	(2,990)	8,706
Post-employment benefit obligations	330	1,429
Share-based compensation	(20,681)	6,291
Other liabilities	(3,125)	(2,780)
	$ (43,178)	$ 8,727

Property, equipment and leasehold purchases are included in accounts payable and accrued liabilities as at December 31, 2020, in the amount of $4,717 (2019 - $33,158).

28. Commitments, guarantees and contingencies

Commitments

As of December 31, 2020, Cineplex has aggregate capital commitments as follows:

Capital commitments for operating locations to be completed or renovated during 2021 - 2024	$ 82,100
Letters of credit	$ 10,234

Guarantees

During 2005 and 2006, Cineplex entered into agreements with third parties to divest a total of 36 theatres, 30 of which were leased properties. Cineplex is guarantor under the leases for the remainder of the lease terms for certain theatres that it has sold in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease; ten or fewer of those theatres are still operated by a third party lease under which Cineplex arguably could be responsible as a guarantor.

Cineplex has assessed the fair value of the lease guarantees and determined that the fair value of these guarantees at December 31, 2020 is nominal. As such, no additional amounts have been provided in the consolidated financial statements for these guarantees. 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.

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

Other

Cineplex or a subsidiary of Cineplex is a defendant in various claims and lawsuits arising in the ordinary course of business. From time to time, Cineplex is involved in disputes with landlords, contractors, suppliers, former employees and other third parties. It is the opinion of management that any liability to Cineplex, which may arise as a result of these matters, will not have a material adverse effect on Cineplex's operating results, financial position or cash flows.

29. Financial instruments

Fair value of financial instruments

The carrying value and fair value of Cineplex's financial instruments at December 31, 2020 and 2019 are as follows:

		2020		2019	
	Input level	Carrying value	Fair value	Carrying value	Fair value
Convertible debentures	1	219,271	344,713	—	—
Other liabilities - equipment liabilities	2	4,168	4,168	4,195	4,195
Interest rate swap agreements, net	2	26,359	26,359	11,217	11,217
Deferred consideration - AMC	2	3,134	3,134	3,134	3,134

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

At the time of entering into the Third Credit Amendment Agreement, there was no further change to the interest margins charged by the Bank on Cineplex's outstanding debt from that implemented under the First and Second Credit Amendment Agreements. The debt is considered a Level 3 fair value measurement and no other observable inputs are available. If the interest rate were to increase by 2% to 4%, the effect would be to decrease the fair value of the debt by approximately $30,000 to $60,000. The numerous external factors impacting the future performance of Cineplex, as discussed in note 2, COVID-19 business impacts, risks and going concern, and note 11, Goodwill and impairment of long-loved assets, goodwill and investments, indicate that there is significant uncertainty in the inputs to, and therefore the measurement of, the fair value of the debt as at December 31, 2020. As a result, changes in these underlying assumptions could cause the fair value to vary materially.

The equipment liabilities are recorded at amortized cost, as derived from expected cash outflows and Cineplex's estimated incremental borrowing rate, 4.9%. The equipment liabilities are included in accounts payable and accrued liabilities (current portion) and in other liabilities on the balance sheet.

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 $450,000 of borrowings. Cineplex ceased hedge accounting for the interest rate swaps during the fourth quarter of 2019. The interest rate swap is measured at fair market value at each reporting period with changes in fair market value recognized in the consolidated statement of operations.

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

The deferred consideration for AMC (an undiscounted amount of $3,134 based on estimated non-capital losses arising from the 2012 acquisition of AMC Ventures Inc.) is recorded at fair value and included in other liabilities (note 19, Other liabilities). There was no change in fair value of $3,134 for the year ended December 31, 2020.

The convertible debentures are publicly traded on the TSX, and are recorded at amortized cost (note 17, Convertible debentures).

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

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

Level 3 inputs are unobservable inputs for the financial asset or financial liability, and include situations where there is little, if any, market activity for the financial asset or financial liability. Cineplex's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the financial asset or financial liability.

Credit risk

Credit risk is the risk of financial loss to Cineplex if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Management believes the credit risk on cash and cash equivalents is low because the counterparties are banks with high credit ratings.

Accounts receivable include trade and other receivables. Trade receivables are amounts billed to customers for the sales of goods and services, and represent the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within 30 to 45 days. Other receivables include amounts due from suppliers and landlords and other miscellaneous amounts. Cineplex's credit risk is primarily related to its trade receivables, as other receivables generally are recoverable through ongoing business relationships with the counterparties.

Cineplex grants credit to customers in the normal course of business. Cineplex typically does not require collateral or other security from customers; however, credit evaluations are performed prior to the initial granting of credit when warranted and periodically thereafter. Cineplex records a reserve for estimated uncollectible amounts, which management believes reduces credit risk. See note 32, Significant accounting policies, judgments and estimation uncertainty, for Cineplex's policy on impairment of financial assets.

The following schedule reflects the balance and age of trade receivables at December 31, 2020 and 2019:

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

	2020	2019
Trade receivables carrying value	$ 29,188	$ 136,647
Percentage past due	57%	36%
Percentage outstanding more than 120 days	27%	3%

The following schedule reflects the changes in the allowance for trade receivables during the years ended December 31, 2020 and 2019:

	2020	2019
Expected credit loss for trade receivables - Beginning of year	$ 516	$ 628
Additional allowance recorded	1,244	508
Amounts written off	(569)	(620)
Expected credit loss for trade receivables - End of year	$ 1,191	$ 516

Due to Cineplex's diversified client base, management believes Cineplex does not have a significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that Cineplex will encounter difficulty in meeting obligations associated with its financial liabilities.

The table below reflects the contractual maturity of Cineplex's undiscounted cash flows for its financial liabilities and interest rate swap agreements:

	2020				
	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	$ 82,992	$ 82,992	$ —	$ —	$ —
Interest rate swap agreements	26,359	7,201	15,449	3,709	—
Long-term debt	506,000	—	506,000	—	—
Interest on long-term debt	70,618	24,642	45,976	—	—
Equipment obligations	4,168	1,975	2,018	150	25
Deferred consideration - AMC	3,134	—	3,134	—	—
Convertible debentures	316,250	—	—	316,250	—
Convertible debentures interest	86,388	18,184	36,369	31,835	—
Total contractual obligations	$1,095,909	$ 134,994	$ 608,946	$ 351,944	$ 25

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

	2019				
	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	$ 220,188	$ 220,188	$ —	$ —	$ —
Dividends payable	9,500	9,500	—	—	—
Interest rate swap agreements	11,217	852	5,455	4,028	882
Long-term debt	625,000	—	—	475,000	150,000
Interest on long-term debt	87,280	24.063	48,125	34,132	5,000
Equipment obligations	4,195	2,006	2,014	150	25
Deferred consideration - AMC	3,134	3,134	—	—	—
Total contractual obligations	$ 960,514	$ 235,704	$ 55,594	$ 513,310	$ 155,907

Existing lease commitments are disclosed in note 15. Cineplex also has significant new theatre and other capital commitments (note 28, Commitments, guarantees and contingencies), as well as contingent obligations in the form of letters of credit, guarantees and the Incentive Plan for options, RSUs, and PSUs.

Management believes the Cineplex's cash flows from certain planned asset sales, including but not limited to the sale of its head office building, income tax recoveries, and funding sourced by the issuance of Debentures will be adequate to support all of its financial liabilities. Refer to note 2, COVID-19 business impacts, risks and going concern, for a discussion of management's liquidity measures.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign currency exchange rates.

The majority of Cineplex's revenues and expenses are in Canadian dollars, with the remainder denominated in US dollars. Approximately 13.4% of Cineplex's revenues are derived from sales to customers in the United States, which are naturally hedged by the Cineplex's US-based operating costs. Management considers currency risk to be low and does not hedge its currency risk. An assumed increase of 10% in exchange rates at December 31, 2020 would have increased other comprehensive income by $3,061 and decreased net income by $2,920. An assumed decrease of 10% in exchange rates at December 31, 2020 would have decreased other comprehensive income by $3,053 and increased net income by $2,920.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Cineplex is exposed to interest rate risk on its long-term debt, which bears interest at floating rates.

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

Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swap agreements. The interest rate swap agreements are recognized in the consolidated balance sheets at their estimated fair value. During the year ended December 31, 2020, Cineplex recorded non-cash interest expense of $13,922 relating its interest rate swaps (2019 - interest expense of $10,472).

There was no impact on OCI in the current and prior period resulting from a 1% change in interest rates on Cineplex's long-term debt and interest rate swap agreements. The following table shows Cineplex's exposure to interest rate risk and the pre-tax effects on net income for the years ended December 31, 2020 and 2019 of a 1% change in interest rates management believes is reasonably possible:

			2020
	Pre-tax effects on net income and OCI - increase (decrease)		
		1% decrease in interest rates	**1% increase in interest rates**
	Carrying value of financial liability	**Net income**	**Net income**
Long-term debt	$ 506,000	$ 5,836	$ (5,836)
Interest rate swap agreements - net	26,360	(12,192)	11,692
		$ (6,356)	$ 5,856

			2019
	Pre-tax effects on net income and OCI - increase (decrease)		
		1% decrease in interest rates	**1% increase in interest rates**
	Carrying value of financial liability	Net income	Net income
Long-term debt	$ 625,000	$ 6,399	$ (6,399)
Interest rate swap agreements - net	11,217	(17,597)	16,995
		$ (11,198)	$ 10,596

The carrying value of the interest rate swaps liability was $26,359 at December 31, 2020. If interest rates changed plus or minus 1% from existing estimates throughout the contract period, the carrying value would decrease to $14,668 or increase to $38,551, primarily affecting interest expenses.

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

30. Capital disclosures

Cineplex's objectives when managing capital are to:

a) maintain financial flexibility to preserve its ability to meet financial obligations and growth objectives, including future investments;
b) deploy capital to provide an appropriate investment return to its shareholders; and
c) maintain a capital structure that allows multiple financing options, should a financing need arise.

Cineplex defines its capital as follows:

a) equity;
b) long-term debt, convertible debentures, and finance lease obligations, including the current portion;
c) fair value equipment liabilities, including the current portion; and
d) cash and cash equivalents.

It is Cineplex's policy to distribute annually to shareholders available cash from operations after cash required for maintenance capital expenditures, working capital and other reserves at the discretion of the Board of Directors. Distributions will be limited and only permitted when the leverage ratio is less than 2.75 to 1 as required under Credit Facility, both prior to and immediately after giving effect to any such distribution. Distributions are not allowed during the financial covenant suspension period.

During the fiscal period, Cineplex entered into a First and Second Credit Agreement Amendment with The Bank of Nova Scotia, as administrative agent, and the lenders from time to time named therein. The credit agreement amendments provide Cineplex with financial covenant relief in light of the COVID-19 pandemic and its effects on Cineplex's business. As a result, financial covenant testing has been temporarily suspended until the end of the second quarter of 2021. On the reinstatement of financial covenant testing, the total leverage ratio may not exceed 3.75 to 1, and will be reduced over the course of 2021 each quarter until it is at 3 to 1 for the fourth fiscal quarter of 2021. Growth capital expenditures will be limited to certain agreed projects during the year. After December 31, 2020, additional growth capital expenditures will be permitted subject to a pro forma leverage covenant of 2.75 to 1, both prior to and immediately after giving effect to any such growth capital expenditures.

The basis for Cineplex's capital structure is dependent on Cineplex's expected growth and changes in the business and regulatory environments. To maintain or adjust its capital structure, Cineplex may purchase shares for holding or cancellation, issue new shares, raise debt or refinance existing debt with different characteristics.

Objectives and strategies are reviewed periodically by management. During 2020, Cineplex completed the offering of convertible debentures for $316,250 aggregate principal amount where $100,000 of the proceeds raised were used to permanently repay the credit facility outstanding as required under the Arrangement Agreement. In 2020, Cineplex's capital composition, objectives or strategies all changed in response to the substantial business challenges of COVID-19.

31. Assets held for sale and discontinued operations

During the quarter ended September 30, 2019, Cineplex initiated a review process of WorldGaming Network LP's ("WGN") online esports business, engaging a third party adviser to identify a strategic equity partner. On June 29, 2020, Cineplex sold all of its interest in WGN for a nominal amount. A nominal gain was recognized on the disposition and is included in net loss from discontinued operations.

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

Cineplex applied IFRS 5, *Non-current assets held for sale and discontinued operations* ("IFRS 5") to measure, present and disclose the financial information for WGN during the period in which WGN had met the criteria to be recorded as a discontinued operation. Effective with the quarter ended September 30, 2019, WGN's financial performance and cash flows are presented in these consolidated financial statements as discontinued operations on a retroactive basis. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

The major classes of assets and liabilities classified as held for sale are as follows:

	December 31, 2020	December 31, 2019
Trade and other receivables	$ —	$ 607
Prepaid expenses and other current assets	—	11
Property, equipment and leaseholds	—	724
Intangible assets	—	5,231
Assets held for sale	$ —	$ 6,573
Accounts payable and accrued liabilities	$ —	$ 1,254
Deferred revenue	—	316
Deferred income taxes	—	1,238
Liabilities related to assets held for sale	$ —	$ 2,808
Net assets held for sale	$ —	$ 3,765

The following table discloses revenues and expenses for the year ended December 31:

	2020	2019
Revenues		
Media revenues	$ 602	$ 1,075
Other revenues	199	16
	801	1,091
Expenses		
Depreciation and amortization - other assets	—	3,623
Loss on disposal of assets	129	—
Other costs	2,212	7,001
Impairment of intangible assets	5,156	—
Foreign exchange	(117)	268
	7,380	10,892
Loss before income taxes	(6,579)	(9,801)
Recovery of income taxes		
Current	(384)	(1,415)
Deferred	(1,243)	(761)
	(1,627)	(2,176)
Net loss from discontinued operations	$ (4,952)	$ (7,625)
Foreign currency translation adjustment from discontinued operations	7	210
Other comprehensive loss from discontinued operations	$ (4,945)	$ (7,415)

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

The following table discloses cash flows for the year ended December 31:

	2020	2019
Net cash used in operating activities	$ (1,768)	$ 367
Net cash used in investing activities	(215)	(1,168)
Effect of exchange rate differences on cash	(408)	254
Net cash used in discontinued operations	$ (2,391)	$ (547)

32. Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of preparation and measurement

Cineplex prepares its 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 - Accounting. The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Cineplex's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated financial statements are disclosed later in this note.

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments and available-for-sale investments.

Reportable operating segments

Cineplex is comprised of four reportable operating segments, Film Entertainment and Content, Media, Amusement and Leisure, and Location-Based Entertainment. The reportable segments are business units offering differing products and services. Details of Cineplex's four reportable operating segments are provided in (note 24, Operating segments).

Consolidation

Subsidiaries are all entities over which Cineplex has control. Cineplex controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Cineplex. They are deconsolidated from the date that control ceases.

Cineplex applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by Cineplex. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities

and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Cineplex recognises any non-controlling interest in the acquiree at fair value of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by Cineplex is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of operations.

Inter-company transactions, balances and unrealised gains and losses on transactions between Cineplex entities are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with Cineplex's accounting policies.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Associates are all entities over which Cineplex has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Cineplex's investment in associates includes goodwill identified on acquisition.

Cineplex determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, Cineplex calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the statement of operations.

Profits and losses resulting from upstream and downstream transactions between Cineplex and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by Cineplex.

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

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of operations.

Investments in joint ventures and associates

Investments in joint arrangements are classified either as joint operations and proportionately consolidated or as joint ventures or associates and equity-accounted, depending on the contractual rights and obligations of each investor.

Under the equity method of accounting, interests in joint ventures and associates are initially recognised at cost and adjusted thereafter to recognise Cineplex's share of the post-acquisition profits or losses and movements in OCI. When Cineplex's share of losses in a joint venture or an associate equals or exceeds its interests in that joint venture or associate (which includes any long-term interests that, in substance, form part of Cineplex's net investment in the joint ventures), Cineplex does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

Unrealised gains on transactions between Cineplex and its joint ventures and associates are eliminated to the extent of Cineplex's interest in the joint ventures and associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by Cineplex.

Cineplex assesses at each year-end whether there is any objective evidence that its interests in joint ventures and associates are impaired. In determining the value-in-use of an investment, Cineplex estimates its share of the present value of the estimated cash flows expected to be generated by the joint venture or associate, including the cash flows from the operations of the joint venture or associate and the proceeds on the ultimate disposal of the investment, or the present value of the estimated future cash flows expected to arise from dividends to be received from the joint venture or associate and its ultimate disposal. If impaired, the carrying value of Cineplex's share of the underlying assets of joint ventures or associates is written down to its estimated recoverable amount (being the higher of fair value less costs of disposal and value in use) and charged to the consolidated statements of operations.

Cineplex has interests in a jointly controlled entity and accounts for its share of assets and liabilities, revenue and expenses of the joint operation. Cineplex conducts a portion of its business through SCENE GP, a joint operation whereby the joint operation participants are bound by contractual agreements establishing joint control. Joint control exists when unanimous consent of the joint operation participants is required regarding strategic, financial and operating policies of the joint operation. Cineplex's share of results from SCENE has been recognized in Cineplex's consolidated financial statements. Inter-company transactions between Cineplex and SCENE are eliminated to the extent of Cineplex's interest.

Foreign currency translation

Functional and presentation currency

Cineplex determines its subsidiaries' functional currency by reviewing the currency of the primary economic environment in which each entity operates (the "functional currency"). The functional currency of three subsidiaries of P1AG is the United States dollar. The functional currency of all other entities of the Cineplex group is the Canadian dollar.

The consolidated financial statements are presented in Canadian dollars.

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at fiscal year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of operations.

Subsidiaries

The results and balance sheet of the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates, and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill recognized on the acquisition of a subsidiary are treated as assets and liabilities of the subsidiary and translated at the closing rate.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash equivalents are readily converted into known amounts of cash, and are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognized when Cineplex becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Cineplex has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligations are discharged, canceled or expire. Regular purchases and sales of financial assets are recognized on the trade-date, the date on which Cineplex commits to purchase or sell the asset.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the financial liability simultaneously.

IFRS 9 contains three classification categories for financial assets and liabilities measured at amortized cost, fair value through profit or loss ("FVPL") and fair value through other comprehensive income ("FVOCI").

At initial recognition, Cineplex classifies its financial instruments in the following categories depending on the purpose for which the financial instruments were acquired:

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

i. Financial assets and financial liabilities at FVPL: The only instruments held by Cineplex classified in this category are certain equipment purchase liabilities, and the deferred consideration payable for business combinations. Derivatives are included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations. Gains and losses arising from changes in fair value are presented in the consolidated statements of operations. Financial assets and financial liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, which is classified as non-current. Financial assets and liabilities at FVPL are presented within changes in operating assets and liabilities in the consolidated statements of cash flows.

ii. Financial assets and liabilities at amortized cost: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cineplex's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

Financial liabilities at amortized cost include trade payables, dividends and distributions payable, bank indebtedness and long-term debt and the non-derivative component of convertible debentures. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt, and the non-derivative component of convertible debentures are recognized initially at fair value, net of any transaction costs incurred and, subsequently, at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Equity investments are required to be measured fair value with all changes recognized at FVPL. At initial recognition, Cineplex can make an irrevocable election to classify the instruments at FVOCI, with all subsequent changes in fair value being recognized in OCI. Cineplex has not classified any equity instruments at FVOCI.

iii. Financial instruments at FVOCI: Cineplex ceased the use of hedge accounting for its interest rate swap agreements during the fourth quarter of 2019 as a result of the terms of the Arrangement Agreement. The interest rate swap are measured at fair market value at each reporting period with changes in fair market value recognized in the consolidated statement of operations.

Impairment of financial assets

At each reporting date, Cineplex assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, Cineplex recognizes an impairment loss. IFRS 9 uses forward-looking Expected Credit Loss ("ECL"), Cineplex applies the impairment model to financial asset measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

i. 12-month ECLs which are ECLs that result from possible default events within 12 months after the reporting date; and

ii. lifetime ECLs which are ECLs that result from all possible default events over the expected life of a financial instruments.

Cineplex applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Impairment losses on financial assets carried at amortized cost or FVOCI are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Inventories

Inventories consist of food service inventories, gaming inventories and other inventories, including work in progress.

Food service inventories, gaming equipment purchased for re-sale, merchandise that is used as redemption prizes and work-in progress inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price less applicable selling expenses.

Gaming inventories includes gaming equipment purchased for re-sale or transferred from property, equipment and leaseholds and merchandise that is used as redemption prizes for certain games. Gaming equipment also includes equipment that has been transferred from property, equipment and leaseholds to inventory when it is no longer in route operations and it will be sold or auctioned to third parties at the discretion of management. Gaming equipment is transferred to inventory at its net book value and stated at the lower of the net book value or net realizable value. Net realizable value is the estimated selling price less applicable selling expenses.

Other inventories include consumable supplies and work-in-progress being assembled for sale or installation by CDM.

Impairment of non-financial assets

Property, equipment and leaseholds and intangible assets subject to amortization are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows relating to the relevant intangible asset (“cash-generating units” or “CGUs”). Cineplex considers each theatre a CGU. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the CGU’s carrying value exceeds its recoverable amount.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists.

Goodwill acquired through a business combination is allocated to each CGU or group of CGUs that is expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. Cineplex groups theatre CGUs based on geographical regions of financial management responsibility in testing goodwill for impairments.

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

Cineplex groups CGUs based on trade name in testing indefinite-lived trade names for impairment.

Cineplex evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Property, equipment and leaseholds

Property, equipment and leaseholds are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Cineplex and the cost can be measured reliably. The carrying value of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of operations during the year in which they are incurred.

The major categories of property, equipment and leaseholds are depreciated on a straight-line basis as follows:

Buildings	30 - 40 years
Equipment	3 - 10 years
Leasehold improvements	term of lease but not in excess of the useful lives

For owned buildings constructed on leased property, the useful lives do not exceed the terms of the land leases.

Cineplex allocates the amount initially recognized in respect of an item of property, equipment and leaseholds to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually or whenever events or circumstances suggest a change that may otherwise indicate an impairment exists and adjusted if appropriate. Construction-in-progress is depreciated from the date the asset is ready for productive use.

Gains and losses on disposals of property, equipment and leaseholds are determined by comparing the proceeds with the carrying value of the asset and are included as part of other gain or loss on the sale of assets in the consolidated statements of operations.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Cineplex's share of the net identifiable assets of the acquired business at the date of acquisition.

Identifiable intangible assets

Intangible assets include trademarks, trade names, leases, software and customer relationships acquired by Cineplex. As Cineplex intends to use certain of the trademarks and trade names of the Partnership and GEI for the foreseeable future, the useful lives of those trademarks and trade names are indefinite and no amortization is recorded. Other trade names are expected to be substantially discontinued and are amortized over their expected useful lives (note 10, Intangible assets). Management tests indefinite-lived intangible assets for impairment at least annually, and considers at least annually or whenever events or circumstances indicate that the life of an indefinite-lived intangible asset may be finite. The advertising contracts have limited lives and are amortized over their useful lives, estimated to be between five to nine years. The estimated fair value of lease contract assets is amortized on a straight-line basis over the remaining term of the lease into amortization expense.

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

The major categories of intangible assets are amortized on a straight-line basis as follows:

Internally generated software	3 - 5 years
Customer relationships	5 - 10 years
Trade names	not amortized

Leases

Cineplex conducts a significant part of its operations in leased premises. In assessing whether a contract is, or contains a lease, Cineplex applies the definition of a lease and related guidance set out in IFRS 16 for all lease contracts entered into or modified. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under the provisions of IFRS 16, substantially all of Cineplex's leases are recorded as lease obligations and right-of-use assets.

Lease payments included in the measurement of the lease obligation are comprised of the following:

i. Fixed lease payments, including in-substance fixed payments;
ii. Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
iii. Amounts expected to be payable under a residual value guarantee;
iv. The exercise price of purchase options that Cineplex is reasonably certain to exercise, lease payments in an option renewal period if Cineplex is reasonably certain to exercise the extension option, and penalties for early termination of the lease unless Cineplex is reasonably certain not to terminate early; and
v. Less any lease incentives receivable.

Variable payments for leases that do not depend on an index or rate are not included in the measurement of the lease liability. The variable payments are recognized as an expense in the period in which they are incurred and are included in the consolidated statement of operations.

Cineplex accounts for any lease and associated non-lease components separately, as opposed to a single arrangement, which is permitted under IFRS 16. Cineplex records non-lease components such as common area maintenance as an expense in the period in which they are incurred and are included in the consolidated statement of operations.

Interest on the lease obligations is calculated using the effective interest method with rent payments reducing the liability. The lease obligation is remeasured whenever a lease contract is modified and the lease modification is not accounted for as a separate lease, or there is a change in the assessment of the exercise of an extension option. The lease obligation is remeasured by discounting the revised lease payments using a revised discount rate resulting in a corresponding adjustment to the right-of-use asset or is recorded in gain or loss if the carrying amount of the right-of-use asset has been reduced to zero or the modification results in a reduction in the scope of the lease.

The right-of-use assets are depreciated on a straight-line basis from the date of commencement to the earlier of the end of the useful life of the asset or the end of the lease term.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36, *Impairment of Assets* which replaces the previous requirement to recognize a provision for onerous lease contracts under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

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

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statements of operations in the year in which they are incurred.

Employee benefits

Cineplex is the sponsor of a number of employee benefit plans. These plans include a defined benefit pension plan, additional unfunded defined benefit obligations for former Famous Players employees, and a group registered retirement savings plan.

i. Post-employment benefit obligations

For defined benefit plans, the level of benefit provided is based on the length of service and annual earnings of the person entitled.

The cost of defined benefit plans is determined using the projected unit credit method. The related benefit liability recognized in the consolidated balance sheets is the present value of the defined benefit obligation at the consolidated balance sheet dates less the fair value of plan assets. The cost of the group registered retirement savings plan is charged to expense as the contributions become payable.

Actuarial valuations for defined benefit plans are carried out periodically and considered at each annual consolidated balance sheet date. The discount rate applied in arriving at the present value of the benefit liability represents yields on high-quality corporate bonds that are denominated in Canadian dollars, the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related benefit liability.

The net defined benefit liability (asset) is recognized on the balance sheet without any deferral of actuarial gains and losses. Past service costs are recognized in net income when incurred. Post-employment benefits expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income without recycling to the consolidated statements of operations.

Employee benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months.

ii. Share-based compensation - options

Cineplex grants stock options to certain employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Until December 16, 2019 the options were considered equity-settled, and fair value of each tranche was measured at the date of grant using the Black-Scholes option pricing model. Compensation expense was based on the number of awards expected to vest and was recognized over the tranche's vesting period, included as employee benefits expense in other costs. On December 16, 2019, the options were considered cash-settled, and the fair value of the excess of outstanding options in excess of the exercise price was recognized as a current share-based

compensation liability and reduction of contributed surplus. Any change in fair value is recognized in income. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

iii. Share-based compensation - other plans

Cineplex has a number of other cash-settled share-based compensation plans. The obligation for these plans is recorded at fair value on a percentage vested basis. Changes in the obligation are reflected in employee benefits in other costs in the consolidated statements of operations.

Provisions

Provisions for asset retirement obligations, theatre shutdowns and legal claims, where applicable, are recognized when Cineplex has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. Cineplex performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. Provisions are included in other liabilities on the consolidated balance sheets.

Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations, except to the extent that they relate to items recognized directly in equity or in OCI, in which case, the income taxes are also recognized directly in equity or in OCI.

Current income taxes are the expected taxes payable on the taxable income for the year, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous years.

In general, deferred income taxes are recognized in respect of temporary differences arising between the income tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted at the consolidated balance sheet dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and joint ventures, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by Cineplex and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

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

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

Dividends

Dividends on common shares are recognized in the consolidated financial statements in the year in which the dividends are approved by the Board of Directors of Cineplex.

Revenue

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 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.

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

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, 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.

Income per share

Basic EPS is calculated by dividing the net income for the year attributable to equity owners of Cineplex by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options and similar instruments is computed using the treasury stock method. Cineplex's potentially dilutive common shares include stock options granted to employees and the conversion feature of the convertible debentures.

Film rental costs

Film rental costs are recorded based on the terms of the respective film licence agreements. In some cases, the final film cost is dependent on the ultimate duration of the film's play and, until this is known, management uses its best estimate of the final settlement of these film costs. Film costs and the related film costs payable are adjusted to the final film settlement in the year Cineplex settles with the distributors. Actual settlement of these film costs could differ from those estimates.

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

Consideration received from vendors

Cineplex receives rebates from certain vendors with respect to the purchase of concession goods. In addition, Cineplex receives payments from vendors for advertising undertaken by the theatres on behalf of the vendors. Cineplex recognizes rebates earned for purchases of each vendor's product as a reduction of concession costs and recognizes payments received for services delivered to the vendor as media or other revenue.

Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgments

Cineplex makes estimates and assumptions concerning the future that may not equal actual results. The following are the estimates and judgments applied by management that most significantly impact Cineplex's consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year.

a) Goodwill and recoverable amount of long lived assets
Recoverable amount

Cineplex tests at least annually whether goodwill suffered any impairment. Management makes key assumptions and estimates in determining the recoverable amount of groups of CGUs' goodwill, including attendance and the related revenue growth rates, variable and fixed cash flows, operating margins and discount rates (note 11, Goodwill and impairment of long-loved assets, goodwill and investments).

b) Financial instruments
Fair value of over-the-counter derivatives

Cineplex's over-the-counter derivatives include interest rate swaps used to economically hedge exposure to variable cash flows associated with interest payments on Cineplex's borrowings. Management estimates the fair values of these derivatives as the present value of expected future cash flows to be received or paid, based on available market data, which includes market yields and counterparty credit spreads.

c) Revenue recognition
Gift cards

Management estimates the value of gift cards that are not expected to be redeemed by customers, based on the terms of the gift cards and historical redemption patterns, including industry data. The estimates are reviewed annually, or when evidence indicates the existing estimate is not valid.

d) Income taxes

The timing of reversal of timing differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income tax asset. Management estimates the reversals and income allocation based on historical and budgeted operating results and income tax laws existing at the consolidated balance sheet dates. In addition, management occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

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

e) Fair value of identifiable assets acquired and liabilities assumed in business combinations

Significant judgment is required in the identifying tangible and intangible assets and liabilities of the acquired businesses, as well as determining their fair values.

f) Share-based compensation

Management is required to make certain assumptions and to estimate future financial performance to estimate the fair value of share-based awards at each consolidated balance sheet date. Significant estimates and assumptions relating to the option plan are disclosed in note 13, Share-based compensation. The LTIP and Incentive Plan requires management to estimate future non-GAAP earnings measures, future revenue growth relative to specified industry peers, and total shareholder return, both absolutely and relative to specified industry peers. Future non-GAAP earnings are estimated based on current projections, updated at least annually, taking into account actual performance since the grant of the award. Future revenue growth relative to peers is based on historical performance and current projections, updated at least annually for actual performance since the grant of the award by Cineplex and its peers. Total shareholder return for Cineplex and its peers is updated at each consolidated balance sheet date based on financial models, taking into account financial market observable inputs.

g) Lease terms

Some leases of property contain extension options exercisable by Cineplex up to one year before the end of the non-cancellable contract period. Where practicable, Cineplex seeks to include extension options in new leases to provide operational flexibility. In determining the lease term, Cineplex considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed upon a trigger by a significant event or a significant change in circumstances.

Accounting standards applied or adopted in the current year

Accounting for Government Subsidies

Cineplex recorded, presented, and disclosed the government subsidies received in Canada and the United States in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. During the year ended December 31, 2020, Cineplex recorded subsidies in the amount of $61,851 which have been offset in other costs.

Accounting standards issued

IFRS 16, Leases ("IFRS 16") - Amendment

In May 2020, the IASB issued an amendment to IFRS 16, which added a practical expedient to provide relief for lessees from lease modification accounting for rent concessions related to COVID-19. The practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. In order to apply the practical expedient, all of the following conditions must be met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- the rent concession is for relief for payments that were originally due on or before June 30, 2021. Any subsequent rental increases of amounts deferred can extend beyond June 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

The practical expedient relieve lessees from assessing whether rent concessions are lease modifications and applying the lease modification requirements to those concessions. A lessee applying the practical expedient would generally account for forgiveness or waiver of lease payments as a variable lease payment which is recognized on the Statement of Operations as a gain or loss with a corresponding adjustment to derecognize the portion of lease liability which has been waived or forgiven. Lease payments that are deferred to other periods would result in a re-measurement of the lease obligation using the original incremental borrowing rate with any difference related to the change in timing of payments being recognized in gain or loss. Rent concessions can also incorporate both a forgiveness or waiver of payments and a change in the timing of payments.

Cineplex will not apply the practical expedient to lease concessions.

Accounting standards issued but not yet applied

Management of Cineplex reviews all changes to 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:

IAS 1 Presentation of Financial Statements - Amendment

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current*, which amended IAS 1 *Presentation of Financial Statements* and clarified how to classify debt and other financial liabilities as current or non-current in particular circumstances. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

Under the new amendment, an entity shall classify a liability as current when: (a) it expects to settle the liability in its normal operating cycle: (b) it holds the liability primarily for the purpose of trading; (c) the liability is due to be settled within twelve months after the reporting period; or (d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

If Cineplex were to early adopt the amendment to IAS 1, the application would result in the long-term debt being classified as current in the December 31, 2020 balance sheet due to the projected covenant breaches.

33. Comparative figures

Certain 2019 consolidated financial statement comparative figures have been reclassified to conform to the current year's presentation. The comparative operating segment note has been reclassified to include the Location-Based Entertainment segment. These amounts were previously grouped with the Amusement and Leisure segment. Typographical errors have been corrected in the consolidated statement of comprehensive income for the year ended December 31, 2019.

34. Subsequent events

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

Subsequent to December 31, 2020, Cineplex completed a sale and leaseback transaction for its head office buildings located at 1303 Yonge Street and 1257 Yonge Street, Toronto, Ontario for gross proceeds of $57,000. Fifty percent of the net proceeds were used to permanently reduce Cineplex's Revolving Credit Facilities to $591,668.

In January 2021, 165,146 stock options were cancelled as part Cineplex's voluntary stock option cancellation program for payment of $59. The cancelled stock options were returned to the pool available for future grants under the Incentive Plan.

On February 8, 2021, Cineplex and Cineplex Entertainment Limited Partnership entered into the Third Credit Agreement Amendment with The Bank of Nova Scotia providing Cineplex with certain financial covenant relief in light of the COVID-19 pandemic and its effects on Cineplex's business. The following is a summary of the key terms of the Third Credit Agreement Amendment:

- Allow the issuance by Cineplex of second lien secured notes (the "Second Lien Notes") with the following terms:
  - a minimum of $200,000 and a maximum of $250,000 of notes may be issued on or prior to March 31, 2021;
  - tenor of at least five years;
  - secured second lien ranking, subordinate to the security granted for the obligations under the Credit Facilities, and shall be subject to the terms of an intercreditor agreement that incorporates certain agreed intercreditor principles and otherwise in form and substance satisfactory to the agent under to the Credit Facilities; and
  - mandatory repayment of the Credit Facilities from the issuance of Second Lien Notes, $100,000 of which would constitute a permanent reduction.

- The following amendments to the Credit Facilities would become effective upon the completion of the issuance of at least $200,000 of Notes on or prior to March 31, 2021:
  - The suspension of financial covenant testing would be extended until the fourth quarter of 2021. On resumption of financial covenant testing in the fourth quarter of 2021, testing will be based on an annualized calculation of Adjusted EBITDA (as further adjusted per Credit Agreement definitions) for the fourth quarter of 2021 and immediately following two fiscal quarters, and thereafter on a trailing four fiscal quarter period;
  - The Total Leverage Ratio of 3.75x will apply when financial covenants are reinstated, and will be reduced until the third quarter of 2022 at which point it will reach a level of 3.00x;
  - The liquidity covenant would continue and be amended and extended beginning in February 2021, through to and including December 2021, requiring available liquidity as defined on a monthly basis (November 1, 2020 through January 31, 2021 - $100,000; February 2021 - $75,000; March 2021 - $60,000; April 1, 2021 through December 31, 2020 - $100,000;
  - The addition of a Senior Leverage Ratio to be based on annualized Adjusted EBITDA and set at 1.0x lower than the Total Leverage Ratio. Senior Leverage Ratio to be defined as (i) Total Debt less any Second Lien Notes to (ii) Adjusted EBITDA;
  - Effective with the fourth quarter of 2021, additional growth capital expenditures will be subject to pro-forma leverage covenant of 2.75x (both prior to and immediately after giving effect to any such growth capital expenditure) based on actual last twelve month EBITDA; and
  - Distributions continue to be blocked during the extended financial covenant suspension period and only permitted when the leverage ratio is less than 2.75x (both prior to and immediately after giving effect to any such distribution).

On February 8, 2021, Cineplex announced that it has entered into an engagement letter with BMO Capital Markets and Scotiabank in connection with a proposed private placement offering (the "Note Offering") of second lien

secured notes (the "Notes"), subject to market and other conditions, Cineplex intends to use the net proceeds from the proposed Note Offering, if completed, to repay indebtedness under its Credit Facilities, in accordance with the terms of the Third Amendment.

BOARD OF DIRECTORS

Jordan Banks (4)
Corporate Director
Toronto, ON

Robert Bruce (5)
Executive Chair and Founding Partner
Mobile Klinik
Toronto, ON

Joan Dea (4)
Corporate Director
Ross, CA

Janice Fukakusa (3)
Corporate Director
Toronto, ON

Donna Hayes (5)
Corporate Director
Toronto, ON

Ellis Jacob, C.M.
President and Chief Executive Officer
Cineplex Inc.
Toronto, ON

Sarabjit (Sabi) Marwah (4)
Corporate Director
Toronto, ON

Nadir Mohamed (2)
Corporate Director
Toronto, ON

Phyllis Yaffe (1) (4)
Corporate Director
Toronto, ON

INVESTOR RELATIONS

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange CGX

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ANNUAL MEETING

Wednesday May 19, 2021
9:00AM EDT
Scotiabank Theatre Toronto
259 Richmond St. West
Toronto, ON

(1) Chair of the Board of Directors of Cineplex Inc.
(2) Chair of the Compensation, Nominating and Corporate Governance Committee
(3) Chair of the Audit Committee
(4) Member of the Compensation, Nominating and Corporate Governance Committee
(5) Member of the Audit Committee

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