CINEPLEX®

2019

ANNUAL REPORT

LETTER TO SHAREHOLDERS

Dear fellow shareholders,

As a result of growth across many of our businesses, Cineplex reported strong results for 2019. Our diversified businesses continued to build scale and show more meaningful returns, resulting in total revenue of $1.7 billion, up 3.3%, year over year, as we achieved all-time annual records for media, amusement and food service revenue.

Despite the strong results, adjusted EBITDAaL and net income were negatively impacted by transaction costs related to the proposed Cineworld Group PLC ("Cineworld") acquisition, which was announced in December, as well as the adoption of IFRS 16.

Shifting our focus to key accomplishments, there was much to celebrate in 2019. We opened two new theatres, added a new VIP Cinemas to an existing theatre, and added five new 4DX auditoriums and five new ScreenX auditoriums to our circuit. We also introduced *Junxion* – our new 'Cinema of the Future' concept that combines cinema with location based entertainment to create the perfect entertainment destination for any occasion.

In partnership with Tangerine Bank, Cineplex Media announced Tangerine Tuesdays – a continuation of our popular Tuesday ticket program, where guests enjoy discounted movie admissions and free popcorn upgrades for Tangerine customers. Cineplex Digital Media saw continued growth with existing clients and completed the deployment of a digital network at approximately 630 AMC Theatres locations across the United States.

During the year, we opened two new locations of *The Rec Room* in Mississauga, Ontario and St. John's, Newfoundland, as well as the first two reinvented *Playdium* concepts in Brampton and Whitby, Ontario. SCENE also celebrated a big milestone last year as we reached the 10 million member mark in September.

In December 2019, we announced that we had entered into an agreement to be acquired by Cineworld. As the entertainment industry continues to transform, the pending transaction ensures that Cineplex is part of the next era of global entertainment. It means that our business, particularly our network of 165 movie theatres across Canada, has access to global opportunities in an evolving entertainment landscape.

Subsequent to year end, Cineplex and Cineworld shareholders approved the proposed acquisition and management is working to obtain the remaining required approvals to complete the transaction. Since going public in 2003, we have worked hard to deliver value to our shareholders, and we are confident that the pending transaction with Cineworld does just that.

I want to say thank you to our shareholders for their continued support, to our Board of Directors for their guidance and insight and to our 13,000 employees across Canada and the U.S. for their hard work and commitment throughout the year.

Sincerely,

Ellis Jacob
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 11, 2020

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, 2019 and all amounts are in Canadian dollars.

MANAGEMENT'S DISCUSSION AND ANALYSIS CONTENTS

Non-GAAP Measures

Cineplex reports on certain non-GAAP measures that are used by management to evaluate performance of Cineplex. In addition, non-GAAP measures are used in measuring compliance with debt covenants. Because non-GAAP measures do not have standardized meanings, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled to their nearest GAAP measure. The definition, calculation and reconciliation of non-GAAP measures are provided in Section 18, Non-GAAP measures.

Forward-Looking Statements

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in this MD&A. Those risks and uncertainties include adverse factors generally encountered in the film exhibition industry such as poor film product and unauthorized copying; the risks associated with national and world events, including war, terrorism, international conflicts, natural disasters, extreme weather conditions, infectious diseases, criminal acts, changes in income tax legislation; and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of Cineplex, its financial or operating results or its securities. Additional information, including Cineplex's Annual Information Form, 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 over 70 million guests annually through its circuit of theatres and location-based entertainment ("LBE") venues across the country. Cineplex also operates successful businesses in digital commerce (CineplexStore.com), food service, alternative programming (Cineplex Events), cinema media (Cineplex Media), digital place-based media (Cineplex Digital Media "CDM") and amusement solutions (Player One Amusement Group "P1AG"). Additionally, Cineplex operates a LBE business through Canada's newest destinations for 'Eats & Entertainment' (*The Rec Room*), and complexes designed for teens and families (*Playdium*) as well as exciting new sports and entertainment venues across Canada (*Topgolf*). Cineplex is a joint venture partner in SCENE, Canada's largest entertainment loyalty program.

Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets. As of December 31, 2019, Cineplex owned, leased or had a joint venture interest in 1,693 screens in 165 theatres from coast to coast.

On December 15, 2019, Cineplex entered into an arrangement agreement (the "Arrangement Agreement") with Cineworld Group, plc, ("Cineworld") , whereby Cineworld agreed to indirectly acquire all of the issued and outstanding common shares of Cineplex ("Shares") for $34.00 per Share in cash pursuant to a statutory plan of arrangement (the "Cineworld Transaction"). The Cineworld Transaction is supported by Cineplex's Board of Directors, and is subject to approval by the shareholders of both Cineplex and Cineworld and receipt of required regulatory and court approvals. The transaction is expected to close during the first half of 2020. Upon closing, the Cineplex Shares will cease trading on the Toronto Stock Exchange and Cineplex would become a wholly-owned subsidiary of Cineworld.

Cineplex **Theatre locations and screens at December 31, 2019**									
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	47	105	9
Quebec	20	250	98	10	3	4	7	11	—
British Columbia	25	237	125	16	3	15	16	39	1
Alberta	19	208	112	20	2	11	16	42	6
Nova Scotia	12	91	44	1	1	—	2	—	—
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	**165**	**1,693**	**826**	**94**	**25**	**84**	**97**	**213**	**17**
Percentage of screens			49%	6%	1%	5%	6%	13%	1%

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

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

Cineplex - Theatres, screens and premium offerings in the last eight quarters	**2019**				**2018**			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Theatres	165	165	165	165	164	165	164	163
Screens	1,693	1,695	1,695	1,692	1,686	1,696	1,683	1,676
3D Digital Screens	826	827	826	824	821	826	816	811
UltraAVX Screens	94	93	93	90	90	90	88	87
IMAX Screens	25	25	25	25	25	25	25	24
VIP Auditoriums	84	79	79	75	75	75	63	63
D-BOX Locations	97	92	92	89	89	89	86	82
Recliner Screens	213	182	182	173	173	173	155	149
Other Screens	17	5	4	4	4	3	2	1

Cineplex - LBE - at December 31, 2019		
Province	***The Rec Room***	***Playdium***
Ontario	3	2
Alberta	3	—
Newfoundland & Labrador	1	—
TOTALS	**7**	**2**

1.1 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)	2019	2018 Revised and Restated (i)	Change (i)	2019	2018 Revised and Restated (i)	Change (i)
Total revenues (iii)	$ 443,220	$ 427,843	3.6%	$ 1,665,146	$ 1,612,438	3.3%
Theatre attendance	16,849	16,992	-0.8%	66,360	69,272	-4.2%
Net income from continuing operations	$ 4,668	$ 29,262	-84.0%	$ 36,516	$ 85,459	-57.3%
Net loss from discontinued operations	$ (1,196)	$ (2,108)	NM	$ (7,625)	$ (8,503)	NM
Net income	$ 3,472	$ 27,154	-87.2%	$ 28,891	$ 76,956	-62.5%
Box office revenues per patron ("BPP") (v)	$ 10.79	$ 10.73	0.6%	$ 10.63	$ 10.46	1.6%
Concession revenues per patron ("CPP") (v)	$ 6.81	$ 6.53	4.3%	$ 6.73	$ 6.36	5.8%
Adjusted EBITDA (v)	$ 106,529	$ 83,351	27.8%	$ 405,786	$ 262,357	54.7%
Adjusted EBITDAaL (i) (iv) (v)	$ 62,327	$ 80,039	-22.1%	$ 230,546	$ 247,295	-6.8%
Adjusted EBITDAaL margin (i) (iv) (v)	14.1%	18.7%	-4.6%	13.8%	15.3%	-1.5%
Adjusted free cash flow (v)	$ 39,127	$ 60,842	-35.7%	$ 168,455	$ 182,846	-7.9%
Adjusted free cash flow per Share (v)	$ 0.618	$ 0.961	-35.7%	$ 2.660	$ 2.887	-7.9%
Earnings per Share ("EPS") from continuing operations - basic and diluted (iv)	$ 0.08	$ 0.46	-82.6%	$ 0.58	$ 1.35	-57.0%
EPS from discontinued operations - basic and diluted	$ (0.02)	$ (0.03)	-33.3%	$ (0.12)	$ (0.13)	-7.7%
EPS - basic and diluted (iv)	$ 0.06	$ 0.43	-86.0%	$ 0.46	$ 1.22	-62.3%

(i) Prior period figures have been revised as applicable per IFRS 16 and restated as applicable per IFRS 5 to conform to current period presentation. See Section 13, Accounting policies and Section 19, Reconciliation for further details.

(ii) Throughout this MD&A, changes in percentage amounts are calculated as 2019 value less 2018 value.

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

(iv) 2019 includes expenses related to the Cineworld Transaction in the amount of $11.7 million.

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

Total revenues for the fourth quarter of 2019 increased 3.6%, or $15.4 million to an all-time quarterly record of $443.2 million as compared to the prior year period, primarily due to increases in media and food service revenues. Media revenues increased 20.1%, to an all-time quarterly record of $69.5 million as a result of all-time quarterly records for both Cinema Media which grew by $2.0 million to $42.2 million due to increased in-theatre advertising and Digital Placed-Based Media which increased by $9.6 million to $27.4 million as a result of higher project installation revenues. Theatre food service revenues increased $3.7 million (3.3%) to a fourth quarter record of $114.7 million as a result of a fourth quarter record CPP of $6.81, despite a 0.8% decrease in theatre attendance. Combined with the increased results from LBE due to additional locations of *The Rec Room* and the recently launched reinvented *Playdium*, total food service revenues increased $4.4 million (3.7%) to a fourth quarter record of $125.2 million. Box office revenues decreased $0.6 million (0.3%) to $181.8 million due to the decrease in attendance, partially offset by a fourth quarter record BPP of $10.79. Amusement revenues were flat compared to the prior year at $53.5 million due to decreased route revenue at P1AG which was offset by the impact of the growth in LBE locations. General and administrative ("G&A") costs increased $16.2 million due to costs related to the Cineworld Transaction and share-based compensation expenses as a result of the terms of the Arrangement Agreement. Despite the all-time quarterly record for revenue, Cineplex reported adjusted EBITDAaL of $62.3 million, a decrease of $17.7 million or 22.1% as compared to the prior year period primarily due to expenses related to the Cineworld Transaction in the amount of $11.7 million. Net income was negatively impacted by these transaction costs and $12.1 million of non-cash interest expenses arising as a result of the Arrangement Agreement. The adoption of IFRS 16 also negatively impacted net income by approximately $5.8 million as compared to 2018. In total, net income was negatively impacted by $23.4 million or $0.37 per share as compared to 2018. Adjusted free cash flow per Share decreased 35.7% to $0.618 per Share.

Total revenues of $1.7 billion for the year ended December 31, 2019 increased 3.3%, or $52.7 million compared to the prior year as a result of all-time annual records for food service, media and amusement revenues. The 4.2% decrease in theatre attendance more than offset the $0.17 (1.6%) increase in BPP to an all-time annual record of $10.63 resulting in an $18.7 million (2.6%) decrease to box office revenues. However, as a result of an all-time record for CPP at $6.73, theatre food service revenues increased $5.9 million (1.3%) to an all-time record of $446.6 million. Total media revenues increased $33.9 million (20.8%) to an all-time annual record of $196.8 million due to all-time annual records for cinema media and digital placed-based media revenues. Amusement revenues increased $22.4 million (10.9%) to an all-time annual record of $228.2 million due to increased route revenues and distribution sales from P1AG and the growth in the LBE locations. Adjusted EBITDAaL decreased 6.8% from $247.3 million to $230.5 million mainly due to the increase of G&A due to costs related to the Cineworld Transaction. Net income was negatively impacted by these transaction costs and $12.1 million of non-cash interest expenses arising as a result of the Arrangement Agreement. The adoption of IFRS 16 also negatively impacted net income by approximately $25.5 million as compared to 2018. In total, net income was negatively impacted by $43.1 million or $0.68 per share as compared to 2018. Adjusted free cash flow per Share decreased 7.9%, from $2.887 in 2018 to $2.660 in 2019.

On January 1, 2019, Cineplex adopted the new accounting standard IFRS 16, *Leases* ("IFRS 16"). The new standard has a significant impact on the balance sheet, statement of operations and statement of cash flows. Under the provisions of this standard, substantially all of Cineplex's leases are recorded on the balance sheet as right-of-use assets and corresponding lease obligations. Depreciation and interest expense related to the right-of-use asset and lease obligations are deducted in computing net income. As a result, there is a significant impact on EBITDA, as well as impacts on net income and earnings per share. There is no impact on adjusted free cash flow.

Cineplex has applied IFRS 16 using the modified retrospective approach and as a result the standard has been applied prospectively and comparative historical information has not been restated. Accordingly, new non-GAAP measures including adjusted EBITDAaL and associated adjusted EBITDAaL margin have been introduced to ensure comparability of periods. Adjusted EBITDAaL represents adjusted EBITDA as previously calculated reduced by current period cash rent which is allocated between interest expense and a reduction of the lease obligation under IFRS 16 (see Section 18, Non-GAAP measures). Presentation of prior period results have been revised to provide a similar comparator to the current period.

During the quarter ended September 30, 2019, Cineplex initiated a review process of WGN's online esports business, engaging a third-party adviser to identify a strategic equity partner. Cineplex may retain a minority equity interest in the operations of the business. 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* ("IFRS 5"). As a result, prior period figures have been retroactively restated to exclude the results related to discontinued operations. Other than where disclosed, discussions of results in the MD&A reference amounts for continuing operations only.

1.2 KEY DEVELOPMENTS IN 2019

The following describes certain key business initiatives undertaken and results achieved during 2019 in each of Cineplex's core business areas:

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

- Reported annual box office revenues of $705.5 million, a 2.6% decrease from 2018 due to a 4.2% decrease in theatre attendance, despite a 1.6% increase in BPP to $10.63.
- Reported an annual record BPP of $10.63 for Cineplex, $0.17 or 1.6% higher than $10.46 reported during 2018.
- Opened two new theatres, *Cineplex Cinemas Park Royal and VIP* in Vancouver, British Columbia, an eleven screen theatre featuring all recliner seating as well as an UltraAVX screen, D-BOX Motion Seats and four VIP auditoriums; and the other, *Cineplex Cinemas at The Centre* in Saskatoon, Saskatchewan, a seven screen theatre featuring all recliner seating as well as an UltraAVX screen, D-BOX Motion Seats and *Cineplex Clubhouse*.
- Opened a new VIP Cinema in Oakville, Ontario in December at *Cineplex Cinemas Winston Churchill and VIP* with five retrofitted luxury auditoriums.
- Opened five new 4DX auditoriums, two in Alberta at the *Scotiabank Theatre Chinook* in Calgary and the *Scotiabank Theatre Edmonton*; and three in Ontario at the *Cineplex Cinemas Winston Churchill* in Oakville, *Cineplex Cinemas Hamilton Mountain* and the *Scotiabank Theatre Ottawa*.

- Opened five new ScreenX auditoriums: *Cineplex Odeon Sunridge Spectrum Cinemas* in Calgary, Alberta; *Cineplex Odeon South Edmonton Cinemas* in Alberta; *Scotiabank Theatre Vancouver* in British Columbia; *Scotiabank Theatre Toronto* in Ontario; and *Cineplex Cinemas Yorkdale* in Toronto, Ontario.
- Announced plans for *Junxion*, a new entertainment concept which will feature a cinema with reclining seats and in-seat food service, a space for outdoor screenings, an open lobby and stage for events, performances, amusement games, virtual reality experiences ("VR") from VRstudios Inc. ("VRstudios") and a food hall which will include a bar and an indoor food truck. Cineplex plans to open 8-10 *Junxion* locations with the first location at the *Erin Mills Town Centre* in Mississauga, Ontario which is scheduled to open in 2020.
- Announced plans for a new all-in-one entertainment complex at Kildonan Place in Winnipeg, Manitoba scheduled to open in 2021. The entertainment complex will include a six screen theatre featuring all recliner seating, an UltraAVX screen, a large amusement game and attractions area featuring VR and a range of dining experiences.
- Announced plans for two new Cineplex VIP Cinemas in Montreal, Quebec: one at the *Cineplex Cinemas Forum* which is expected to open in 2020 and the other at the *Royalmount* which is expected to open in 2022. Both locations will include five luxury auditoriums and a fully licensed lounge.

Theatre Food Service

- Reported record annual theatre food service revenues of $446.6 million, a 1.3% increase from 2018 due to an annual record CPP of $6.73, a $0.37 or 5.8% increase from 2018.
- During the year, Cineplex expanded alcohol beverage service to an additional 52 theatres, now totalling 87 (excluding VIP).
- During the year, added nine additional locations to the Uber Eats delivery platform, which now provides home delivery from 101 theatres.
- Announced an expanded partnership with Skip the Dishes, which now provides home delivery from 130 theatres.

Alternative Programming

- Alternative Programming (Cineplex Events) included the theatrical release of the family feature *Arctic Dogs*, Opera performances from The Metropolitan Opera, The Bolshoi Ballet, Fleabag from The National Theatre along with concerts from Metallica and Roger Waters.
- Cineplex International film programming featured strong performing Chinese, Filipino, Hindi and Punjabi-language titles in select markets across the country.

Digital Commerce

- Online and mobile ticketing represented 35% of total theatre admissions during the year, up from 28% in the prior year.
- Cineplex Store continued to show significant growth with a 57% increase in active monthly users, reaching over 1.3 million users.

MEDIA

- Reported record annual media revenues of $196.8 million, 20.8% higher than 2018 as a result of record cinema media and digital place-based media revenues.

Cinema Media

- Cinema media reported record revenue of $115.4 million in 2019, $8.6 million or 8.0% higher than 2018, primarily due to increases in show-time and pre-show advertising.
- Cineplex Media, in partnership with Tangerine Bank, announced Tangerine Tuesdays, a continuation of the popular Tuesday ticket program where guests can enjoy discounted movie admission at theatres, as well as free popcorn upgrades.

Digital Place-Based Media

- Reported record revenues of $81.3 million in 2019, an increase of $25.4 million or 45.3%, compared to 2018 mainly due to higher project installation revenues.
- Completed the deployment of AMC theatres' digital network at approximately 630 locations across the United States, including its box office signage, theatre menu boards and other ancillary signage.

- Announced a new partnership with Mountain Equipment Co-op ("MEC") to deliver a unique digital signage to optimize the retail experience for customers at MEC stores across Canada.

AMUSEMENT AND LEISURE

Amusement Solutions

- Reported record annual revenues of $189.1 million in 2019 ($10.9 million from Cineplex theatre gaming and $178.2 million from all other sources of revenues). This $13.0 million increase over the prior year is mainly due to increased route operations revenues and distribution sales.

Location-based Entertainment

- Reported total annual revenues of $79.2 million including food service revenues of $36.7 million, amusement revenues of $39.1 million and other revenues of $3.4 million, an increase of $12.7 million (19.1%) as compared to 2018.
- Opened two additional locations of *The Rec Room*: one located at the *Square One Shopping Centre* in Mississauga, Ontario and the other at the *Avalon Mall* in St. John's, Newfoundland.
- Opened Canada's first reinvented *Playdium* entertainment complex in Brampton, Ontario and the second complex in Whitby, Ontario.
- Announced plans for two new locations of *The Rec Room:* one in the *Granville Entertainment District* in Vancouver, British Columbia which is expected to open in 2021, and the other, Quebec's first location of *The Rec Room* at *Royalmount* in Montreal, Quebec, which is expected to open in 2022.
- Announced plans for two *Playdium* locations: one in Dartmouth, Nova Scotia at the *Dartmouth Crossing Shopping Centre,* and the other at Quartier DIX30 in Brossard, Quebec. Both locations are expected to open in 2020.

LOYALTY

- Membership in the SCENE loyalty program increased by 0.7 million in 2019, reaching 10.3 million members at December 31, 2019.
- SCENE celebrated 10 million members with *National No Excuses Day* on September 27, 2019 offering SCENE members exclusive promotional offers, including half off point redemptions.

CORPORATE

- Cineplex was named by Waterstone Human Capital one of Canada's 10 Most Admired Corporate Cultures in the large enterprise category for 2018, the third time that Cineplex has won the award that celebrates best-in-class Canadian organizations.
- Cineplex was recognized by *Brand Z* as one of the Top 40 Most Valuable Canadian Brands and honoured with the Best Brand Experience Award, one of three special awards presented by *Brand Z*.
- Entered into the Arrangement Agreement with Cineworld on December 15, 2019.
- Effective with the May 2019 dividend, the Board of Directors of Cineplex (the "Board") announced a monthly dividend increase of 3.4% to $0.150 per share ($1.80 on an annual basis) up from $0.145 per share ($1.74 on an annual basis). As a result of the Arrangement Agreement, Cineplex does not expect to pay any further dividends after the dividend payable on February 28, 2020, assuming the Cineworld Transaction is completed.
- Cineplex held its ninth annual Community Day, raising over $175,000 in support of the Boys and Girls Clubs of Canada.

2. BUSINESS STRATEGY

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

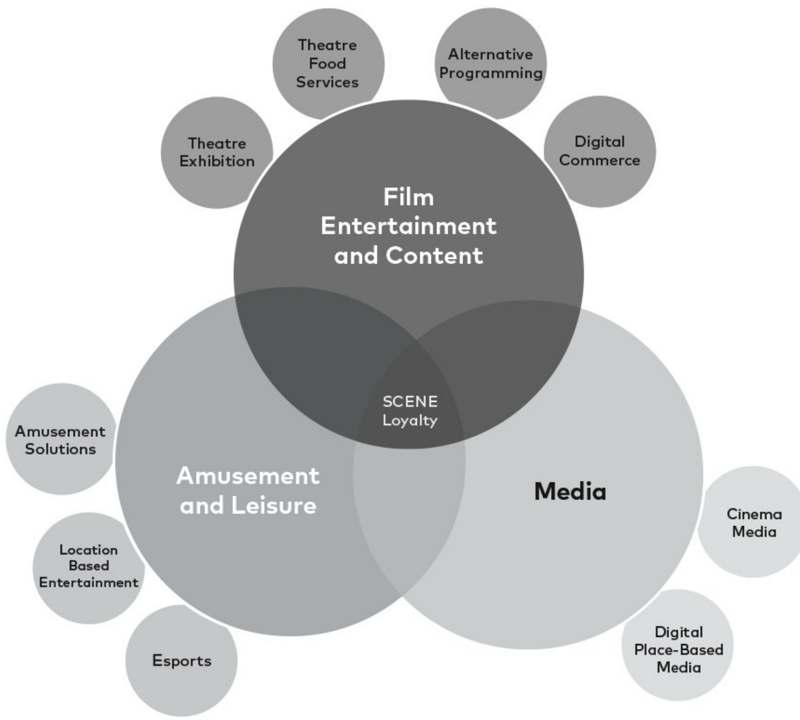
Cineplex's operations are primarily conducted in three main areas: film entertainment and content, media and amusement and leisure, all supported by the SCENE loyalty program. Cineplex's key strategic areas of focus include the following:

- Continue to enhance and expand 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 are strategic, accretive and capitalize on Cineplex's core strengths.

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

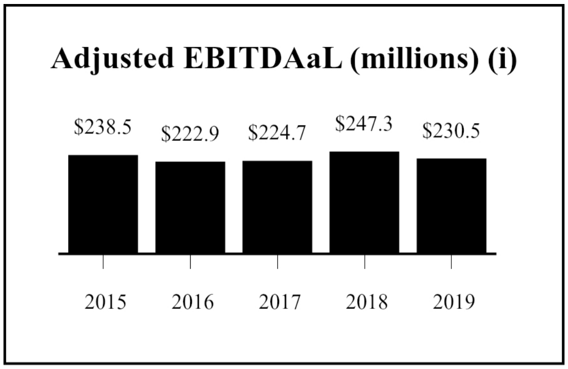
Diversified Entertainment and Media Company

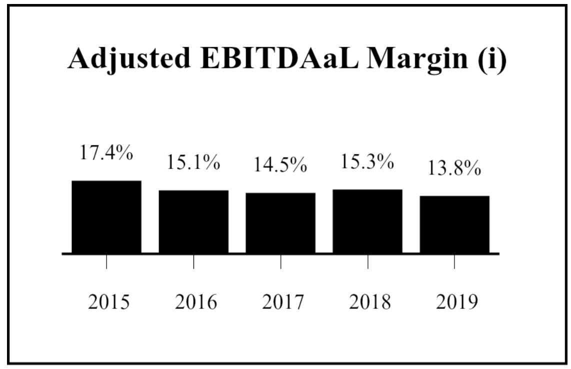


Key elements of this strategy include going beyond movies to reach customers in new ways and maximizing revenue per patron. Cineplex has implemented in-theatre initiatives to improve the overall entertainment experience, including increased premium offerings, enhanced in-theatre services, alternative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

Although Cineplex focuses on growth initiatives, management remains vigilant in controlling costs without compromising experiences. Cineplex will continue to invest in new revenue generating activities, as it has in prior years.





(i) 2019 includes expenses related to the Cineworld Transaction in the amount of $11.7 million.

3. CINEPLEX'S BUSINESSES

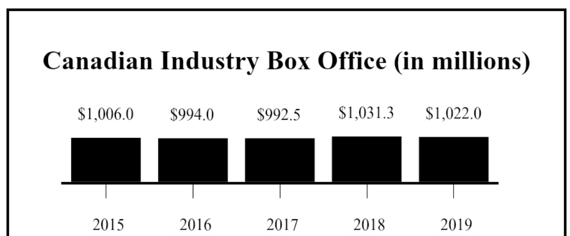
Cineplex's operations are primarily conducted in three main areas: film entertainment and content, media, and amusement and leisure, all supported by the SCENE loyalty program.

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.



Source: Movie Theatre Association of Canada ("MTAC")

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

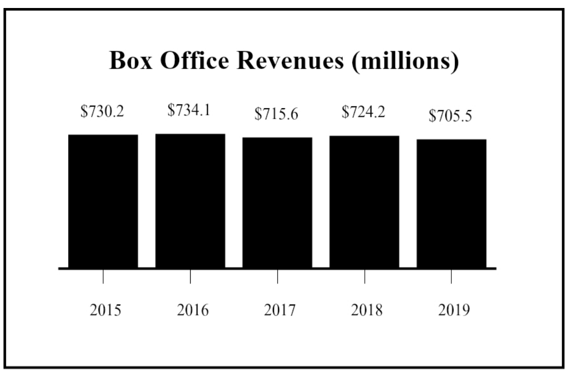
- *Importance of theatrical success in establishing movie brands and subsequent movies.* Theatrical exhibition is the initial and most important channel for new motion picture releases. A successful theatrical release which "brands" a film is often the determining factor in its popularity and value in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

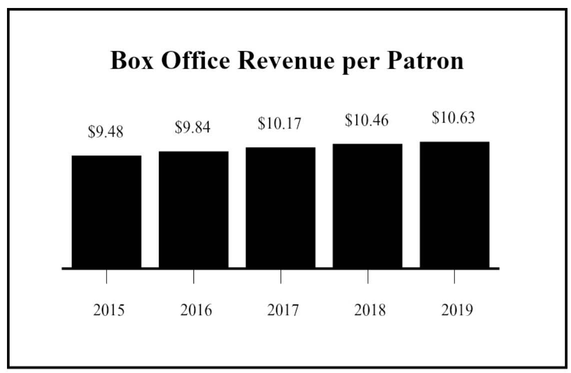
- *Continued supply of successful films.* Studios are increasingly producing film franchises, such as *Star Wars, Fast & Furious* and *Jurassic Park*. Additionally, new franchises continue to be developed, such as the films in the Marvel and DC universes. When the first film in a franchise is successful, 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 2020, the studios are releasing a strong slate of films, including *1917, Bad Boys for Life, Birds of Prey: And the Fantabulous Emancipation of One Harley Quinn, Onward, A Quiet Place: Part II, Mulan, No Time to Die, Black Widow, Legally Blonde 3, Scoob!, Fast & Furious 9, Artemis Fowl, Wonder Woman 1984, Top Gun: Maverick, Free Guy, Minions: The Rise of Gru, Ghostbusters: Afterlife, Tenet, Jungle Cruise, Morbius, The King's Man, Eternals, Godzilla vs. Kong and Raya and the Last Dragon.*

- *Convenient and affordable form of out-of-home entertainment.* Cineplex's BPP was $10.63 and $10.46 in 2019 and 2018 respectively. Excluding the impact of Cineplex's premium-priced product, BPP was $9.17 and $8.94 in 2019 and 2018 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 $13.69 in 2019, and accounted for 41.7% of total box office revenues in 2019. In response to the increased demand for premium entertainment experiences, in 2019 Cineplex installed eight D-Box auditoriums, four UltraAVX auditoriums, five 4DX auditoriums, five ScreenX auditoriums, three *Cineplex Clubhouse* auditoriums and continues to expand its successful VIP offering, adding two new VIP locations in 2019. Recent enhancements to the current circuit include the addition of all recliner seating at 7 locations, including 5 location retrofits. Cineplex announced plans for *Junxion*, a new entertainment concept which will feature a cinema with reclining seats and in-seat food service, a space for outdoor screenings, an open lobby and stage for events and performances, VR from VRstudios and a food hall which will include a bar and an indoor food truck. Cineplex also announced plans for a new all-in-one entertainment complex at Kildonan Place in Winnipeg, Manitoba which is scheduled to open in 2021.

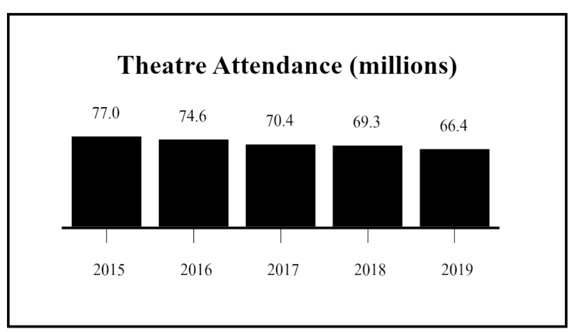
- *Reduced seasonality of revenues.* Historically, film exhibition industry revenues have been seasonal, with the most marketable motion pictures generally being released during the summer and the late-November through December holiday season. The seasonality of motion picture exhibition theatre attendance 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.





In the next few years, Cineplex plans to open or renovate an average of two to three theatres per year and continue to expand its premium offerings through these new theatres and existing locations.

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. Cineplex also continues to evaluate its existing theatres as it continues to replace or upgrade older theatres to state-of-the-art entertainment complexes including recliner retrofits in select theatres.

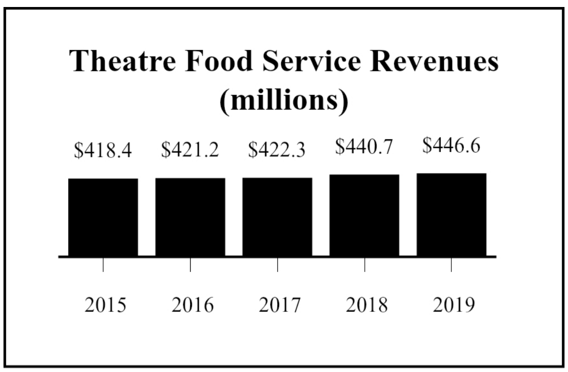


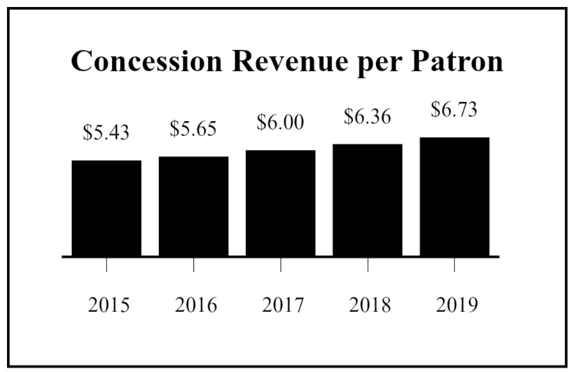
The development of premium experiences through design, structure and digital technology makes Cineplex theatres ideal locations for meetings and corporate events. Organizations, particularly corporations with offices across the country, can use Cineplex's theatres and digital technology for annual meetings,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

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* and *Poptopia*. 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. The execution of this strategy contributed to a record CPP of $6.73 in 2019, an increase of $0.37 from the previous record of $6.36 achieved in 2018.





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 Favourites 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.

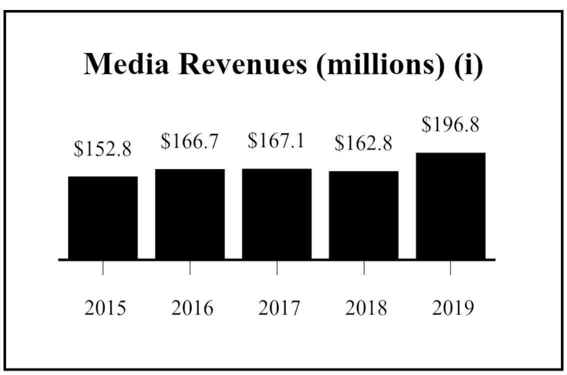
These features and others enable Cineplex to engage and interact with its guests online and on-the-go, allowing Cineplex to offer engaging, targeted and sponsored content to visitors and advertisers, resulting in opportunities to generate additional revenues.

The Cineplex Store rents and sells over 9,000 movies in digital form (TVoD movies). Cineplex also offers SuperTicket, a bundled offering that allows movie-goers to purchase a movie admission ticket and pre-order the digital download of a movie at the same time. SuperTicket provides Cineplex with the flexibility to bundle offerings to consumers, providing enhanced value above and beyond an in-theatre or at-home experience. 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.
- Magazine advertising through *Cineplex Magazine*, which offers advertising opportunities in Canada's leading entertainment magazine.

Select Cineplex theatres also offer the following media opportunities:

- Timeplay, a third-party app that allows Cineplex to sell media integrated into real-time content on the big screen, with movie-goers using the app to compete for prizes and receive special offers from Cineplex and advertisers.
- The Interactive Media Zone ("IMZ"), an interactive media experience allowing advertisers to engage and interact with Cineplex guests in high traffic lobby locations.

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, South 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, Playdium* and in the future, *Topgolf.*

In addition to the two primary areas of operations, Cineplex is also focusing on opportunities related to location-based entertainment VR attractions. In 2018 Cineplex announced a strategic partnership with VRstudios, the largest provider of turn-key, location-based virtual reality solutions. The agreement also includes a commercial partnership which will provide expansion opportunities in North America and internationally. In 2018, Cineplex also announced a new exclusive expansion agreement with The VOID that provides Cineplex with the exclusive rights to operate The VOID concept in Canada. Cineplex plans to open a minimum of five VOID Experience Centres over the coming years, with the third location in Canada opened in the Mississauga Square One location of *The Rec Room* in 2019 featuring *Jumanji: Reverse the Curse* and *Avengers: Damage Control*.

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* and in the future *Topgolf,* 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 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 opened seven locations of *The Rec Room* and has announced plans to open five additional locations in Barrie, Ontario, Burnaby, British Columbia, Winnipeg, Manitoba, Vancouver, British Columbia, and Montreal, Quebec in 2020 through 2022.

Playdium is the *Playdium* brand concept relaunched for targeting families and teens in mid-sized communities across Canada. In 2019, Cineplex opened two locations of *Playdium* and announced its plans to open two additional locations in Dartmouth, Nova Scotia and Brossard, Quebec in 2020.

Topgolf is a golf focused location-based sports and entertainment destination. Cineplex will build and operate *Topgolf* sports and entertainment venues across Canada through its majority-owned subsidiary TGLP.

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. Cineplex and Scotiabank each have a 50% interest in the program.

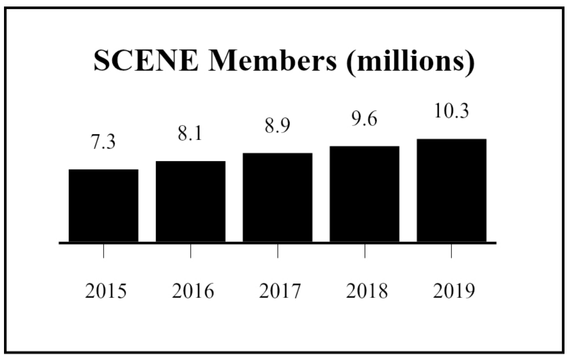
SCENE is a customer loyalty program designed to offer members discounts and the opportunity to earn and redeem SCENE points. SCENE members can earn and redeem SCENE points for purchases at Cineplex's theatres, at its location-based entertainment establishments, online at the Cineplex Store as well as at locations operated by select program partners and as part of the Cineplex Tuesdays program.

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, 2019 was approximately 10.3 million, an increase of approximately 0.7 million members during 2019. 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 behaviour 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 behaviour with over 10 years of data collected. Cineplex will continue to focus on leveraging this data through marketing automation to drive customer behaviour 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. Box office revenues represented 42.4% of revenues in 2019 and continues to represent Cineplex's largest revenue component.

Revenue mix % by period	**2019**	**2018**	**2017**	**2016**	**2015**
Box office	**42.4%**	44.9%	46.2%	49.8%	53.3%
Food service	**29.0%**	29.5%	28.5%	28.8%	30.5%
Media	**11.8%**	10.1%	10.8%	11.3%	11.2%
Amusement	**13.7%**	12.8%	11.9%	7.6%	2.2%
Other	**3.1%**	2.7%	2.6%	2.5%	2.8%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

Cineplex has three reportable segments, film entertainment and content, media and amusement and leisure. The reportable segments are business units offering differing products and services and managed separately due to their distinct natures. These three reportable segments have been determined by Cineplex's chief operating decision makers.

Revenue mix % by year	**Year to date**	
	2019	**2018**
Film Entertainment and Content	72.8%	75.5%
Media	11.8%	10.0%
Amusement and Leisure	15.4%	14.5%
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. Cineplex's share of the Canadian theatre exhibition market based on Canadian industry box office revenues was approximately 75% for the quarter and year ended December 31, 2019. 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*. 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 and magazine advertising for *Cineplex Magazine.* Additionally, Cineplex Media sells media placements throughout Cineplex's circuit including digital poster cases, IMZ in select Cineplex theatre lobbies, 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.

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

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

Theatre occupancy expenses include lease related expenses, 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 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.

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

Accounting for Joint Arrangements

The financial statements incorporate the operating results of joint arrangements in which Cineplex has an interest using either the equity accounting method (for joint ventures 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"), 50% interest in *YoYo's Yogurt Cafe* ("YoYo's") and a 34.7% interest in VRstudios are classified as joint ventures or associates. Through equity accounting, Cineplex's share of the results of operations for these joint ventures and associates are reported as a single item in the statements of operations, 'Share of income of joint ventures and associates'. Theatre attendance for the IMAX auditorium held in a joint venture is not reported in Cineplex's consolidated theatre attendance as the line-by-line results of the joint venture are not included in the relevant lines in the statement of operations.

Under IFRS 11, Cineplex's 50% interest in SCENE is classified as a joint operation and Cineplex recognizes its share of the assets, liabilities, revenues and expenses of SCENE in its consolidated financial statements.

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, 2019	Year ended December 31, 2018 Revised and Restated	Year ended December 31, 2017 Revised and Restated
Box office revenues	$ 705,521	$ 724,244	$ 715,605
Food service revenues	483,330	475,501	441,876
Media revenues	196,755	162,820	167,061
Amusement revenues	228,231	205,793	185,341
Other revenues	51,309	44,080	40,126
Total revenues	1,665,146	1,612,438	1,550,009
Film cost	369,386	379,325	376,759
Cost of food service	106,823	100,191	99,438
Depreciation - right-of-use assets	145,946	—	—
Depreciation and amortization - other assets	128,883	127,423	115,660
Loss on disposal of assets	1,764	2,681	706
Other costs (a)	782,693	870,358	834,891
Costs of operations	1,535,495	1,479,978	1,427,454
Net income from continuing operations	$ 36,516	$ 85,459	$ 76,182
Net loss from discontinued operations	(7,625)	(8,503)	(5,836)
Net income	$ 28,891	$ 76,956	$ 70,346
Adjusted EBITDA (i) (iv)	$ 405,786	$ 262,357	$ 239,010
Adjusted EBITDAaL (i) (ii) (iv)	$ 230,546	$ 247,295	$ 224,692
(a) Other costs include:			
Theatre occupancy expenses	71,867	209,838	207,022
Other operating expenses	629,849	593,736	561,078
General and administrative expenses (iv)	80,977	66,783	66,791
Total other costs	$ 782,693	$ 870,357	$ 834,891
EPS from continuing operations - basic and diluted (iv)	$ 0.58	$ 1.35	$ 1.21
EPS from discontinued operations - basic and diluted	(0.12)	(0.13)	(0.09)
EPS - basic and diluted (iv)	$ 0.46	$ 1.22	$ 1.12
Total assets	$ 3,100,412	$ 1,856,449	$ 1,855,168
Total long-term financial liabilities (iii)	$ 625,000	$ 580,000	$ 576,500
Shares outstanding at period end	63,333,238	63,333,238	63,330,446
Cash dividends declared per Share	$ 1.780	$ 1.720	$ 1.660
Adjusted free cash flow per Share (i)	$ 2.660	$ 2.887	$ 2.410
Box office revenue per patron (i)	$ 10.63	$ 10.46	$ 10.17
Concession revenue per patron (i)	$ 6.73	$ 6.36	$ 6.00
Film cost as a percentage of box office revenues	52.4%	52.4%	52.6%
Theatre attendance (in thousands of patrons) (i)	66,360	69,272	70,394
Theatre locations (at period end)	165	164	163
Theatre screens (at period end)	1,693	1,686	1,676

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

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

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

(iv) Includes expenses related to the Cineworld Transaction in the amount of $11.7 million.

5.2 OPERATING RESULTS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2019

Total revenues

Total revenues for the three months ended December 31, 2019 increased $15.4 million (3.6%) to $443.2 million as compared to the prior year period. Total revenues for the year ended December 31, 2019 increased $52.7 million (3.3%) to $1.7 billion 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**		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Box office revenues	$ 181,789	$ 182,352	-0.3%	$ 705,521	$ 724,244	-2.6%
Theatre attendance (i)	16,849	16,992	-0.8%	66,360	69,272	-4.2%
Box office revenue per patron (i)	$ 10.79	$ 10.73	0.6%	$ 10.63	$ 10.46	1.6%
BPP excluding premium priced product (i)	$ 9.40	$ 9.22	2.0%	$ 9.17	$ 8.94	2.6%
Canadian industry revenues (ii)			3.1%			-0.5%
Same theatre box office revenues (i)	$ 178,652	181,660	-1.7%	$ 681,298	$ 711,074	-4.2%
Same theatre attendance (i)	16,593	16,913	-1.9%	64,396	68,017	-5.3%
% Total box from premium priced product (i)	38.7%	44.6%	-5.9%	41.7%	44.1%	-2.4%

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

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

Box office continuity	**Fourth Quarter**		**Full Year**	
	Box Office	**Theatre Attendance**	**Box Office**	**Theatre Attendance**
2018 as reported	$ 182,352	16,992	$ 724,244	69,272
Same theatre attendance change	(3,433)	(320)	(37,847)	(3,620)
Impact of same theatre BPP change	425	—	8,071	—
New and acquired theatres (i)	3,092	249	15,539	1,216
Disposed and closed theatres (i)	(647)	(72)	(4,486)	(508)
2019 as reported	$ 181,789	16,849	$ 705,521	66,360

(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

	Fourth Quarter 2019 Top Cineplex Films	**3D**	**% Box**		**Fourth Quarter 2018 Top Cineplex Films**	**3D**	**% Box**
1	Joker		15.4%	1	Dr. Seuss' The Grinch	✔	8.9%
2	Frozen II	✔	14.4%	2	A Star Is Born		8.9%
3	Star Wars: The Rise Of Skywalker	✔	13.9%	3	Venom	✔	8.7%
4	Jumanji : The Next Level	✔	7.3%	4	Bohemian Rhapsody		8.6%
5	Maleficent: Mistress Of Evil	✔	3.6%	5	Fantastic Beasts: The Crimes Of Grindelwald	✔	7.2%

Box office revenues decreased $0.6 million, or 0.3%, to $181.8 million during the fourth quarter of 2019, compared to $182.4 million recorded in the same period in 2018. This decrease was due to a 0.8% decrease in theatre attendance more than offsetting the impact of a 0.6% increase in BPP.

BPP for the three months ended December 31, 2019 was a fourth quarter record of $10.79, a $0.06 increase from the prior year period as a result of price increases in selective markets as compared to the prior year period.

Full Year

	Full Year 2019 Top Cineplex Films	3D	% Box		Full Year 2018 Top Cineplex Films	3D	% Box
1	Avengers: Endgame	✔	8.6%	1	Avengers: Infinity War	✔	6.3%
2	The Lion King	✔	4.7%	2	Black Panther	✔	6.1%
3	Captain Marvel	✔	4.3%	3	Incredibles 2	✔	4.1%
4	Joker		4.0%	4	Jurassic World: Fallen Kingdom	✔	3.4%
5	Frozen II	✔	3.7%	5	Deadpool 2	✔	3.1%

Box office revenues for the year ended December 31, 2019 were $705.5 million, a decrease of $18.7 million or 2.6% from the prior year. This was due to a 4.2% decrease in theatre attendance year over year despite the increase in BPP. The prior year was a tough comparator due to *Avengers: Infinity War, Black Panther and Incredibles 2* all which finished in the top ten highest grossing films of all-time in North America while only *Avengers: Endgame* finished in the top ten in 2019. In particular, the first quarter experienced a 15.6% decrease in attendance resulting in a $24.9 million decrease in box office revenues as compared to the prior year period due to the weaker film slate.

Cineplex's BPP for the year ended December 31, 2019 increased $0.17, or 1.6%, from $10.46 in 2018 to an annual record of $10.63 in 2019. This increase was primarily due to price increases in selective markets as compared to the prior year.

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		
	2019	2018	Change	2019	2018	Change
Food service - theatres	$ 114,678	$ 111,015	3.3%	$ 446,639	$ 440,733	1.3%
Food service - LBE	10,481	9,711	7.9%	36,691	34,768	5.5%
Total food service revenues	$ 125,159	$ 120,726	3.7%	$ 483,330	$ 475,501	1.6%
Theatre attendance (i)	16,849	16,992	-0.8%	66,360	69,272	-4.2%
CPP (i) (ii)	$ 6.81	$ 6.53	4.3%	$ 6.73	$ 6.36	5.8%
Same theatre food service revenues (i)	$ 112,551	$ 110,536	1.8%	$ 427,546	$ 430,912	-0.8%
Same theatre attendance (i)	16,593	16,913	-1.9%	64,396	68,017	-5.3%

(i) See Section 18, Non-GAAP Measures.
(ii) Food service revenue from LBE 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
2018 as reported	$ 111,015	16,992	$ 440,733	69,272
Same theatre attendance change	(2,089)	(320)	(22,935)	(3,620)
Impact of same theatre CPP change	4,104	—	19,569	—
New and acquired theatres (i)	2,081	249	12,053	1,216
Disposed and closed theatres (i)	(433)	(72)	(2,781)	(508)
2019 as reported	$ 114,678	16,849	$ 446,639	66,360
(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

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 including *The Rec Room* and *Playdium*. Theatre food service revenues increased $3.7 million (3.3%) as compared to the prior year period to a fourth quarter record of $114.7 million due to a 4.3% increase in CPP more than offsetting the impact of a 0.8% decrease in theatre attendance. The operations of LBE contributed $10.5 million in the period resulting in a $4.4 million (3.7%) increase in total food service revenues to a fourth quarter record of $125.2 million. Expanded offerings outside of core food service products, including offerings at Cineplex's VIP Cinemas and Outtakes locations and expanded beverage services, have contributed to increased visitation and higher average transaction values, resulting in the record CPP in the period.

Food service revenues from LBE increased $0.8 million (7.9%) compared to the prior year period primarily due to the increase in locations from six in 2018 to nine for the full quarter and one for part of the quarter in 2019.

CPP of $6.81, an increase of 4.3% compared to the prior year period was a fourth quarter record for Cineplex. Expanded offerings outside of core food service products, including offerings at Cineplex's VIP Cinemas and Outtakes locations and expanded beverage services, have contributed to increased visitation and higher average transaction values, resulting in the record CPP in the period.

Full Year

Food service revenues increased $7.8 million, or 1.6% as compared to the prior year to an annual record of $483.3 million due to a 5.5% increase in LBE revenues and the record CPP more than offsetting the impact of the lower theatre attendance. CPP of $6.36 in 2018 increased 5.8% to $6.73 in 2019, an annual record for Cineplex. The operations of LBE contributed $36.7 million in 2019. Newer locations typically experience higher sales volumes in the first year of operations (honeymoon period) before settling into their expected long-term run-rate levels resulting in a leveling off of results for older locations.

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

Media revenues

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

Media revenues	Fourth Quarter			Full Year		
	2019	2018 Restated	Change	2019	2018 Restated	Change
Cinema media	$ 42,171	$ 40,167	5.0%	$ 115,415	$ 106,834	8.0%
Digital place-based media	27,374	17,740	54.3%	81,340	55,986	45.3%
Total media revenues from continuing operations	$ 69,545	$ 57,907	20.1%	$ 196,755	$ 162,820	20.8%
Media revenues from discontinued operations	248	311	-20.3%	1,075	2,189	-50.9%
Total media revenues	$ 69,793	$ 58,218	19.9%	$ 197,830	$ 165,009	19.9%

Fourth Quarter

Total media revenues from continuing operations increased 20.1% to an all-time quarterly record of $69.5 million in the fourth quarter of 2019 compared to the prior year period. This increase was due to higher cinema media and digital place-based media revenues. Cinema media increased by $2.0 million, or 5.0% higher than the prior year period to an all-time quarter record of $42.2 million as a result of increased pre-show and show-time. Digital place-based media revenues increased $9.6 million (54.3%) to an all-time quarterly record of $27.4 million. The increase as compared to the prior year period was primarily due to increased project installation revenues which included rollouts for new and growth with existing clients.

During the fourth quarter of 2019, digital place-based media added 752 new locations, an increase of 5.2% over the third quarter of 2019.

Full Year

Total media revenues from continuing operations increased $33.9 million, or 20.8%, in the year ended December 31, 2019 compared to the prior year, to an all-time annual record of $196.8 million. This increase was due to the performance of Cinema media, which reported an increase of $8.6 million (8.0%) compared to the prior year due primarily to higher pre-show results. Digital place-based media revenues increased $25.4 million due to higher project installation revenues.

Full year, digital place-based media added 1,809 new locations (an increase of 13.4%) for a total of 15,311 locations as at December 31, 2019.

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		
	2019	2018	Change	2019	2018	Change
Project revenues (i)	$ 14,189	$ 5,391	163.2%	$ 39,943	$ 15,872	151.7%
Other revenues (ii)	13,185	12,349	6.8%	41,397	40,114	3.2%
Total digital place-based media revenues	$ 27,374	$ 17,740	54.3%	$ 81,340	$ 55,986	45.3%

(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		
	2019	2018	Change	2019	2018	Change
Amusement - P1AG excluding Cineplex exhibition and LBE (i)	$ 39,931	$ 43,307	-7.8%	$ 178,209	$ 165,486	7.7%
Amusement - Cineplex exhibition (i)	2,668	2,697	-1.1%	10,907	10,664	2.3%
Amusement - LBE	10,872	7,469	45.6%	39,115	29,643	32.0%
Total amusement revenues	$ 53,471	$ 53,473	—%	$ 228,231	$ 205,793	10.9%

(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

Amusement revenues of $53.5 million were flat compared to the prior year period. Amusement revenues from P1AG decreased $3.4 million (7.8%) primarily due to a decrease in route revenues in the United States from theatres, non-family entertainment centres and the retail segment. Amusement revenues from LBE increased 45.6% or $3.4 million compared to the prior year period as a result of the additional locations and VR offerings.

Full Year

For the full year period, amusement revenues increased by $22.4 million (10.9%) to an all-time annual record of $228.2 million. The increase as compared to the prior year is due to increased distribution revenue as well as route business, in part due to the P1AG agreement with Cinemark, entered in 2018, as well as strong growth in revenue from the additional locations of LBE venues as compared to the prior year period.

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**		
	2019	**2018 Revised**	**Change**	**2019**	**2018 Revised**	**Change**
Amusement revenues	$ 39,931	$ 43,307	-7.8%	$ 178,209	$ 165,486	7.7%
Operating Expenses	35,275	40,076	-12.0%	150,615	150,476	0.1%
Non-cash rent (i) (iii)	—	20	NM	—	82	NM
Cash rent related to lease obligations (ii)	1,543	—	NM	6,072	—	NM
Total adjusted operating expenses	$ 36,818	$ 40,096	-8.2%	$ 156,687	$ 150,558	4.1%
P1AG adjusted EBITDAaL (iii)	$ 3,113	$ 3,211	-3.1%	$ 21,522	$ 14,928	44.2%
P1AG adjusted EBITDAaL Margin (iii)	7.8%	7.4%	0.4%	12.1%	9.0%	3.1%

(i) Non-cash rent included in the 2018 balances in the previous reporting period. See Section 19, Reconciliation for further details.
(ii) Cash rent that has been reallocated to offset the lease obligations.
(iii) See Section 18, Non-GAAP measures.
(iv) Prior period figures have been revised to conform to current period presentation. See Section 19, Reconciliation for further details.

A shift in the revenue mix, coupled with a growth in margins from route revenue and a decrease in operating costs resulted in increased margins for P1AG in the fourth quarter as compared to the prior year period.

Margins for P1AG increased full year compared to the prior year as a result of the increase in route revenues in the United States and Canada and a non-recurring charge recorded in the third quarter of 2018.

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**		
	2019	**2018 Revised**	**Change**	**2019**	**2018 Revised**	**Change**
Food service revenues	$ 10,481	$ 9,711	7.9%	$ 36,691	$ 34,768	5.5%
Amusement revenues	10,872	7,469	45.6%	39,115	29,643	32.0%
Media and other revenues	911	690	32.0%	3,391	2,076	63.3%
Total revenues	$ 22,264	$ 17,870	24.6%	$ 79,197	$ 66,487	19.1%
Cost of food service	2,478	2,333	6.2%	9,517	9,190	3.6%
Operating expenses before adjustments (i)	13,127	11,609	13.1%	47,392	44,512	6.5%
Non-cash rent (ii) (iv)	—	56	NM	—	221	NM
Cash rent related to lease obligations (iii)	1,564	—	NM	5,718	—	NM
Total adjusted costs	$ 17,169	$ 13,998	22.7%	$ 62,627	$ 53,923	16.1%
Adjusted store level EBITDAaL (iv)	$ 5,095	$ 3,872	31.6%	$ 16,570	$ 12,564	31.9%
Adjusted store level EBITDAaL Margin (iv)	22.9%	21.7%	1.2%	20.9%	18.9%	2.0%

(i) Includes operating costs of LBE. Pre-opening costs relating to LBE and overhead relating to management of LBE portfolio are not included.
(ii) Non-cash rent included in the 2018 balances in the previous reporting period. See Section 19, Reconciliation for further details.
(iii) Cash rent that has been reallocated to offset the lease obligations.
(iv) See Section 18, Non-GAAP measures.

Margins for LBE increased 1.2% for the fourth quarter and 2.0% for the year as compared to the prior year periods due to improved cost management with the rollout of additional LBE locations.

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		
	2019	2018 Restated	Change	2019	2018 Restated	Change
Other revenues from continuing operations	$ 13,256	$ 13,385	-1.0%	$ 51,309	$ 44,080	16.4%
Other revenues from discontinued operations	—	29	NM	16	196	-91.8%
Total other revenues	$ 13,256	$ 13,414	-1.2%	$ 51,325	$ 44,276	15.9%

Other revenues from continuing operations decreased 1.0% in the fourth quarter of 2019 compared to the prior year period. In 2019, the increase of 16.4% in other revenues was due primarily to higher volume of digital commerce sales.

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		
	2019	2018	Change	2019	2018	Change
Film cost	$ 93,925	$ 91,562	2.6%	$ 369,386	$ 379,325	-2.6%
Film cost percentage (i)	51.7%	50.2%	1.5%	52.4%	52.4%	—%
(i) See Section 18, Non-GAAP measures.						

Fourth Quarter

Film cost varies primarily with box office revenues, and can vary from quarter to quarter usually based on the relative strength and concentration of the titles exhibited during the prior period. The 1.5% increase in film cost percentage in the current period was as a result of higher settlement rates attributable to the top films in 2019 compared to 2018.

Full Year

Film cost percentage remained flat year over year as a result of the top films having comparable settlement rates.

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		
	2019	2018	Change	2019	2018	Change
Cost of food service - theatre	$ 25,223	$ 23,805	6.0%	$ 97,306	$ 91,001	6.9%
Cost of food service - LBE	2,478	2,333	6.2%	9,517	9,190	3.6%
Total cost of food service	$ 27,701	$ 26,138	6.0%	$ 106,823	$ 100,191	6.6%
Theatre concession cost percentage (i)	22.0%	21.4%	0.6%	21.8%	20.6%	1.2%
LBE food cost percentage (i)	23.6%	24.0%	-0.4%	25.9%	26.4%	-0.5%
Theatre concession margin per patron (i)	$ 5.31	$ 5.13	3.5%	$ 5.26	$ 5.05	4.2%
(i) See Section 18, Non-GAAP measures.						

Fourth Quarter

Cost of food service at the theatres varies primarily with theatre attendance as well as the quantity and mix of offerings sold. Cost of food service at 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 the theatre cost of food service as compared to the prior year period was due to a 0.6% increase in the concession cost percentage during the period and higher theatre food service revenues due to sales from an expanded menu and shift in product mix.

The theatre concession margin per patron increased 3.5% from $5.13 in the fourth quarter of 2018 to $5.31 in the same period in 2019, reflecting the impact of the higher CPP more than offsetting the higher theatre concession cost percentage during the quarter.

The increase in LBE cost of food service as compared to the prior year period was due to the higher food service revenues as a result of the increase in operating locations. This was partially offset by the decrease of 0.4% in LBE food cost percentage during the quarter compared to the prior period as a result of improved cost management and menu optimization as new locations opened.

Full Year

The increase in the theatre cost of food service as compared to the prior year was due to a 1.2% increase in the theatre concession cost percentage and higher theatre food service revenues. The theatre concession margin per patron increased from $5.05 in the prior year to $5.26 in 2019, reflecting the impact of the higher CPP in 2019.

The increase in LBE cost of food service as compared to the prior year was due to the higher food service revenues as a result of the increase in operating locations. This was partially offset by the decrease of 0.5% in LBE food cost percentage as a result of improved cost management and menu optimization with the rollout of new locations.

Depreciation and amortization

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

Depreciation and amortization expenses	**Fourth Quarter**			**Full Year**		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Depreciation of property, equipment and leaseholds	$ 29,967	$ 30,387	-1.4%	$ 116,911	$ 115,016	1.6%
Amortization of intangible assets and other	3,168	3,293	-3.8%	11,972	12,407	-3.5%
Sub-total - depreciation and amortization - other assets	$ 33,135	$ 33,680	-1.6%	$ 128,883	$ 127,423	108.4%
Depreciation - right-of-use assets	36,471	—	NM	145,946	—	NM
Total depreciation and amortization from continuing operations	$ 69,606	$ 33,680	106.7%	$ 274,829	$ 127,423	115.7%
Depreciation and amortization from discontinued operations	—	1,119	NM	3,623	4,429	-18.2%
Total depreciation and amortization	$ 69,606	$ 34,799	100.0%	$ 278,452	$ 131,852	111.2%

The quarterly decrease in depreciation of property, equipment and leaseholds from continuing operations of $0.4 million was due to the reduction in depreciation resulting from fully depreciated assets more than offsetting the incremental depreciation from new build and expansions. The annual increase in depreciation of $1.9 million was primarily due to the investments in route equipment, furniture and fixtures and leasehold improvements.

The quarterly and year to date increase in depreciation of right-of-use assets from continuing operations was as a result of the adoption of IFRS 16 (see Section 13, Accounting policies). The right-of-use assets are depreciated over the lease term. The current quarter and year to date expense represents the depreciation charge for the periods.

The quarterly and annual decrease in amortization of intangible assets and other from continuing operations was primarily due to certain assets being fully amortized.

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):

Loss on disposal of assets	Fourth Quarter			Full Year		
	2019	2018	Change	2019	2018	Change
Loss on disposal from continuing operations	$ 868	$ 1,064	-18.4%	$ 1,764	$ 2,681	-34.2%
Loss on disposal from discontinued operations	—	—	NM	—	16	-100.0%
Loss on disposal of assets	$ 868	$ 1,064	-18.4%	$ 1,764	$ 2,697	-34.6%

Other costs

Other costs include three main sub-categories of expenses; theatre occupancy expenses, which capture the rent and associated occupancy costs for Cineplex's theatre operations; other operating expenses, which include the costs related to running Cineplex's film entertainment and content, media, as well as amusement and leisure; and general and administrative expenses, which 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		
	2019	2018 Restated	Change	2019	2018 Restated	Change
Theatre occupancy expenses	$ 18,493	$ 51,991	-64.4%	$ 71,867	$ 209,838	-65.8%
Other operating expenses	167,416	161,741	3.5%	629,849	593,736	6.1%
General and administrative expenses	29,014	12,779	127.0%	80,977	66,783	21.3%
Total other costs from continuing operations	$ 214,923	$ 226,511	-5.1%	$ 782,693	$ 870,358	-10.1%
Other costs from discontinued operations	1,471	2,054	-28.4%	7,001	8,377	-16.4%
Total other costs	$ 216,394	$ 228,565	-5.3%	$ 789,694	$ 878,735	-10.1%

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		
	2019	2018 Revised	Change	2019	2018 Revised	Change
Cash rent - theatre (i)	$ 39,042	$ 38,625	1.1%	$ 156,921	$ 154,545	1.5%
Other occupancy	18,545	17,578	5.5%	73,736	73,435	0.4%
One-time items (ii)	(62)	(550)	-88.7%	(2,275)	(2,776)	-18.0%
Total theatre occupancy including cash lease payments	$ 57,525	$ 55,653	3.4%	$ 228,382	$ 225,204	1.4%
Non-cash rent (iii) (vi)	—	(2,672)	NM	—	(11,410)	NM
Rent previously recognized as a finance lease (iv)	—	(990)	NM	—	(3,956)	NM
Cash rent related to lease obligations (v)	(39,032)	—	NM	(156,515)	—	NM
Theatre occupancy as reported	$ 18,493	$ 51,991	-64.4%	$ 71,867	$ 209,838	-65.8%

(i) Represents the cash payments for theatre rent during the quarter. See Section 19, Reconciliation for further details.

(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) Non-cash rent included in the 2018 balances in the previous reporting period. See Section 19, Reconciliation for further details.

(iv) Rent payments that were charged to the finance lease obligations in the previous reporting period. See Section 19, Reconciliation for further details.

(v) Cash rent that has been reallocated to offset the lease obligations.

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

Theatre occupancy continuity	Fourth Quarter Occupancy	Full Year Occupancy
2018 as reported	$ 51,991	$ 209,838
Impact of new and acquired theatres	920	4,182
Impact of disposed theatres	(501)	(2,232)
Same store rent change (i)	22	750
One-time items	488	502
Other	944	(24)
Impact of IFRS 16 adoption:		
Impact of non-cash rent in prior period	2,672	11,410
Rent previously recognized as a finance lease	989	3,956
Cash rent related to lease obligations	(39,032)	(156,515)
2019 as reported	$ 18,493	$ 71,867

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

Fourth Quarter

Theatre occupancy expenses decreased $33.5 million during the fourth quarter of 2019 compared to the prior year period. This decrease was primarily due to the impact of the adoption of IFRS 16 partially offset by the impact of non-cash rent in the prior period.

Total theatre occupancy including cash lease payments increased $1.9 million (3.4%) during the fourth quarter of 2019 compared to the prior year period. This increase was due to a decrease in one-time credits and increase in taxes and insurance.

Full Year

The decrease in theatre occupancy expenses of $138.0 million for the 2019 year compared the prior year was mainly due to the impact of the adoption of IFRS 16 partially offset by the impact of non-cash rent in the prior year period.

For the year to date period, theatre occupancy including cash payments increased $3.1 million (1.4%) as compared to the prior year period. The increase was primarily due to the impact of new theatres net of disposed theatres.

Other operating expenses

The following table highlights the movement in other operating expenses during the quarter and the full year (in thousands of dollars) with the prior period presentation revised and restated to provide comparability to the impact of the transition to IFRS 16 and application of IFRS 5:

Other operating expenses	Fourth Quarter			Full Year		
	2019	2018 Revised and Restated	Change	2019	2018 Revised and Restated	Change
Theatre payroll	$ 41,925	$ 38,663	8.4%	$ 160,593	$ 152,465	5.3%
Theatre operating expenses	32,986	29,940	10.2%	121,833	117,424	3.8%
Media (i)	27,762	18,881	47.0%	88,621	66,825	32.6%
P1AG (i)	36,818	40,096	-8.2%	156,687	150,558	4.1%
LBE (i) (ii)	14,692	11,665	25.9%	53,110	44,733	18.7%
LBE pre-opening (i) (iii)	603	(87)	NM	2,447	1,260	94.2%
SCENE	2,470	6,991	-64.7%	15,549	17,447	-10.9%
Marketing	5,128	6,663	-23.0%	16,254	19,959	-18.6%
Business interruption insurance proceeds	—	(1,749)	NM	—	(5,449)	NM
Other (iv)	9,686	10,329	-6.2%	32,879	28,212	16.5%
Other operating expenses including cash lease payments	$ 172,070	$ 161,392	8.0%	$ 647,973	$ 593,434	9.2%
Non-cash rent (v) (vi)	—	348	NM	—	302	NM
Cash rent related to lease obligations (vii)	(4,654)	—	NM	(18,124)	—	NM
Other operating expenses from continuing operations	$ 167,416	$ 161,740	3.5%	$ 629,849	$ 593,736	6.1%
Other operating expenses from discontinued operations	1,471	2,055	NM	7,001	8,378	-16.4%
Total other operating expenses	$ 168,887	$ 163,795	3.1%	$ 636,850	$ 602,114	5.8%

(i) Prior period balances were revised to exclude non-cash rent. See Section 19, Reconciliation for further details.
(ii) Includes operating costs of LBE. Overhead relating to management of LBE portfolio are included in the 'Other' line.
(iii) Includes pre-opening costs of LBE.
(iv) Other category includes overhead costs related to LBE and other Cineplex internal departments.
(v) Non-cash rent included in the 2018 balances in the previous reporting period. See Section 19, Reconciliation for further details.
(vi) See Section 18, Non-GAAP measures.
(vii) Cash rent that has been reallocated to offset the lease obligations.

Other operating continuity from continuing operations	**Fourth Quarter Other Operating**	**Full Year Other Operating**
2018 as restated	$ 161,740	$ 593,736
Impact of new and acquired theatres	1,291	7,129
Impact of disposed theatres	(357)	(1,827)
Same theatre payroll change (i)	2,607	4,307
Same theatre operating expenses change (i)	2,767	2,968
Media operating expenses change	8,881	21,796
P1AG operating expenses change	(3,278)	6,129
LBE operating expenses change	3,027	8,377
LBE pre-opening change	690	1,187
SCENE change	(4,521)	(1,898)
Marketing change	(1,535)	(3,705)
Business interruption insurance proceeds change	1,749	5,449
Other	(643)	4,627
Impact of IFRS 16 adoption:		
Non-cash rent in prior period	(348)	$ (302)
Cash rent related to lease obligations	(4,654)	$ (18,124)
2019 as reported	$ 167,416	$ 629,849
(i) See Section 18, Non-GAAP measures.		

Fourth Quarter

Other operating expenses during the fourth quarter of 2019 increased $5.7 million or 3.5% compared to the prior year period. The increase was primarily due to higher media operating expenses as a result of higher digital place-based media project installation revenue as compared to the prior year period. Same theatre payroll expenses increased due to higher minimum wages in Alberta, Quebec and British Columbia. Payroll and other costs associated with expanded service offerings also resulted in higher costs. Higher LBE operating expenses were due to an increase in the number of LBE locations from six in the fourth quarter of 2018 to ten at the end of 2019. These were partially offset by the $3.2 million decrease in P1AG costs due to a decrease in the route business and $4.5 million decrease in SCENE due to timing of expenses.

Full Year

For the year ended December 31, 2019, other operating expenses increased $36.1 million or 6.1% compared to the prior year. Media operating expenses increased due to higher CDM project installation revenue and cinema media volumes as compared to the prior year period. The increase in other operating expenses can also be attributed to the net impact of new and acquired theatres. Cineplex incurred higher amusement and leisure costs due to an increase in distribution sales and route revenue from P1AG and from the impact of the increase in the number of LBE venues. Same theatre payroll expenses increased due to higher minimum wages in Alberta, Quebec and British Columbia. During 2018, Cineplex recognized business interruption insurance proceeds of $5.4 million, as a result of a fire at *Cineplex Seton and VIP*. Cost increases were partially offset by a decrease in marketing due to the timing of campaigns and cash rent allocated to lease obligations arising upon the adoption of IFRS 16.

General and administrative expenses

The following table highlights the movement in 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) with the prior period presentation revised to provide comparability to the impact of the transition to IFRS 16:

G&A expenses	Fourth Quarter					Full Year				
		2019		2018 Revised	Change		2019		2018 Revised	Change
G&A excluding LTIP and option plan expense (i)	$	16,403	$	13,437	22.1%	$	64,108	$	60,568	5.8%
Restructuring		189		1,022	-81.5%		1,078		5,842	-81.5%
Transaction costs (vi)		11,711		—	NM		11,711		—	NM
LTIP (ii)		466		(2,076)	NM		3,076		(1,347)	NM
Option plan		407		395	3.0%		1,605		1,718	-6.6%
G&A expenses including cash lease payments	$	29,176	$	12,778	128.3%	$	81,578	$	66,781	22.2%
Non-cash rent (iii) (iv)		—		1	-100.0%		—		2	-100.0%
Cash rent included as part of lease obligations (v)		(162)		—	NM		(601)		—	NM
G&A expenses as reported	$	29,014	$	12,779	127.0%	$	80,977	$	66,783	21.3%

(i) Prior period balance was revised to exclude non-cash rent. See Section 19, Reconciliation for further details.
(ii) LTIP includes the expense for the LTIP program as well as the expense for the executive and Board deferred share unit plans.
(iii) Non-cash rent included in the 2018 balances in the previous reporting period.
(iv) See Section 18, Non-GAAP measures.
(v) Cash rent that has been reallocated to offset the lease obligations.
(vi) Transaction costs include share-based compensation costs and out-of-pocket expenses.

Fourth Quarter

G&A expenses increased $16.2 million during the fourth quarter of 2019 compared to the prior year primarily due to higher expenses resulting from the proposed Cineworld Transaction. Included in transaction costs of $11.7 million are share-based compensation costs of $8.4 million. These expenses are due to the impact of the combination of the valuation of the expected benefits at $34.00 as compared to the share price preceding the announcement of the Arrangement Agreement and an accelerated vesting period. The vesting service period was revised to March 31, 2020, to reflect the estimated earliest closing date of the Cineworld Transaction which is expected to occur in during the first half of 2020. Revised vesting terms of the options as a result of the Cineworld Transaction also resulted in increased costs in the quarter. The transaction costs also include $3.3 million of professional fees arising from the Cineworld Transaction. Excluding the impact of the Cineworld Transaction, LTIP costs increased $2.5 million due to an increase in share price in the current quarter as compared to a decrease in share price in the prior year period.

Full Year

G&A expenses for 2019 increased $14.2 million (21.3%) as compared to the prior year, primarily due to expenses related to the Cineworld Transaction in the amount of $11.7 million. Included in $11.7 million of transaction costs are the share-based compensation costs of $8.4 million, resulting from the combination of the valuation of the expected benefits at $34.00 (the price per Share in the Cineworld Transaction) as compared to the share price preceding the announcement of the Arrangement Agreement and an accelerated vesting period. The vesting service period was revised to March 31, 2020, to reflect the estimated earliest closing date of the Cineworld Transaction which is expected to occur in during the first half of 2020. Professional fees relating to the Cineworld Transaction in the amount of $3.3 million are also included in the transaction costs. The increase in G&A can also be attributed to professional fees relating to the software upgrade undertaken for IFRS 16. The prior year included expenses incurred relating to a cost reduction initiative implemented in 2018. Excluding the impact of the Cineworld Transaction, LTIP costs increased $4.4 million due to an increase in share price in the current year period as compared to a decrease in the share price in the prior year period.

Share of income of joint ventures and associates

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

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		
	2019	2018	Change	2019	2018	Change
Share of income of CDCP	$ (1,803)	$ (1,311)	37.5%	$ (4,827)	$ (4,186)	15.3%
Share of loss of other joint ventures and associates	206	413	-50.1%	658	438	50.2%
Total income of joint ventures and associates	$ (1,597)	$ (898)	77.8%	$ (4,169)	$ (3,748)	11.2%

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		
	2019	2018	Change	2019	2018	Change
Long-term debt interest expense	$ 6,693	$ 4,910	36.3%	$ 25,487	$ 18,319	39.1%
Financing fees	—	1,945	NM	—	1,945	NM
Convertible debenture interest expense	—	1,193	NM	—	4,811	NM
Sub-total - long-term debt interest expense	$ 6,693	$ 8,048	-16.8%	$ 25,487	$ 25,075	1.6%
Lease interest expense (i)	11,497	110	NM	47,018	535	NM
Sub-total - cash interest expense	$ 18,190	$ 8,158	123.0%	$ 72,505	$ 25,610	183.1%
Deferred financing fee accretion and other non-cash interest	408	893	-54.3%	1,745	1,194	46.1%
Convertible debenture accretion	—	605	NM	—	2,420	NM
Interest rate swap - non-cash	11,891	1,073	1,008.2%	10,472	1,466	614.3%
Sub-total - non-cash interest expense	12,299	2,571	378.4%	12,217	5,080	140.5%
Total interest expense	$ 30,489	$ 10,729	184.2%	$ 84,722	$ 30,690	176.1%

Interest expense increased $19.8 million for the quarter and $54.0 million for the full year as compared to the prior year periods. For both the fourth quarter and the full year, cash interest was higher primarily as a result of the adoption of IFRS 16, as well as higher average borrowings on Cineplex's revolving facility (see Section 7.4, Credit Facilities). This was partially offset by the decreases in the financing fees and convertible debenture interest expense. The convertible debentures matured and were repaid with funds drawn on the Credit Facilities on December 31, 2018. As a result of the Arrangement Agreement, all debt under both the Revolving Facility and Term Facility is expected to be repaid upon the close of transaction during the first half of 2020. Consequently, it is expected the hedged cash flows will no longer exist, and therefore, hedging accounting would not be appropriate beyond that date. Accordingly, additional expenses in the amount of $12.1 million associated with the interest rate swaps previously recognized in other comprehensive income ("OCI") were recognized as interest expense in the fourth quarter of 2019.

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		
	2019	2018	Change	2019	2018	Change
Interest income	$ 44	$ 69	-36.2%	$ 252	$ 274	-8.0%

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		
	2019	2018	Change	2019	2018	Change
Foreign exchange loss (gain) from continuing operations	$ 496	$ (1,543)	NM	$ 1,065	$ (1,981)	NM
Foreign exchange loss (gain) from discontinued operations	82	(207)	NM	268	(210)	NM
Total foreign exchange loss (gain)	$ 578	$ (1,750)	NM	$ 1,333	$ (2,191)	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 1.3243 at September 30, 2019 and 1.3642 at December 31, 2018 to 1.2988 at December 31, 2019.

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		
	2019	2018	Change	2019	2018	Change
Current income tax expense	$ 5,414	$ 9,886	-45.2%	$ 21,759	$ 28,894	-24.7%
Deferred income tax (recovery) expense	(3,228)	1,521	-312.2%	(9,990)	(6,580)	51.8%
Provision for income taxes from continuing operations	$ 2,186	$ 11,407	-80.8%	$ 11,769	$ 22,314	-47.3%
Provision for income taxes from discontinued operations	(109)	(518)	-79.0%	(2,176)	(1,724)	26.2%
Provision for income taxes	$ 2,077	$ 10,889	-80.9%	$ 9,593	$ 20,590	-53.4%

The decrease in the fourth quarter provision for income taxes was due to lower taxable income for the quarter as well as the impact of differences in the timing of deductions for tax as compared to accounting in the current period as compared to the prior year period.

The full year decrease in the provision for income taxes was primarily due to lower taxable income versus the prior year period and the impact of differences in the timing of deductions for tax as compared to accounting in the current period as compared to the prior year period. The timing of deductions for the prior year period were primarily related to Cineplex recognizing a previously unrecognized deferred tax asset of $5.0 million at June 30, 2018 related to its joint venture SCENE.

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. Subsequent to 2018 year end, the CRA issued a notice of reassessment ("NOR") denying the use of $26.6 million of losses by Cineplex, which offset taxable income generated in 2014, thereby increasing taxes and interest payable by approximately $8.6 million, 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 was recorded in income taxes receivable.

Cineplex's combined statutory income tax rate at December 31, 2019 was 26.8% (2018 - 26.9%).

Net income

Net income during the fourth quarter of 2019 and the year ended December 31, 2019 was as follows (in thousands of dollars):

Net income	Fourth Quarter			Full Year		
	2019	2018	Change	2019	2018	Change
Net income from continued operations	$ 4,668	$ 29,262	-84.0%	$ 36,516	$ 85,459	-57.3%
Net loss from discontinued operations	(1,196)	(2,108)	-43.3%	(7,625)	(8,503)	-10.3%
Net income	$ 3,472	$ 27,154	-87.2%	$ 28,891	$ 76,956	-62.5%

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, 2019 as compared to the prior year periods (expressed in thousands of dollars, except adjusted EBITDAaL margin):

EBITDA	Fourth Quarter			Full Year		
	2019	2018	Change	2019	2018	Change
		Restated			Restated	
EBITDA	$ 106,905	$ 85,009	25.8%	$ 407,584	$ 265,612	53.5%
Adjusted EBITDA	$ 106,529	$ 83,351	27.8%	$ 405,786	$ 262,357	54.7%
Adjusted EBITDAaL (i)	$ 62,327	$ 80,039	-22.1%	$ 230,546	$ 247,295	-6.8%
Adjusted EBITDAaL margin (i)	14.1%	18.7%	-4.6%	13.8%	15.3%	-1.5%

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

Adjusted EBITDAaL for the fourth quarter of 2019 decreased $17.7 million, or 22.1%, as compared to the prior year period, to $62.3 million. This decrease was due to additional costs including transaction costs incurred as a result of the Cineworld Transaction as well as weaker results from theatre exhibition business partially offset by strong results from other businesses. As a result of the Cineworld Transaction, G&A expenses increased as a result of expenses related to the Cineworld Transaction in the amount of $11.7 million. Adjusted EBITDAaL margin, calculated as adjusted EBITDAaL divided by total revenues, was 14.1% in the current period, a decrease of 4.6% from 18.7% in the prior year period.

Adjusted EBITDAaL for the year ended December 31, 2019 decreased $16.7 million, or 6.8%, to $230.5 million as compared to $247.3 million in the prior year period with the decrease primarily due to the transaction costs and accounting adjustments related to the Cineworld Transaction. These were partially offset by the increases in food service, media and amusement revenues. Adjusted EBITDAaL margin was down 0.6% to 13.8% in 2019 compared to 15.3% in 2018.

6. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the year ended December 31, 2019 as compared to December 31, 2018 (in thousands of dollars):

	December 31, 2019	December 31, 2018	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 26,080	$ 25,242	$ 838	3.3%
Trade and other receivables	168,065	165,586	2,479	1.5%
Income taxes receivable	9,757	4,944	4,813	97.4%
Inventories	30,995	30,592	403	1.3%
Prepaid expenses and other current assets	14,226	13,862	364	2.6%
Fair value of interest rate swap agreements	1,022	1,457	(435)	-29.9%
Assets held for sale (i)	6,573	—	6,573	NM
	256,718	241,683	15,035	6.2%
Non-current assets				
Property, equipment and leaseholds	662,798	634,354	28,444	4.5%
Right-of-use assets (i) (ii)	1,232,849	—	1,232,849	NM
Deferred income taxes	14,197	13,444	753	5.6%
Fair value of interest rate swap agreements	472	2,063	(1,591)	-77.1%
Interests in joint ventures and associates	28,221	38,912	(10,691)	-27.5%
Intangible assets	88,367	108,758	(20,391)	-18.7%
Goodwill	816,790	817,235	(445)	-0.1%
	$ 3,100,412	$ 1,856,449	$ 1,243,963	67.0%
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$ 220,188	$ 186,407	$ 33,781	18.1%
Share-based compensation	25,681	4,862	20,819	428.2%
Dividends payable	9,500	9,183	317	3.5%
Income taxes payable	1,183	12,167	(10,984)	-90.3%
Deferred revenue	222,998	214,016	8,982	4.2%
Lease obligations (ii)	106,352	3,058	103,294	NM
Fair value of interest rate swap agreements	1,874	1,184	690	58.3%
Liabilities related to assets held for sale (i)	2,808	—	2,808	NM
	590,584	430,877	159,707	37.1%
Non-current liabilities				
Share-based compensation	—	8,210	(8,210)	-100.0%
Long-term debt	625,000	580,000	45,000	7.8%
Fair value of interest rate swap agreements	10,837	7,674	3,163	41.2%
Lease obligations (ii)	1,261,243	10,789	1,250,454	NM
Post-employment benefit obligations	10,678	9,250	1,428	15.4%
Other liabilities	9,813	119,110	(109,297)	-91.8%
Deferred income taxes	1,263	11,528	(10,265)	-89.0%
	2,509,418	1,177,438	1,331,980	113.1%
Equity				
Equity attributable to owners of Cineplex	591,103	679,096	(87,993)	-13.0%
Non-controlling interests	(109)	(85)	(24)	28.2%
Total Equity	590,994	679,011	(88,017)	-13.0%
	$ 3,100,412	$ 1,856,449	$ 1,243,963	67.0%

(i) See Section 13, Accounting policies for discontinued operations.
(ii) See Section 13, Accounting policies for recognition of right-of-use assets and lease obligations upon adoption of IFRS 16.

Trade and other receivables. The increase in trade and other receivables is primarily due to the timing of billing and collection of trade receivables, particularly gift card resellers. December represents the highest volume month for gift card and voucher sales and was one of the strongest months for media sales during the year.

Income taxes receivable. The increase in income taxes receivable represents the income tax installments paid by several taxable entities in Cineplex's consolidated group to various tax authorities in excess of their income tax provisions, in addition to $3.9 million representing 50% of the disputed tax reassessment of Cineplex's 2014 tax return.

Property, equipment and leaseholds. The increase in property, equipment and leaseholds is due to new build and other capital expenditures ($130.1 million) and maintenance capital expenditures ($31.7 million), offset by amortization expenses ($116.9 million from continuing operations and $0.3 million from discontinued operations), asset dispositions ($1.6 million), foreign exchange impact ($2.2 million), as well as the impact of adoption of IFRS 16 and application of IFRS 5 in 2019. The adoption of IFRS 16 resulted in the reallocation of property, equipment and leasehold assets to the opening right-of-use assets ($11.2 million for finance lease assets and $0.4 million for asset retirement obligation). The property, equipment and leasehold assets from discontinued operations were reclassified to assets held for sale in accordance with IFRS 5 ($0.7 million). See Section 13, Accounting policies for further details.

Assets held for sale. Assets held for sale are WGN related assets with WGN being classified as a discontinued operation in accordance with the application of IFRS 5 effective with the quarter ended September 30, 2019. See Section 13, Accounting policies for further details.

Right-of-use assets. The increase in right-of-use assets is due to the adoption of IFRS 16. See Section 13, Accounting policies for further details.

Interests in joint ventures and associates. The decrease in interest in joint venture is primarily due to the distributions from CDCP ($15.6 million).

Intangible assets. The decrease in intangible assets is due to the amortization expense ($12.0 million from continuing operations and $3.3 million from discontinued operations), combined with the reallocation of fair-value rent assets to the opening right-of-use asset balance in accordance with IFRS 16 ($9.7 million) and reclassification of intangible assets to assets held for sale in accordance with IFRS 5 ($5.2 million) as well as foreign exchange impact ($0.4 million), partially offset by capitalization of software development costs ($8.9 million from continuing operations and $1.3 million from discontinued operations). See Section 13, Accounting policies for further details.

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

Accounts payable and accrued liabilities. The increase in accounts payable and accrued liabilities relates to higher business volume and the timing of payments in December 2019 for trade payables and construction payables compared to the prior year period.

Share-based compensation. The increase in current share-based compensation liabilities is due to the higher stock price at December 31, 2019. As a result of the proposed Cineworld Transaction, the options have been reclassified from equity to cash-settled share-based compensation liabilities and with the acceleration of the vesting period, all outstanding plans are accounted for as current liabilities.

Income taxes payable. The decrease in income taxes payable represents the amount paid by Cineplex during 2019 for taxes due based on its 2018 operations, offset by liabilities for current income tax expense relating to 2019 in excess of tax installments paid for certain taxable entities in the consolidated group.

Deferred revenue. The deferred revenue increase is primarily due to the sale of gift cards and vouchers during the 2019 holiday season.

Lease obligations. The increase in lease obligations is due to the adoption of IFRS 16. See Section 13, Accounting policies for further details.

Liabilities related to assets held for sale. Liabilities related to assets held for sale are WGN related liabilities with WGN being classified as a discontinued operation in accordance with the application of IFRS 5 effective with the quarter ended September 30, 2019. See Section 13, Accounting policies for further details.

Fair value of interest rate swap agreements. Represent the fair values of Cineplex's outstanding interest rate swap agreements. See Section 7.4, Credit Facilities, for more details.

Long-term debt. The increase in long-term debt relates to increased net borrowings under the Revolving Facility (defined and discussed in Section 7.4, Credit Facilities).

Other liabilities. The decrease is other liabilities is primarily due to the reallocation of fair-value rent, deferred tenant inducements, straight-line rent averaging and density rights accounts at December 31, 2018 to the opening right-of-use asset balance in accordance with IFRS 16. See Section 13, Accounting policies for further details.

Deferred income taxes. The increase in the net balance of deferred income taxes assets and deferred income taxes liabilities is primarily due to the tax impact associated with the depreciation of right-of-use assets and the principal and interest payments of the lease obligations as a result of the adoption of IFRS 16.

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, 2019 and 2018 (in thousands of dollars):

Cash flows provided by operating activities	Fourth Quarter			Full Year		
	2019	2018 Restated	Change	2019	2018 Restated	Change
Net income from continuing operations	$ 4,668	$ 29,262	$ (24,594)	$ 36,516	$ 85,459	$ (48,943)
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization of other assets (i)	33,135	33,680	(545)	128,883	127,423	1,460
Depreciation of right-of-use assets	36,471	—	36,471	145,946	—	145,946
Other depreciation and amortization amounts (ii)	—	(2,323)	2,323	—	(11,106)	11,106
Unrealized foreign exchange	309	(1,112)	1,421	698	(1,231)	1,929
Interest rate swap agreements - non-cash interest	11,891	1,073	10,818	10,472	1,466	9,006
Accretion of convertible debentures	—	605	(605)	—	2,420	(2,420)
Other non-cash interest (iii)	408	893	(485)	1,745	1,194	551
Financing fees included in interest expenses	—	1,718	(1,718)	—	1,718	(1,718)
Loss on disposal of assets	868	1,064	(196)	1,764	2,681	(917)
Deferred income taxes	(3,228)	1,521	(4,749)	(9,990)	(6,580)	(3,410)
Non-cash Share-based compensation	407	395	12	1,608	1,718	(110)
Net change in interests in joint ventures and associates	(1,466)	620	(2,086)	(4,704)	(3,139)	(1,565)
Changes in operating assets and liabilities	40,670	15,532	25,138	8,727	(3,659)	12,386
Net cash provided by operating activities	**$ 124,133**	**$ 82,928**	**$ 41,205**	**$ 321,665**	**$ 198,364**	**$ 123,301**

(i) Includes depreciation of property, equipment and leaseholds and amortization of intangible assets.

(ii) Includes amortization of tenant inducements and rent averaging liabilities. This accounting treatment was applied under IAS 17 Leases ("IAS 17") in 2018 but not applicable under IFRS 16 in 2019. See Section 19, Reconciliation for further details.

(iii) Includes accretion of debt issuance and other non-cash interest costs.

Fourth Quarter

Cash provided by operating activities increased $41.2 million in the fourth quarter of 2019 compared to the prior year period. In addition to the movement of changes in operating assets and liabilities due to year-end timing, the increase is also due to the impact of IFRS 16 as a result of which cash rent is no longer being deducted under operating activities. Tenant inducements have been reclassified from operating to investing activities.

Full Year

For the year ended December 31, 2019, cash provided by operating activities increased $123.3 million compared to the prior year. The increase was primarily due to the impact of IFRS 16 as a result of which cash rent is no longer being deducted under operating activities.

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, 2019 and 2018 (in thousands of dollars):

Cash flows used in investing activities	**Fourth Quarter**			**Full Year**		
	2019	**2018 Restated**	**Change**	**2019**	**2018 Restated**	**Change**
Proceeds from disposal of assets, including asset-related insurance recoveries	$ —	$ 100	$ (100)	$ —	$ 1,930	$ (1,930)
Purchases of property, equipment and leaseholds	(51,448)	(24,533)	(26,915)	(146,367)	(110,079)	(36,288)
Acquisition of businesses, net of cash acquired	—	—	—	—	(4,685)	4,685
Intangible assets additions	(2,709)	(1,826)	(883)	(7,865)	(4,908)	(2,957)
Tenant inducements (i)	4,832	3,113	1,719	13,985	14,842	(857)
Net cash received from CDCP	2,882	684	2,198	15,394	4,266	11,128
Net cash used in investing activities	**$ (46,443)**	**$ (22,462)**	**$ (23,981)**	**$ (124,853)**	**$ (98,634)**	**$ (26,219)**

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

Fourth Quarter

Cash used in investing activities during the fourth quarter of 2019 increased by $24.0 million compared to the prior year period. The increase was primarily due to higher additions on property, equipment and leaseholds in the current year period, including spending on the construction of theatres and LBE locations.

Full Year

For the full year, cash used in investing activities was $26.2 million higher than the prior year. The increase was primarily due to the increased spending on property, equipment and leaseholds including construction of theatres and LBE locations, as well as more investment on intangibles acquisition. The increases were partially offset by increased cash received from CDCP in the current year and the prior year acquisition of an interest in VRstudios for $4.7 million.

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

Capital expenditures	Fourth Quarter			Full Year		
	2019	2018 Restated	Change	2019	2018 Restated	Change
Gross capital expenditures	$ 51,448	$ 24,532	$ 26,916	$ 146,367	$ 110,078	$ 36,289
Less: tenant inducements	(4,832)	(3,113)	(1,719)	(13,985)	(14,842)	857
Net capital expenditures	$ 46,616	$ 21,419	$ 25,197	$ 132,382	$ 95,236	$ 37,146
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 32,962	$ 20,692	$ 12,270	$ 102,220	$ 73,061	$ 29,159
Tenant inducements	(4,832)	(3,113)	(1,719)	(13,985)	(14,842)	857
Media growth capital expenditures	26	922	(896)	402	1,812	(1,410)
Premium formats (ii)	13,951	3,369	10,582	21,662	8,275	13,387
Amusement and leisure growth capital expenditures (excluding LBE build expenditures)	4,561	1,005	3,556	5,748	11,017	(5,269)
Maintenance capital expenditures	14,246	4,561	9,685	31,702	19,207	12,495
Other (iii)	(14,298)	(6,017)	(8,281)	(15,367)	(3,294)	(12,073)
	$ 46,616	$ 21,419	$ 25,197	$ 132,382	$ 95,236	$ 37,146

(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 and 4DX.

(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, 2019 and 2018 (in thousands of dollars):

Net cash (used in) provided by financing activities	Fourth Quarter			Full Year		
	2019	2018	Change	2019	2018	Change
Dividends paid	$ (28,498)	$ (27,550)	$ (948)	$ (112,415)	$ (108,614)	$ (3,801)
(Repayments) borrowings under credit facility, net	(24,000)	71,000	(95,000)	45,000	111,000	(66,000)
Options exercised for cash	—	—	—	—	68	(68)
Repayments of lease obligations - principal	(32,352)	(878)	(31,474)	(128,252)	(3,420)	(124,832)
Financing fees	—	(1,718)	1,718	(243)	(1,718)	1,475
Repayment of convertible debentures at maturity	—	(107,500)	107,500	—	(107,500)	107,500
Net cash used in financing activities	**$ (84,850)**	**$ (66,646)**	**$ (18,204)**	**$ (195,910)**	**$ (110,184)**	**$ (85,726)**

Fourth Quarter

Cash flows used in financing activities were $84.9 million in the fourth quarter of 2019, an increase of $18.2 million from the prior year period. The movement was primarily due to the impact of IFRS 16 whereby the repayment of principal of lease obligations is recorded under financing activities in the current year period, as compared to the cash rent payments being included in operating activities in the prior year period partially offset by a decrease in net debt repayments in the current period.

Full Year

Cash flows used in financing activities were $195.9 million in 2019, an increase of $85.7 million from the prior year. The increased spending was due primarily to the impact of IFRS 16, whereby the principal repayments of lease obligations included in cash rent in operating activities in the prior year are recorded as financing activities in the current year. Net borrowings decreased in the current year with the increased borrowings in prior year being used to repay the convertible debentures at maturity.

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

7.4 CREDIT FACILITIES

Cineplex increased and extended its bank credit facilities effective November 13, 2018 (the "Credit Facilities"). At December 31, 2019, the Credit Facilities consisted of the following (in millions of dollars):

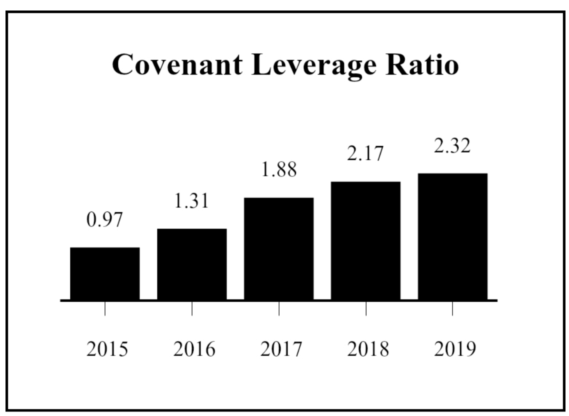
		Available	Drawn	Reserved	Remaining
(i)	a five-year senior secured revolving credit facility ("Revolving Facility")	$ 650.0	$ 475.0	$ 8.7	$ 166.3
(ii)	a seven-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at December 31, 2019 of $8.7 million are reserved against the Revolving Facility.					

There are provisions to increase the amount of either the Revolving Facility commitment or Term Facility commitment amount by an additional $150.0 million (the combined aggregate of both Facilities) with the consent of the lenders.

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 the Term Facility matures in November 2025, 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, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. The Credit Facilities are secured by all of Cineplex's assets.

One of the key financial covenants in the Credit Facilities is the leverage covenant 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. As at December 31, 2019, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 2.32x, as compared to a covenant of 3.75x. The definition of debt in the Credit Facilities includes long-term debt, financing leases and letters of credit but does not include 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.



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

Interest rate swap agreements. 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, 2019:

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 of the floating interest rate payable on Cineplex's first $450.0 million of borrowings. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its first $450.0 million of borrowings qualify for hedge accounting in accordance with IFRS 9, *Financial Instruments.* Under the provisions of IFRS 9, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income.

Under the Credit Facilities, an acquisition of control (being the acquisition of 50% or more of the outstanding Shares of Cineplex by any party) such as that contemplated under the Arrangement Agreement triggers an event of default. As a result of the Cineworld Transaction, all debt under both the Revolving Facility and Term Facility is expected to be repaid upon the close of transaction during the first half of 2020, and Cineplex is expected to lose the ability to make any further draws under the Credit Facilities accordingly. Consequently, it is expected the hedged cash flows will no longer exist, and therefore, hedging accounting would not be appropriate beyond that date. Accordingly, losses associated with the interest rate swaps previously recognized in OCI were recognized as interest expense in the fourth quarter of 2019. Any subsequent changes in the value of these interest rate swaps will be recognized in net income.

Based on the leverage ratio covenant at December 31, 2019, Cineplex's effective cost of borrowing on its first $450.0 million of borrowings was 4.079% (December 31, 2018 - 4.079%).

7.5 FUTURE OBLIGATIONS

At December 31, 2019, 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	625,000	—	—	475,000	150,000
Interest rate swap agreements	11,217	852	5,455	4,028	882
Capital commitment - exhibition and LBE	133,286	79,007	54,279	—	—
Deferred consideration - AMC	3,134	3,134	—	—	—
Equipment obligations	4,195	2,006	2,014	150	25
Total contractual obligations	**$ 776,832**	**$ 84,999**	**$ 61,748**	**$ 479,178**	**$ 150,907**

The following table discloses the undiscounted cash flow for lease obligations as of December 31, 2019:

Less than one year	$	178,205
One to five years		661,979
More than five years		815,621
Total undiscounted lease obligations	$	1,655,805

Cineplex has aggregate gross capital commitments of $133.3 million ($86.3 million net of tenant inducements) related to the completion of construction of 16 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.

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

Cineplex is guarantor under the leases for the remainder of the lease terms 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, 2019 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.

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. It is anticipated that Cineplex will pay a monthly dividend, subject to the discretion of the Board, at an annualized rate in the range between 60% and 85% of adjusted free cash flow per Share. Cineplex hereby currently designates all dividends paid or deemed to be paid as "eligible dividends" for purposes of subsection 89(14) of the *Income Tax Act* (Canada) and similar provincial and territorial legislation, unless indicated otherwise.

Effective for the May 2019 dividend, which was paid in June 2019, the Board approved a dividend increase to $0.15 per month per Share ($1.80 on an annual basis).

8.1 ADJUSTED FREE CASH FLOW

Cineplex distributes cash to its shareholders on a monthly basis. The following table illustrates adjusted free cash flow per Share, dividends paid per Share, and the payout ratio of dividends relative to adjusted free cash flow for the three months and year ended December 31, 2019 and 2018:

Adjusted free cash flow	Fourth Quarter			Full Year		
	2019	2018	Change	2019	2018	Change
Adjusted free cash flow per Share	$ 0.618	$ 0.961	-35.7%	$ 2.660	$ 2.887	-7.9%
Dividends declared per Share	$ 0.450	$ 0.435	3.4%	$ 1.780	$ 1.720	3.5%
Payout ratio - year ended December 31				66.9%	59.6%	7.3%

Adjusted free cash flow per Share for the fourth quarter of 2019 decreased 35.7% due primarily to lower net income in the current year period compared to the prior year period. For 2019, adjusted free cash flow per Share decreased 7.9% as compared to the prior year primarily due to weaker results.

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		
	2019	2018	Change	2019	2018	Change
Cash flows provided by continuing operations (i)	$ 124,133	$ 82,928	49.7%	$ 321,665	$ 198,364	62.2%
Net income from continuing operations	$ 4,668	$ 29,262	-84.0%	$ 36,516	$ 85,459	-57.3%
Standardized free cash flow (i)	$ 72,685	$ 58,495	24.3%	$ 175,298	$ 90,215	94.3%
Adjusted free cash flow	$ 39,127	$ 60,842	-35.7%	$ 168,455	$ 182,846	-7.9%
Cash dividends declared	$ 28,499	$ 27,549	3.4%	$ 112,732	$ 108,931	3.5%
Average number of Shares outstanding	63,333,238	63,333,137	—%	63,333,238	63,332,159	—%

(i) Prior period figures have been revised and restated to conform to current period presentation.

8.2 DIVIDENDS

Subject to the discretion of the Board, dividends are typically declared on a monthly basis to common shareholders of record on the last business day of each month. For the three months and year ended December 31, 2019, Cineplex declared dividends totaling $0.450 per Share and $1.780 per Share, respectively. For the three months and year ended December 31, 2018, Cineplex declared dividends totaling $0.435 per Share and $1.720 per Share, respectively. As a result of the Arrangement Agreement, Cineplex does not expect to pay any further dividends after the dividend payable on February 28, 2020, assuming the Cineworld Transaction is completed.

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	$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, 2019 and the transactions during the year is 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, 2018 and 2019	63,333,238	$ 852,379	$ 852,379

Officers and key employees are eligible to participate in the LTIP. Each annual LTIP grant is for a three-year service period beginning October 1. On December 15, 2019, as a result of the Arrangement Agreement, the estimated vesting period was revised to March 31, 2020, resulting in the associated expense being recognized over a shorter period. The LTIP award consists of a restricted stock unit ("RSU") plan awarding base Share equivalents which may decrease or increase subject to certain market conditions and a phantom share unit ("PSU") plan awarding Share equivalents which may decrease or increase subject to certain performance and market conditions. The base Share equivalents attract compounding notional dividends at the same rate as outstanding Shares, which are notionally re-invested as additional base Share equivalents. The awards will be settled in cash at the end of the service period.

The grants of Share equivalents were as follows:

	PSU Share equivalents granted	RSU Share equivalents granted	PSU Share equivalents minimum payout	PSU Share equivalents maximum payout
2019 LTIP award	105,777	54,940	7,788	211,553
2018 LTIP award	79,089	39,549	—	158,178
2017 LTIP award	129,136	—	49,976	236,104

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

Cineplex has an incentive Share option plan for certain employees. The aggregate number of Shares that may be issued under the option plan is limited to 5.3 million Shares. All of the options must be exercised over specified periods not to exceed ten years from the date granted. As of December 31, 2019, 3.1 million Share options were outstanding under the Share option plan. Upon cashless exercise, the Share options exercised in excess of Shares issued are canceled and returned to the pool available for future grants. At December 31, 2019, 1.1 million Share options were available for grant under the plan.

A summary of option activities for the year ended December 31, 2019 and 2018 is as follows:

	2019			2018	
	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	6.92	2,433,589	$ 42.84	2,157,589	45.50
Granted		757,639	25.05	559,703	33.59
Forfeited		(67,707)	38.51	(276,661)	45.12
Exercised		—	—	(7,042)	31.30
Options outstanding – end of period	6.67	3,123,521	$ 38.62	2,433,589	$ 42.84

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 are 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 liability. The expense associated with unvested options, including any changes in fair value resulting from changes in market share price, will be recognized over the remaining vesting period to maturity, estimated to be March 31, 2020 (the earliest closing date). Forfeitures are estimated at nil, based on historical forfeiture rates.

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, which had $475.0 million drawn and $166.3 million available as of December 31, 2019.

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

	2019				2018			
	Q4	Q3	Q2 Restated	Q1 Restated	Q4 Restated	Q3 Restated	Q2 Restated	Q1 Restated
Revenues								
Box office revenues	**$181,789**	$ 177,865	$ 189,371	$ 156,496	$ 182,352	$ 173,278	$ 187,234	$ 181,380
Food service revenues	**125,159**	125,550	129,563	103,058	120,726	115,557	122,270	116,948
Media revenues	**69,545**	43,308	49,196	34,706	57,907	33,162	40,414	31,337
Amusement revenues	**53,471**	58,143	58,117	58,500	53,473	53,838	48,577	49,905
Other revenues	**13,256**	13,582	12,608	11,864	13,385	10,554	10,161	9,980
	443,220	418,448	438,855	364,624	427,843	386,389	408,656	389,550
Expenses								
Film cost	**93,925**	93,735	103,005	78,721	91,562	90,213	102,346	95,204
Cost of food service	**27,701**	27,439	28,247	23,436	26,138	24,257	25,020	24,776
Depreciation - right-of-use assets (i)	**36,471**	36,456	36,557	36,462	—	—	—	—
Depreciation and amortization - other	**33,135**	31,712	32,403	31,633	33,680	32,483	31,149	30,111
Loss on disposal of assets	**868**	303	116	477	1,064	783	624	210
Other costs	**214,922**	190,955	192,988	183,828	226,510	217,003	211,628	215,216
	407,022	380,600	393,316	354,557	378,954	364,739	370,767	365,517
Income from continuing operations	**$ 36,198**	$ 37,848	$ 45,539	$ 10,067	$ 48,889	$ 21,650	$ 37,889	$ 24,033
Adjusted EBITDA (ii)	**$106,529**	$ 106,132	$ 114,383	$ 78,742	$ 83,351	$ 54,971	$ 69,587	$ 54,448
Adjusted EBITDAaL (ii) (iii)	**$ 62,327**	$ 62,312	$ 70,255	$ 35,652	$ 80,039	$ 51,398	$ 65,484	$ 50,374
Net income (loss) from continuing operations	**$ 4,668**	$ 15,100	$ 22,077	$ (5,329)	$ 29,262	$ 12,342	$ 26,630	$ 17,225
Net loss from discontinued operations	**(1,196)**	(1,718)	(2,680)	(2,031)	(2,108)	(2,133)	(2,263)	(1,999)
Net income (loss)	**$ 3,472**	$ 13,382	$ 19,397	$ (7,360)	$ 27,154	$ 10,209	$ 24,367	$ 15,226
EPS - basic and diluted from continuing operations	**$ 0.08**	$ 0.24	$ 0.35	$ (0.09)	$ 0.46	$ 0.19	$ 0.42	$ 0.27
EPS - basic and diluted from discontinued operations	**(0.02)**	(0.03)	(0.04)	(0.03)	(0.03)	(0.03)	(0.04)	(0.03)
EPS - basic and diluted	**$ 0.06**	$ 0.21	$ 0.31	$ (0.12)	$ 0.43	$ 0.16	$ 0.38	$ 0.24
Cash provided by operating activities (iii)	**$124,133**	77,760	58,346	61,426	$ 82,928	39,147	30,387	45,902
Cash used in investing activities (iii)	**(46,443)**	(25,791)	(24,851)	(27,768)	(22,462)	(30,128)	(22,101)	(23,943)
Cash used in financing activities	**(84,850)**	(52,336)	(24,447)	(34,277)	(66,646)	(9,412)	(12,695)	(21,431)
Effect of exchange rate differences on cash	**345**	(158)	235	61	137	(204)	647	20
Net change in cash	**$ (6,815)**	$ (525)	$ 9,283	$ (558)	$ (6,043)	$ (597)	$ (3,762)	$ 548
Cash flows used in discontinued operations	**$ 2,821**	$ (1,441)	$ (1,120)	$ (807)	$ (1,277)	$ (965)	$ (1,652)	$ (1,607)
BPP (ii)	**$ 10.79**	$ 10.16	$ 11.13	$ 10.44	$ 10.73	$ 10.07	$ 10.82	$ 10.21
CPP (ii)	**$ 6.81**	$ 6.68	$ 7.04	$ 6.35	$ 6.53	$ 6.25	$ 6.59	$ 6.09
Film cost percentage (ii)	**51.7%**	52.7%	54.4%	50.3%	50.2%	52.1%	54.7%	52.5%
Theatre attendance (in thousands of patrons) (ii)	**16,849**	17,512	17,011	14,988	16,992	17,208	17,307	17,765
Theatre locations (at period end)	**165**	165	165	165	164	165	164	163
Theatre screens (at period end)	**1,693**	1,695	1,695	1,692	1,686	1,696	1,683	1,676

(i) See Section 13, Accounting policies.

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

(iii) Prior period figures have been revised to conform 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):

	2019				2018			
	Q4	Q3	Q2 Restated	Q1 Restated	Q4 Restated	Q3 Restated	Q2 Restated	Q1 Restated
Cash provided by operating activities (i)	**$ 124,133**	$ 77,760	$ 58,346	$ 61,426	$ 82,928	$ 39,147	$ 30,387	$ 45,902
Less: Total capital expenditures net of proceeds on sale of assets	**(51,448)**	(34,905)	(27,653)	(32,361)	(24,433)	(30,538)	(27,877)	(25,301)
Standardized free cash flow	**72,685**	42,855	30,693	29,065	58,495	8,609	2,510	20,601
Add/(Less):								
Changes in operating assets and liabilities	**(40,670)**	3,666	30,432	(2,155)	(15,531)	239	20,622	(1,670)
Changes in operating assets and liabilities of joint ventures	**(131)**	(411)	(240)	1,317	(1,518)	1,012	(411)	308
Principal component of lease obligations	**(32,352)**	(31,836)	(31,580)	(32,484)	(878)	(863)	(847)	(832)
Principal portion of cash rent paid not pertaining to current period	**(346)**	(345)	(346)	1,037	—	—	—	—
Growth capital expenditures and other	**37,202**	30,580	19,190	27,693	19,872	26,105	22,923	20,042
Share of income of joint ventures, net of non-cash depreciation	**(147)**	(189)	(238)	92	(306)	2	(75)	94
Non-controlling interests	**4**	2	7	11	25	53	—	—
Net cash received from CDCP	**2,882**	3,910	3,128	5,474	684	2,606	292	684
Adjusted free cash flow	**$ 39,127**	$ 48,232	$ 51,046	$ 30,050	$ 60,843	$ 37,763	$ 45,014	$ 39,227
Average number of Shares outstanding	**63,333,238**	63,333,238	63,333,238	63,333,238	63,333,137	63,332,946	63,332,067	63,330,446
Adjusted free cash flow per Share	**$ 0.618**	$ 0.762	$ 0.806	$ 0.474	$ 0.961	$ 0.596	$ 0.711	$ 0.619

(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") serves as a member of the Board. During the three months and year ended December 31, 2019, Cineplex incurred theatre occupancy expenditures for theatres under lease commitments with Riocan in the amounts of $10.6 million and $43.0 million, (2018 - $11.1 million and $44.8 million, respectively).

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 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:

IFRS 5, Non-current assets held for sale and discontinued operations

Cineplex has met the criteria of recording WGN as a discontinued operation under the accounting standard IFRS 5. Therefore, effective with the quarter ended September 30, 2019, WGN's financial performance and cash flows were presented in this MD&A as discontinued operations on a retroactive basis.

As per IFRS 5, non-current assets and disposal groups should be classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use, and measured at the lower of their carrying amount and fair value less costs to sell and are no longer depreciated or amortized. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification are regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell with be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items on the consolidated balance sheet. A disposal group qualifies as discontinued operation if it is in a component of an entity that either has been disposed of, or is classified as held for sale and:
- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical are of operations;
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as after tax loss from discontinued operations in the consolidated statement of operations and comparative period have been restated.

IFRS 16, Leases

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.

On January 13, 2016, the IASB issued IFRS 16, which replaced IAS 17. The new standard is mandatorily effective for fiscal years beginning on or after January 1, 2019. Under the new standard, all leases are reported on lessees' balance sheets, except those that meet limited exception criteria. Cineplex has applied IFRS 16 using the modified retrospective approach and as a result comparative information has not been restated and will continue to be reported under IAS 17 and IFRIC 4, *Determining Whether an Agreement Contains a Lease*. Cineplex has identified and reviewed relevent contracts from all lines of its business to assess if they fall within the scope of IFRS 16, in whole or in part and to quantify lease and non-lease components. 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.

Cineplex recognized lease obligations and right-of-use assets at the date of adoption of IFRS 16. The lease obligations are measured at the present value of the future lease payments during the lease terms which is a weighted average of approximately 11 years for all Cineplex leases at the date of adoption, discounted using incremental borrowing rates which, in most instances, are similar to Cineplex's average interest rate on borrowings under Cineplex's credit facility. Lease terms include the non-cancellable period, a rent free period if applicable, and any extension options which are reasonably certain to be exercised unless the lease agreement contains a bilateral termination clause. For leases entered into after January 1, 2019, the commencement date of the lease begins on the date on which the lessor makes the underlying asset available for use to Cineplex.

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; and
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.

At January 1, 2019, the right-of-use assets have been initially calculated at an amount equal to the initial value of the lease obligations adjusted for specific balance sheet items at December 31, 2018 which are no longer permitted under IFRS 16. There is no impact on retained earnings. For leases entered into, on or after January 1, 2019, the right-of-use asset will be initially calculated at an amount equal to the initial value of the lease liability less any lease payments made or lease incentives received at or before the commencement date, plus any initial direct costs incurred, an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and lease obligation at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

For short-term leases of equipment that have a lease term of 12 months or less and low-value assets, Cineplex has elected to not recognize a lease obligation and right-of-use asset and instead will recognize a lease expense as permitted under IFRS 16 in the consolidated statement of operations. Cineplex has recorded a lease obligation and right-of-use asset for all property leases including those with a term of 12 months or less.

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 using the straight-line from the date of adoption to the earlier of the end of the useful life of the asset or the end of the lease term as determined under IFRS 16. For leases entered into after January

1, 2019, the right-of-use assets are depreciated 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.*

On transition, Cineplex recognized $1,342,593 of right-of-use assets and $1,441,856 of lease obligations.

When measuring lease liabilities, Cineplex discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 3.5%.

The following table reconciles Cineplex's operating lease obligations at December 31, 2018, as previously disclosed in Cineplex's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019:

	January 1, 2019
Operating lease commitments for leased premises at December 31, 2018	$ 1,200,073
Discounted using the incremental borrowing rate at January 1, 2019	1,000,221
Extension options reasonably certain to be exercised	408,511
Finance lease obligations recognized at December 31, 2018	13,847
Equipment and other leases recognized at January 1, 2019	19,277
Lease obligations recognized at January 1, 2019	$ 1,441,856

The following table shows the impact on each individual line item on the balance sheet as of December 31, 2018 resulting from the adoption of IFRS 16 on January 1, 2019. Line items that were not affected by the changes have not been included. As a result, the sub totals and totals disclosed cannot be recalculated from the numbers provided.

	December 31, 2018	Finance lease (i)	Asset retirement obligation (ii)	Fair-value rent (iii)	Deferred tenant inducement (iv)	Rent averaging (v)	Density right (vi)	PVLP (vii)	Balances post IFRS 16 adoption at January 1, 2019
Assets									
Non-current assets									
Property, equipment and leaseholds	634,354	(11,239)	(405)	—	—	—	—	—	622,710
Right-of-use assets	—	11,239	1,167	(3,631)	(56,610)	(36,490)	(1,091)	1,428,009	1,342,593
Intangible assets	108,758	—	—	(9,689)	—	—	—	—	99,069
Total assets	$1,856,449	$ —	$ 762	$ (13,320)	$ (56,610)	$ (36,490)	$ (1,091)	$1,428,009	$ 3,177,709
Liabilities									
Current liabilities									
Lease obligations	3,058	(3,058)	—	—	—	—	—	106,892	106,892
Total current liabilities	430,877	(3,058)	—	—	—	—	—	106,892	534,711
Non-current liabilities									
Lease obligations	10,789	3,058	—	—	—	—	—	1,321,117	1,334,964
Other liabilities	119,110	—	762	(13,320)	(56,610)	(36,490)	(1,091)	—	12,361
Total liabilities	$1,177,438	$ —	$ 762	$ (13,320)	$ (56,610)	$ (36,490)	$ (1,091)	$1,428,009	$ 2,498,698

(i) Property, equipment and leaseholds associated with finance lease assets were reallocated to right-of-use assets, and finance lease liabilities were reallocated to lease obligations upon adoption of IFRS 16.

(ii) Asset retirement obligation ("ARO") assets were reallocated to right-of-use assets, and ARO liabilities were re-valued based on the lease term and incremental borrowing rate upon adoption of IFRS 16.

(iii) Fair-value rent assets and liabilities were reallocated to right-of-use assets upon adoption of IFRS 16.

(iv) Deferred tenant inducements were reallocated to right-of-use assets upon adoption of IFRS 16.

(v) Straight-line rent averaging liabilities were reallocated to right-of-use assets upon adoption of IFRS 16.

(vi) Density right deferred gains were reallocated to right-of-use assets upon adoption of IFRS 16.

(vii) Cineplex recognized right-of-use assets and lease obligations equal to the present value of future lease payments ("PVLP") upon adoption of IFRS 16 using the modified retrospective method.

IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23")

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019 and did not have any impact on Cineplex's balance sheet and statement of operations.

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".

Risk Factors Related to the Cineworld Transaction

There are a number of risk factors related to the Cineworld Transaction. These are described in detail on pages 69 through 71 inclusive of Cineplex's management information circular dated January 3, 2020 available on SEDAR at www.sedar.com, prepared in connection with the special meeting of shareholders to consider the Cineworld Transaction. These risks include, but are not limited to, the impact on Cineplex of a failure to complete the Cineworld Transaction, while the Cineworld Transaction is pending, Cineplex is restricted from taking certain actions, the Cineworld Transaction may divert the attention of Cineplex's management and the impact on the Share price if the transaction is not completed. If the Arrangement Agreement is not completed and the Board decides to seek another transaction, there can be no assurance that it will be able to find a party willing to pay an equivalent or more attractive price than the Consideration to be paid pursuant to the Arrangement Agreement.

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, to mitigate this risk, Cineplex continues to innovate and pursue cost savings in order to deliver an affordable out of home entertainment experience.

Customer Risk

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

To mitigate this risk, Cineplex offers the SCENE loyalty program, which rewards guests for their patronage with special offers as well as the ability to earn and redeem points. However, loyalty programs also carry 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, mystery shops and focus groups and maintains a guest services department to address customer concerns. Guest satisfaction is tied to performance measures for theatre management ensuring alignment between corporate and operational objectives.

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

Cineplex developed its Cineplex Store in response to the risk created by new in-home and on-the-go entertainment offerings. Cineplex's offerings through the Cineplex Store of 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, or delay the timing of contract fulfillment, 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.

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, DVDs 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 DVD, over the top internet streaming, pay television and SVOD is at the discretion of each distributor and day and date release or earlier release windows for these or new alternative channels including the potential premium video on demand ("PVOD") models could have a negative impact on Cineplex's business.

Exhibition Industry Risk

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

In response to this risk, management continually reviews and upgrades its existing locations including recliner seating. Cineplex also fosters strong ties with the real estate and development 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, eSports gaming online through WGN and in-theatre at select Cineplex locations and location-based entertainment including *The Rec Room*, *Playdium* and *Topgolf*. Cineplex's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams.

Media Risk

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

Amusement and Leisure Risk

Cineplex's location-based entertainment concepts are new concepts in the Canadian marketplace, and as such there is a risk that consumers may not react as favourably to the concepts, entertainment options or food service options as Cineplex's projections indicate. As part of Cineplex's vertical integration, P1AG is the primary supplier of games and amusement offerings for Cineplex's theatres, *The Rec Room* and *Playdium* locations, mitigating supplier risk.

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

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

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

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

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

P1AG competes with other providers of amusement and gaming services across North America. P1AG manages the risk of customers switching gaming providers by continually monitoring the performance of its amusement solutions and reacting quickly to replace underperforming solutions with newer or more relevant equipment. P1AG's expertise and experience in the industry and proven success maximizing revenue for its customers helps mitigate this switching risk. Certain of P1AG's revenue is dependent on the customer traffic of the venues in which they operate. Any reduction in traffic could have a material impact on their business.

Technology Risk

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

To mitigate these risks, Cineplex continues to enhance the out of home experience through the addition of new technologies and experiences including 3D, VIP, UltraAVX, D-BOX, 4DX, 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.

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.

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

Sourcing Risk

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

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

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

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

Human Resources Risk

The success of Cineplex depends upon the retention of senior executive management, including its Chief Executive 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 employs approximately 13,000 people, of whom approximately 82% 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.

Health and Safety Risk

Cineplex is subject to risks associated with food safety, alcohol consumption by guests, product handling and the operation of machinery. Cineplex is in compliance with health and safety legislation and conducts employee awareness and training programs on a regular basis. Health and safety issues related to our guests such as pandemics and bedbug concerns are risks that may deter people from attending places of public gathering, potentially including movie theatres, gaming centres, malls and dining locations. For those risks that it can control, Cineplex has programs in place to mitigate its exposure.

Environment/Sustainability Risk

Cineplex's business is primarily a service and retail business which delivers guest experiences rather than physical commercial products and thus does not have substantial environmental risk. Cineplex operates multiple locations in major urban markets and does not anticipate any significant changes to operations due to climate change. Should legislation change to require more stringent management of carbon emissions or more stringent reporting of environmental impacts, Cineplex anticipates this will result in minimal cost increases or changes to operating procedures. Severe weather incidents (as a result of environmental changes or otherwise) have potential to negatively impact Cineplex's operation. See "Business Continuity Risk" below.

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. Cineplex believes that it has sufficient financial resources to meet its ongoing requirements for capital expenditures, investments in working capital and dividends. However, Cineplex's needs may change and in such event Cineplex's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

Foreign Currency Risk

Cineplex is exposed to foreign currency risk related to transactions in its normal course of business that are denominated in currencies other than the Canadian dollar. Cineplex's largest foreign currency exposure is to the US dollar, as its amusement solutions and digital place-based media all operate in the United States and which represent 10.3% 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.

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.

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, 2019 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, 2019, 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 EVENT

Subsequent to the end of the annual period, the shareholders of Cineplex and Cineworld approved the Arrangement Agreement and Cineworld Transaction (completion remains subject to certain other conditions including regulatory and court approvals).

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.

On December 15, 2019, Cineplex entered into the Arrangement Agreement whereby Cineworld agreed to indirectly acquire all of the issued and outstanding Shares for $34.00 per Share in cash. The transaction is supported by Cineplex's Board of Directors, and was approved by the shareholders of both Cineplex and Cineworld subsequent to the end of the annual period. It remains subject to receipt of required regulatory and court approvals. The Transaction is expected to close during the first half of 2020. Upon closing, the Cineplex Shares will cease trading on the Toronto Stock Exchange, and Cineplex would become a wholly-owned subsidiary of Cineworld.

The future plans described below may or may not be pursued by Cineworld if the Cineworld Transaction is completed.

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

Cineplex reported record annual BPP and a decrease of 2.6% in box office revenue as compared to the prior year period.

Box office revenues are and will remain highly dependent on the marketability, quality and appeal of the film product released by major motion picture studios. Looking forward to 2020, there is a strong slate of films scheduled for release including *1917, Bad Boys for Life, Birds of Prey: And the Fantabulous Emancipation of One Harley Quinn, Onward, A Quiet Place: Part II, Mulan, No Time to Die, Black Widow, Legally Blonde 3, Scoob!, Fast & Furious 9, Artemis Fowl, Wonder Woman 1984, Top Gun: Maverick, Free Guy, Minions: The Rise of Gru, Ghostbusters: Afterlife, Tenet, Jungle Cruise, Morbius, The King's Man, Eternals, Godzilla vs. Kong and Raya and the Last Dragon*.

Cineplex continues to focus on providing guests with a variety of premium viewing options through which to enjoy the theatre experience. These premium-priced offerings, which include UltraAVX, VIP Cinemas, IMAX, D-BOX, 3D, 4DX, *Cineplex Clubhouse* and ScreenX generate higher revenues per patron and expand the customer base. Cineplex believes that these premium formats provide an enhanced guest experience and will continue to charge a ticket price premium for films and events presented in these formats. In 2018, Cineplex entered into an exclusive expansion agreement that allows Cineplex to expand the 4DX experience across Canada. In April 2019, Cineplex announced an agreement to expand ScreenX to an additional 20 locations across Canada.

Over the next few years, Cineplex plans to open on average two to three new theatres per year. Cineplex is also focused on providing guests with a variety of premium viewing options, including recliner seating, through which to enjoy the theatre experience, and will continue to expand premium viewing options throughout its circuit in 2019 and beyond. VIP Cinemas and other premium viewing options are a key component to Cineplex's theatre exhibition strategy, and have been well received by audiences. Additionally, Cineplex is looking to expand its entertainment options, including

VR and other experiences in its theatres beyond filmed content. Cineplex also announced plans for *Junxion*, a new entertainment concept which will feature a cinema with reclining seats and in-seat food service, a space for outdoor screenings, an open lobby and stage for events and performances, amusement gaming, VR and a food hall.

In the second quarter of 2019, Cineplex announced plans to open a new theatre and entertainment complex in Winnipeg, Manitoba in 2021. The new complex will offer an all-in-one entertainment experience that includes movies, dinning, amusement games and attractions. During the third quarter of 2019, Cineplex announced plans for two new Cineplex VIP Cinemas, *Cineplex Cinemas Forum* in Montreal, Quebec which is expected to open in 2020 and will include five luxury auditoriums and fully licensed lounge; *Royalmount* in Montreal, Quebec which is expected to open in 2022 and will include five luxury auditoriums and a fully licensed lounge. In the fourth quarter of 2019, Cineplex announced plans to open 8-10 *Junxion* locations with the first location at the *Erin Mills Town Centre* in Mississauga, Ontario which is scheduled to open in 2020.

Theatre Food Service

Cineplex reported a fourth quarter record CPP in the current quarter. Although pricing impacts CPP, Cineplex's core focus is on operational execution, promotions and providing the optimal product mix to provide further growth in this area. As part of this strategy, Cineplex continues to expand its product offering through its in-house brands across the circuit; as well as leveraging digital menu board technologies which provide guests with more interactive messaging during visits to the theatre food service locations, and expanding VIP cinema menu offerings. Cineplex will also leverage mobile technology to enhance the food service experience in its theatres and has launched VIP in seat ordering. Cineplex also continues to expand home delivery services of concessions in partnership with Uber Eats and Skip The Dishes. In provinces where legislation allows, Cineplex continues to expand its alcohol offerings throughout entire theatres.

Alternative Programming

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

Digital Commerce

As at-home and on-the-go content distribution and consumption continue to grow and evolve, Cineplex believes it is well positioned to take advantage of this market with its transactional TVoD digital commerce platform, the Cineplex Store, which offers thousands of movies that can be rented or purchased digitally and viewed on multiple devices. The Cineplex Store supports a wide range of devices in Canada on which to buy or rent digital movies, and continues to add new transactional storefronts on connected devices. The wide range of device integration and the breadth of our content offering provides exciting opportunities for Cineplex in this market.

In addition to continuing to develop and improve the Cineplex Store user experience, Cineplex will continue to offer promotions to grow Cineplex Store revenues including tie-ins with the SCENE loyalty program, Uber Eats and Skip the Dishes digital combos with an expanded device ecosystem for TVoD sales.

MEDIA

Cinema Media

Cineplex believes that no other medium engages viewers like the cinema experience: engaged moviegoers, sitting in a darkened theatre, ready to be entertained and fully focused on the screen. Research has shown that cinema media advertising reaches the most sought-after demographics, as well as Canada's high-income households and educated populations. In addition to its successful show-time and pre-show advertising opportunities, Cineplex believes its cinema media business will continue to grow through its innovative media opportunities within Cineplex's theatres, including digital signage within theatre lobbies, the IMZs in select theatres and Timeplay, a third-party app that allows Cineplex to sell media integrated into real-time content on the big screen. Cineplex also sells media for Cineplex Digital

Media clients and LBE.

Digital Place-Based Media

Cineplex's digital place-based media business will continue to roll out its world-class solutions in quick service restaurants, financial service and retail sectors as well as immersive digital place-based media networks. Cineplex will continue to explore opportunities outside of Canada, in order to better service its current customer base and to attract new clients. Cineplex believes that the strengths of its digital place-based media business will make Cineplex a leader in the indoor digital signage industry and will provide a platform for significant growth throughout Canada, the United States and internationally.

AMUSEMENT AND LEISURE

Amusement Solutions

P1AG supplies and services all of the games in Cineplex's theatre circuit and LBE venues, while also supplying equipment to third party arcades, amusement centres, bowling alleys, amusement parks and theatre circuits, in addition to owning and operating family entertainment centres. P1AG continues to expand its operations throughout both Canada and the United States.

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

Recently enacted legislation in Quebec, allowing for redemption gaming in the province for the first time, will increase business opportunities for P1AG in the province. In addition, the law will allow for expanded gaming choices at Cineplex's recently announced plans to open Quebec's first *The Rec Room* location in Montreal, Quebec in 2022.

Location Based Entertainment

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

Subsequent to the first location of *The Rec Room* opening in Edmonton, Alberta in 2016, Cineplex opened three locations in Toronto, Ontario, Edmonton and Calgary, Alberta in 2017, one location in London, Ontario in 2018 and two locations in Mississauga, Ontario and St. John's, Newfoundland in 2019. Cineplex will open three locations in each of Winnipeg, Manitoba, Burnaby, British Columbia and Barrie, Ontario in 2020, one location in Vancouver, British Columbia in 2021 as well as one location in Montreal, Quebec in 2022.

Cineplex has relaunched the *Playdium* brand concept targeting families and teens, rolling them out in mid-sized communities across Canada. The first location opened in Brampton, Ontario in the third quarter of 2019 with the second location in Whitby, Ontario which opened in the fourth quarter of 2019 and locations in Dartmouth, Nova Scotia and Brossard, Quebec expected to open in 2020.

With a joint venture with *Topgolf* to operate Topgolf sports and entertainment venues, Cineplex intends to open multiple venues in markets across the country during the next several years.

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 10.3 million members at December 31, 2019. Cineplex continues to integrate SCENE elements into various film and other promotion campaigns, applying the data accumulated in the SCENE database to provide members targeted offers. Cineplex expects these programs to encourage increased frequency of visitation and spend by SCENE members and additional revenue opportunities through the use of the database. In addition, SCENE is implementing programs to drive consumer behavior through marketing automation initiatives.

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

FINANCIAL OUTLOOK

During the year ended December 31, 2019, Cineplex generated adjusted free cash flow per Share of $2.660, compared to $2.887 in the prior year period. Cineplex declared dividends per Share of $1.780 and $1.720, respectively, in each period. The payout ratios for these periods were 66.9% and 59.6%, respectively.

Under Cineplex's Credit Facilities, Cineplex has a $150.0 million Term Facility which matures in November 2025 and a $650.0 million Revolving Facility which matures in November 2023 available to finance acquisitions, new construction, media growth projects, working capital and dividends. As at December 31, 2019, Cineplex had $166.3 million available under the Revolving Facility. As defined under the Credit Facilities, as at December 31, 2019, Cineplex reported a leverage ratio of 2.32x as compared to a covenant of 3.75x.

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

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 from continuing operations. Adjusted EBITDA excludes the change in fair value of financial instrument, loss on disposal of assets, foreign exchange gain, the equity income of CDCP, the non-controlling interests' share of adjusted EBITDA of *Topgolf*, 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 related to lease obligations. Prior year adjusted EBITDAaL deducts rent previously recognized as a reduction in finance lease obligations, and non-cash rent previously presented as amortization of tenant inducements, rent averaging liabilities, density rights and fair-value lease contract liabilities. EBITDA, adjusted EBITDA and adjusted EBITDAaL measure Cineplex's operational performance from continuing operations, and prior year measurements have been restated to exclude discontinued operations accordingly.

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,		
	2019	2018 Restated	2017 Restated
Net income from continuing operations	$ **36,516**	$ **85,459**	$ **76,182**
Depreciation and amortization - other	128,883	127,423	115,660
Depreciation - right-of-use assets	145,946	—	—
Interest expense - lease obligations	48,659	535	775
Interest expense - other	36,063	30,155	21,959
Interest income	(252)	(274)	(221)
Current income tax expense	21,759	28,894	27,502
Deferred income tax (recovery) expense	(9,990)	(6,580)	1,689
EBITDA from continuing operations	$ **407,584**	$ **265,612**	$ **243,546**
Loss on disposal of assets	1,764	2,681	706
Gain on acquisition of business	—	—	—
CDCP equity income (i)	(4,827)	(4,186)	(3,480)
Foreign exchange loss (gain)	1,065	(1,981)	798
Non-controlling interest adjusted EBITDA	24	78	—
Depreciation and amortization - joint ventures and associates (ii)	99	33	32
Taxes and interest of joint ventures and associates (ii)	77	120	51
Change in fair value of financial instrument	—	—	(2,643)
Adjusted EBITDA from continuing operations	$ **405,786**	$ **262,357**	$ **239,010**
Cash rent related to lease obligations (iii)	(175,240)	—	—
Rent previously recognized as a finance lease (iv)	—	(3,956)	(3,956)
Non-cash rent (v) (vi)	—	(11,106)	(10,362)
Adjusted EBITDAaL (vi) (vii)	$ **230,546**	$ **247,295**	$ **224,692**

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

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

(iii) Balance of cash rents that have been reallocated to offset the lease obligations.

(iv) Rent payments that were charged to the finance lease obligations in the previous reporting period. See Section 19, Reconciliation for further details.

(v) Non-cash rent included in the 2018 balances in the previous reporting period. See Section 19, Reconciliation for further details.

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

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

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		
	2019	2018 Restated	2017 Restated
Cash provided by operating activities (i)	$ 321,665	$ 198,364	$ 151,739
Less: Total capital expenditures net of proceeds on sale of assets	(146,367)	(108,149)	(167,269)
Standardized free cash flow	175,298	90,215	(15,530)
Add/(Less):			
Changes in operating assets and liabilities (ii)	(8,727)	3,660	29,936
Changes in operating assets and liabilities of joint ventures and associates (ii)	535	(609)	545
Principal component of finance lease obligations	(128,252)	(3,420)	(3,180)
Principal portion of cash rent paid not pertaining to current period			
Growth capital expenditures and other (iii)	114,665	88,941	136,777
Share of income of joint ventures and associates, net of non-cash depreciation (iv)	(482)	(285)	89
Non-controlling interests	24	78	189
Net cash received from CDCP (iv)	15,394	4,266	4,165
Adjusted free cash flow	**$ 168,455**	**$ 182,846**	**$ 152,991**
Average number of Shares outstanding	63,333,238	63,332,159	63,473,583
Adjusted free cash flow per Share	**$ 2.660**	**$ 2.887**	**$ 2.410**
Dividends declared	**$ 1.780**	**$ 1.720**	**$ 1.660**

(i) Prior period figures have been revised to conform to current period presentation. See Section 17, Reconciliation for further details.

(ii) 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 6.4, Credit Facilities) is available to Cineplex to fund Board approved projects.

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

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

	Year ended December 31,		
	2019	2018 Restated	2017 Restated
Net income from continuing operations	$ 36,516	$ 85,459	$ 76,182
Adjust for:			
Depreciation and amortization - other	128,883	127,423	115,660
Depreciation - right-of-use assets	145,946	—	—
Change in fair value of financial instrument	—	—	(2,643)
Loss on disposal of assets	1,764	2,681	706
Non-cash interest (i)	12,217	5,080	2,701
Non-cash foreign exchange	698	(1,231)	(49)
Financing fees in interest expense	—	1,718	—
Share of income of CDCP (ii)	(4,827)	(4,186)	(3,480)
Non-controlling interests	24	78	189
Non-cash depreciation of joint ventures and associates	99	33	32
Deferred income tax (recovery) expense	(9,990)	(6,580)	1,689
Taxes and interest of joint ventures and associates	77	120	51
Maintenance capital expenditures	(31,702)	(19,207)	(30,492)
Principal component of finance lease obligations	(128,252)	(3,420)	(3,180)
Principal portion of cash rent paid not pertaining to current period	—	—	—
Net cash received from CDCP (ii)	15,394	4,266	4,165
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	—	(11,106)	(10,362)
Non-cash Share-based compensation	1,608	1,718	1,822
Adjusted free cash flow	**$ 168,455**	**$ 182,846**	**$ 152,991**

(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 and IMAX product; divided by total paid theatre attendance for the period, less paid theatre attendance for 3D, 4DX, UltraAVX, VIP and IMAX product.

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

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

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

Same Theatre Analysis

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

Same theatre metrics are calculated by removing the results for all theatres that have been opened, acquired, closed or otherwise disposed of subsequent to the start of the prior year comparative period. For the three months ended December 31, 2019 the impact of the 3 locations that have been opened or acquired and 2 locations that have been closed have been excluded, resulting in 161 theatres being included in the same theatre metrics. For the year ended December 31, 2019 the impact of the 3 locations that have been opened or acquired and the 4 locations that have been closed have been excluded, resulting in 161 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.

Non-cash rent

Calculated as the total amortization of tenant inducements, rent averaging liabilities, density rights and fair-value lease contract liabilities. This accounting treatment was applicable under IAS 17 in 2018 but not applicable under IFRS 16 in 2019 and onwards.

19. RECONCILIATION

As disclosed in Section 13, Accounting policies, Cineplex has adopted the new accounting standard, IFRS 16 as at January 1, 2019. Cineplex has applied IFRS 16 using the modified retrospective approach and as a result the standard has been applied prospectively. Prior period figures have been revised in the MD&A in order to provide comparability to the current year period.

The following table discloses the revised theatre occupancy expenses for each quarter in 2018:

Theatre occupancy expenses	**Revised 2018**			
	Q1	**Q2**	**Q3**	**Q4**
Cash rent - theatre (i)	$ 38,470	$ 38,747	$ 38,704	$ 38,624
Other occupancy	18,667	18,706	18,484	17,578
One-time items (ii)	(1,272)	(608)	(346)	(550)
Total theatre occupancy including cash lease payments	$ 55,865	$ 56,845	$ 56,842	$ 55,652
Non-cash rent (iii) (vi)	(2,978)	(3,068)	(2,692)	(2,672)
Rent previously recognized as a finance lease (iv)	(989)	(989)	(989)	(989)
Cash rent related to lease obligations (v)	—	—	—	—
Theatre occupancy as reported	$ 51,898	$ 52,788	$ 53,161	$ 51,991

(i) Represents the cash payments for theatre rent during the quarter. See below for reconciliation from previously reported figures.

(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) Non-cash rent included in the 2018 balances in the previous reporting period.

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

(v) Cash rent that has been reallocated to offset the lease obligations.

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

The following table shows the changes to the previously disclosed balances in the theatre occupancy expenses table for each quarter in 2018:

Rent - theatre reconciliation	**Revised 2018**			
	Q1	**Q2**	**Q3**	**Q4**
Rent- theatre as previously reported	$ 34,503	$ 34,690	$ 35,023	$ 34,963
Non-cash rent included as in Rent - theatre	2,978	3,068	2,692	2,672
Cash rent previously charged to the finance lease obligations	989	989	989	989
Cash rent - theatre as revised	$ 38,470	$ 38,747	$ 38,704	$ 38,624

The following table discloses the changes to the other operating expenses for each quarter in 2018:

Other operating expenses	**Restated 2019**		**Revised and restated 2018**			
	Q1	**Q2**	**Q1**	**Q2**	**Q3**	**Q4**
Theatre payroll	$ 36,710	$ 41,072	$ 38,293	$ 37,506	$ 38,003	$ 38,663
Theatre operating expenses	28,562	30,225	29,419	28,913	29,152	29,940
Media (i)	16,742	21,185	16,421	17,288	14,235	18,881
P1AG (i)	40,965	40,529	35,719	36,140	38,603	40,096
LBE (i) (ii)	11,148	13,957	10,540	11,461	11,067	11,665
LBE pre-opening (i) (iii)	691	673	290	848	209	(87)
SCENE	5,038	4,060	4,217	3,173	3,168	6,889
Marketing	2,851	4,192	4,408	3,495	5,393	6,663
Business interruption insurance proceeds	—	—	—	(3,700)	—	(1,749)
Other (iv)	8,174	7,892	5,967	5,942	5,872	10,431
Other operating expenses including cash lease payments	$150,881	$163,785	$145,274	$141,066	$145,702	$161,392
Non-cash rent (v) (vi)	—	—	(105)	(48)	107	348
Cash rent related to lease obligations (vii)	(4,313)	(4,652)	—	—	—	—
Other operating expenses from continuing operations as reported	$146,568	$159,133	$145,169	$141,018	$145,809	$161,740
Other operating expenses from discontinued operations as reported	1,635	2,535	2,238	2,144	1,941	2,055
Total other operating expenses	$148,203	$161,668	$147,407	$143,162	$147,750	$163,795

(i) Prior period balances were revised to exclude non-cash rent. See below for changes from previously reported figures.
(ii) Includes operating costs of LBE. Overhead relating to management of LBE portfolio are included in the 'Other' line.
(iii) Includes pre-opening costs of LBE.
(iv) Other category includes overhead costs related to LBE and other Cineplex internal departments.
(v) Non-cash rent included in the 2018 balances in the previous reporting period. See below for a reconciliation of previously reported figures.
(vi) See Section 18, Non-GAAP measures.
(vii) Cash rent that has been reallocated to offset the lease obligations.

The following tables show the changes to the previously disclosed balances for Media operating expenses, P1AG operating expenses, LBE operating expenses and LBE pre-opening expenses for each quarter in 2018:

Media operating expenses reconciliation	**Revised 2018**			
	Q1	**Q2**	**Q3**	**Q4**
Media operating expenses as previously reported	$ 16,409	$ 17,275	$ 14,223	$ 18,869
Non-cash rent included as part of the operating expenses	12	13	12	12
Media operating expenses as revised	$ 16,421	$ 17,288	$ 14,235	$ 18,881

P1AG operating expenses reconciliation	**Revised 2018**			
	Q1	**Q2**	**Q3**	**Q4**
P1AG operating expenses as previously reported	$ 35,698	$ 36,119	$ 38,583	$ 40,076
Non-cash rent included as part of the operating expenses	21	21	20	20
P1AG operating expenses as revised	$ 35,719	$ 36,140	$ 38,603	$ 40,096

LBE operating expenses reconciliation	**Revised 2018**			
	Q1	**Q2**	**Q3**	**Q4**
LBE operating expenses as previously reported	$ 10,486	$ 11,406	$ 11,011	$ 11,609
Non-cash rent included as part of the operating expenses	54	55	56	56
LBE operating expenses as revised	$ 10,540	$ 11,461	$ 11,067	$ 11,665

LBE pre-opening expenses	**Revised 2018**			
	Q1	**Q2**	**Q3**	**Q4**
LBE pre-opening expenses as previously reported	$ 272	$ 889	$ 405	$ 349
Non-cash rent included as part of the operating expenses	18	(41)	(195)	(436)
LBE pre-opening expenses as revised	$ 290	$ 848	$ 209	$ (87)

Other	Restated 2019		Restated 2018			
	Q1	Q2	Q1	Q2	Q3	Q4
Other expenses included in other operating expense as previously reported	$ 9,809	$ 10,427	$ 8,205	$ 8,086	$ 7,813	$ 12,486
Other expenses included in other operating expense from discontinued operations	(1,635)	(2,535)	(2,238)	(2,144)	(1,941)	(2,055)
Other expenses included in other operating expense as restated	$ 8,174	$ 7,892	$ 5,967	$ 5,942	$ 5,872	$ 10,431

The following table discloses the changes to G&A expenses for each quarter in 2018:

G&A expenses	Revised 2018			
	Q1	Q2	Q3	Q4
G&A excluding LTIP and option plan expense (i)	$ 17,773	$ 14,772	$ 14,586	$ 13,437
Restructuring	996	2,803	1,021	1,022
LTIP (i)	(1,049)	(242)	2,020	(2,076)
Option plan	431	487	405	395
G&A expenses including cash lease payments	$ 18,151	$ 17,820	$ 18,032	$ 12,778
Non-cash rent (iii) (iv)	(2)	2	1	1
Cash rent included as part of lease obligations (v)	—	—	—	—
G&A expenses as revised	$ 18,149	$ 17,822	$ 18,033	$ 12,779

(i) Prior period balance was revised to exclude non-cash rent. See below for changes from previously reported figures.
(ii) LTIP includes the expense for the LTIP program as well as the expense for the executive and Board deferred share unit plans.
(iii) Non-cash rent included in the 2018 balances in the previous reporting period. See below for a reconciliation of previously reported figures.
(iv) See Section 18, Non-GAAP measures.
(v) Cash rent that has been reallocated to offset the lease obligations.

The following table shows the changes to the previously disclosed balances in the G&A expenses table for each quarter in 2018:

G&A excluding LTIP and option plan expense operating expenses reconciliation	Revised 2018			
	Q1	Q2	Q3	Q4
G&A excluding LTIP and option plan as previously reported	$ 17,771	$ 14,774	$ 14,587	$ 13,438
Non-cash rent included as part of the expense	2	(2)	(1)	(1)
G&A excluding LTIP and option plan as revised	$ 17,773	$ 14,772	$ 14,586	$ 13,437

The following table shows the calculation of adjusted EBITDAaL from adjusted EBITDA as previously disclosed for each quarter in 2017 and 2018 as well as the first and second quarter in 2019.

Adjusted EBITDAaL	Restated 2019		Restated 2018				Restated 2017
	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Adjusted EBITDA as previously reported	$ 112,249	$ 77,442	$ 81,637	$ 53,356	$ 67,840	$ 53,532	$ 79,614
Net loss from discontinued operations	2,680	2,031	2,108	2,133	2,263	1,999	777
Depreciation and amortization from discontinued operations	(1,186)	(1,222)	(1,119)	(1,116)	(1,111)	(1,083)	(1,112)
Income tax recovery from discontinued operations	658	671	518	598	612	(4)	154
Foreign exchange (gain) loss from discontinued operations	(18)	(180)	207	—	(1)	4	(2)
Loss on disposal of assets from discontinued operations	—	—	—	—	(16)	—	—
Interest income from discontinued operations	—	—	—	—	—	—	1
Adjusted EBITDA from continuing operations	$ 114,383	$ 78,742	$ 83,351	$ 54,971	$ 69,587	$ 54,448	$ 79,432
Cash rent previously recognized as a finance lease	—	—	(989)	(989)	(989)	(989)	(989)
Non-cash rent (i)	—	—	(2,323)	(2,584)	(3,114)	(3,085)	(2,862)
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	$ 80,039	$ 51,398	$ 65,484	$ 50,374	$ 75,581

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

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 each quarter in 2017 and 2018. The changes reflected the reclassification of tenant inducements received from operating cash flows to cash flows from investing activities.

Cash provided by operating activities	Restated 2019		Revised and restated 2018				Revised and restated 2017
	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash provided by operating activities as previously reported	$ 57,494	$ 60,580	$ 85,093	$ 41,847	$ 35,289	$ 46,426	$ 118,833
Tenant inducements previously included as part of operating cash flow	—	—	(3,113)	(3,481)	(6,372)	(1,876)	(682)
Cash provided by operating activities as revised	$ 57,494	$ 60,580	$ 81,980	$ 38,366	$ 28,917	$ 44,550	$ 118,151
Less:							
Operating cash flows in discontinued operations	(852)	(846)	(948)	(781)	(1,470)	(1,352)	(811)
Cash provided by operating activities as restated	$ 58,346	$ 61,426	$ 82,928	$ 39,147	$ 30,387	$ 45,902	$ 118,962

Cash used in investing activities	Restated 2019		Revised and restated 2018				Revised and restated 2017
	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash used in investing activities as previously reported	$ (25,110)	$ (27,885)	$ (25,663)	$ (33,824)	$ (28,597)	$ (26,000)	$ (45,668)
Tenant inducements previously included as part of operating cash flow	—	—	3,113	3,481	6,372	1,876	682
Cash used in investing activities as revised	$ (25,110)	$ (27,885)	$ (22,550)	$ (30,343)	$ (22,225)	$ (24,124)	$ (44,986)
Less:							
Investing cash flows in discontinued operations	(259)	(117)	(88)	(215)	(124)	(181)	(480)
Cash used in investing activities as restated	$ (24,851)	$ (27,768)	$ (22,462)	$ (30,128)	$ (22,101)	$ (23,943)	$ (44,506)

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 11, 2020

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, 2019 and 2018, and its financial performance and its cash flows for the years ended December 31, 2019 and 2018 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, 2019 and 2018;
- the consolidated statements of operations for the years ended December 31, 2019 and 2018;
- the consolidated statements of comprehensive income for the years ended December 31, 2019 and 2018;
- the consolidated statements of changes in equity for the years ended December 31, 2019 and 2018;
- the consolidated statements of cash flows for the years ended December 31, 2019 and 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

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.

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 11, 2020

Cineplex Inc.
Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	December 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents (note 4)	$ 26,080	$ 25,242
Trade and other receivables (note 5)	168,065	165,586
Income taxes receivable	9,757	4,944
Inventories (note 6)	30,995	30,592
Prepaid expenses and other current assets	14,226	13,862
Fair value of interest rate swap agreements (note 29)	1,022	1,457
Assets held for sale (note 3)	6,573	—
	256,718	241,683
Non-current assets		
Property, equipment and leaseholds (note 7)	662,798	634,354
Right-of-use assets (notes 8 and 31)	1,232,849	—
Deferred income taxes (note 9)	14,197	13,444
Fair value of interest rate swap agreements (note 29)	472	2,063
Interests in joint ventures and associates (note 10)	28,221	38,912
Intangible assets (note 11)	88,367	108,758
Goodwill (note 12)	816,790	817,235
	$ 3,100,412	$ 1,856,449

Business acquisitions and formations (note 2)
Commitments guarantees and contingencies (note 28)

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

(expressed in thousands of Canadian dollars)

		December 31, 2019		December 31, 2018
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 13)	$	220,188	$	186,407
Share-based compensation (note 14)		25,681		4,862
Dividends payable (note 15)		9,500		9,183
Income taxes payable		1,183		12,167
Deferred revenue (note 21)		222,998		214,016
Lease obligations (notes 16 and 31)		106,352		3,058
Fair value of interest rate swap agreements (note 29)		1,874		1,184
Liabilities related to assets held for sale (note 3)		2,808		—
		590,584		430,877
Non-current liabilities				
Share-based compensation (note 14)		—		8,210
Long-term debt (note 17)		625,000		580,000
Fair value of interest rate swap agreements (note 29)		10,837		7,674
Lease obligations (notes 16 and 31)		1,261,243		10,789
Post-employment benefit obligations (note 18)		10,678		9,250
Other liabilities (note 19)		9,813		119,110
Deferred income taxes (note 9)		1,263		11,528
		1,918,834		746,561
Total liabilities		2,509,418		1,177,438
Equity				
Share capital (note 20)		852,379		852,379
Deficit		(264,310)		(179,721)
Hedging reserves and other		(131)		(3,678)
Contributed surplus		4,052		7,815
Cumulative translation adjustment		(887)		2,301
Total equity attributable to owners of Cineplex		591,103		679,096
Non-controlling interests		(109)		(85)
Total equity		590,994		679,011
	$	3,100,412	$	1,856,449

Approved by the Board of Directors

"Ian Greenberg"
Director

"Janice Fukakusa"
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, 2019 and 2018

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

		2019		2018 Restated (note 3)
Revenues (note 21)				
Box office	$	705,521	$	724,244
Food service		483,330		475,501
Media		196,755		162,820
Amusement		228,231		205,793
Other		51,309		44,080
		1,665,146		1,612,438
Expenses				
Film cost		369,386		379,325
Cost of food service		106,823		100,191
Depreciation - right-of-use assets		145,946		—
Depreciation and amortization - other assets		128,883		127,423
Loss on disposal of assets		1,764		2,681
Other costs (note 22)		782,693		870,358
Share of income of joint ventures and associates (note 10)		(4,169)		(3,748)
Interest expense - lease obligations		48,659		535
Interest expense - other		36,063		30,155
Interest income		(252)		(274)
Foreign exchange		1,065		(1,981)
		1,616,861		1,504,665
Income from continuing operations before income taxes		48,285		107,773
Provision for income taxes (note 9)				
Current		21,759		28,894
Deferred		(9,990)		(6,580)
		11,769		22,314
Net income from continuing operations	$	36,516	$	85,459
Net loss from discontinued operations, net of taxes (note 3)		(7,625)		(8,503)
Net income	$	28,891	$	76,956
Net income from continuing operations attributable to:				
Owners of Cineplex	$	36,540	$	85,556
Non-controlling interests		(24)		(97)
Net income from continuing operations	$	36,516	$	85,459
Net income attributable to:				
Owners of Cineplex	$	28,915	$	77,053
Non-controlling interests		(24)		(97)
Net income	$	28,891	$	76,956
Net income per share attributable to owners of Cineplex - basic and diluted:				
Continuing operations (note 23)	$	0.58	$	1.35
Discontinued operations (note 3 and 23)		(0.12)		(0.13)
Total operations	$	0.46	$	1.22

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

Cineplex Inc.

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018

(expressed in thousands of Canadian dollars)

	2019	2018 Restated (note 3)
Net income from continuing operations	$ 36,516	$ 85,459
Other comprehensive income from continuing operations		
Items that will be reclassified subsequently to net income:		
Loss on hedging instruments	(4,853)	(7,008)
Associated deferred income taxes recovery	1,306	1,998
Foreign currency translation adjustment	(3,398)	5,422
Items that will not be reclassified to net income:		
Actuarial gains of post-employment benefit obligations	1,054	296
Associated deferred income taxes expense	(282)	(79)
Other comprehensive (loss) income	(6,173)	629
Comprehensive income from continuing operations	30,343	86,088
Net loss from discontinued operations, net of taxes (note 3)	(7,625)	(8,503)
Foreign currency translation adjustment from discontinued operations	210	(304)
Comprehensive income	$ 22,928	$ 77,281
Comprehensive income (loss) from continuing operations attributable to:		
Owners of Cineplex	$ 30,367	$ 86,185
Non-controlling interests	(24)	(97)
	$ 30,343	$ 86,088
Comprehensive income (loss) attributable to:		
Owners of Cineplex	$ 22,952	$ 77,378
Non-controlling interests	(24)	(97)
	$ 22,928	$ 77,281

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, 2019 and 2018

(expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Hedging reserves and other	Cumulative translation adjustment	Deficit	Non-controlling interests	Total
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
January 1, 2018	$ 856,761	$ 1,647	$ 1,332	$ (2,817)	$ (148,060)	$ —	$ 708,863
Net income	—	—	—	—	77,053	(97)	76,956
Other comprehensive income (page 4)	—	—	(5,010)	5,118	217	—	325
Total comprehensive income	**—**	**—**	**(5,010)**	**5,118**	**77,270**	**(97)**	**77,281**
Dividends declared	—	—	—	—	(108,931)	—	(108,931)
Transfer on repayment of convertible debentures	(4,471)	4,471	—	—	—	—	—
Share option expense	—	1,718	—	—	—	—	1,718
Issuance of shares on exercise of options	89	(21)	—	—	—	—	68
TGLP non-controlling interests recognized on formation	—	—	—	—	—	12	12
December 31, 2018	$ 852,379	$ 7,815	$ (3,678)	$ 2,301	$ (179,721)	$ (85)	$ 679,011

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, 2019 and 2018

(expressed in thousands of Canadian dollars)

	2019	2018 Restated (note 3)
Cash provided by (used in)		
Operating activities		
Net income from continuing operations	$ 36,516	$ 85,459
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	128,883	127,423
Depreciation of right-of-use assets	145,946	—
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	—	(11,106)
Unrealized foreign exchange	698	(1,231)
Interest rate swap agreements - non-cash interest	10,472	1,466
Accretion of convertible debentures	—	2,420
Other non-cash interest	1,745	1,194
Financing fees included in interest expense	—	1,718
Loss on disposal of assets	1,764	2,681
Deferred income taxes	(9,990)	(6,580)
Non-cash share-based compensation	1,608	1,718
Net change in interests in joint ventures and associates	(4,704)	(3,139)
Changes in operating assets and liabilities (note 27)	8,727	(3,659)
Net cash provided by operating activities	321,665	198,364
Investing activities		
Proceeds from disposal of assets, including asset-related insurance recoveries	—	1,930
Purchases of property, equipment and leaseholds	(146,367)	(110,079)
Acquisition of businesses, net of cash acquired (note 2)	—	(4,685)
Intangible assets additions	(7,865)	(4,908)
Tenant inducements (note 32)	13,985	14,842
Net cash received from CDCP	15,394	4,266
Net cash used in investing activities	(124,853)	(98,634)
Financing activities		
Dividends paid	(112,415)	(108,614)
Borrowings under credit facilities, net	45,000	111,000
Options exercised for cash	—	68
Repayments of lease obligations - principal	(128,252)	(3,420)
Financing fees	(243)	(1,718)
Repayment of convertible debentures at maturity	—	(107,500)
Net cash used in by financing activities	(195,910)	(110,184)
Effect of exchange rate differences on cash	483	600
Increase (decrease) in cash and cash equivalents from continuing operations	1,385	(9,854)
Cash flows used in discontinued operations (note 3)	(547)	(5,501)
Cash and cash equivalents - Beginning of period	25,242	40,597
Cash and cash equivalents - End of period	$ 26,080	$ 25,242
Supplemental information		
Cash paid for interest - lease obligation	$ 47,018	$ 535
Cash paid for interest - other	$ 25,302	$ 26,306
Cash paid for income taxes, net	$ 36,402	$ 29,048

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"), Player One Amusement Group Inc. ("P1AG"), WorldGaming Network LP ("WGN"), and its majority-owned subsidiary TG-CPX Limited Partnership ("TGLP"). 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") , whereby Cineworld agreed to indirectly acquire all of the issued and outstanding common shares of Cineplex ("Shares") for $34.00 per Share in cash pursuant to a statutory plan of arrangement (the "Cineworld Transaction"). The Cineworld Transaction is supported by Cineplex's Board of Directors, and is subject to approval by the shareholders of both Cineplex and Cineworld and receipt of required regulatory and court approvals. The transaction is expected to close during the first half of 2020. Upon closing, the Cineplex Shares will cease trading on the Toronto Stock Exchange and Cineplex would become a wholly-owned subsidiary of Cineworld (note 33).

The Board of Directors approved these consolidated financial statements on February 11, 2020.

2. Business acquisitions and formations

VRstudios Inc.

On September 12, 2018, Cineplex acquired a 34.7% interest in VRstudios Inc. ("VRstudios") for $4,685. VRstudios is based in Seattle, Washington and is a worldwide provider of turn-key location-based virtual reality solutions. Cineplex accounts for its investment in VRstudios as an associate using the equity method.

3. Assets held for sale and discontinued operations

During the quarter ended September 30, 2019, Cineplex initiated a review process of WGN's online esports business, engaging a third party adviser to identify a strategic equity partner. Cineplex may retain a minority equity interest in the operations of the business.

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. Under this standard, Cineplex has met the criteria to record WGN as a discontinued operation, therefore 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.

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

The major classes of assets and liabilities at December 31, 2019 classified as held for sale are as follows:

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 years ended December 31, 2019 and 2018:

		2019		2018
Revenues				
Media revenues	$	1,075	$	2,189
Other revenues		16		196
		1,091		2,385
Expenses				
Depreciation and amortization - other assets		3,623		4,429
Loss on disposal of assets		—		16
Other costs		7,001		8,377
Foreign exchange		268		(210)
		10,892		12,612
Loss before income taxes		(9,801)		(10,227)
Provision of income taxes				
Current		(1,415)		(1,321)
Deferred		(761)		(403)
		(2,176)		(1,724)
Net loss from discontinued operations	$	(7,625)	$	(8,503)
Foreign currency translation adjustment from discontinued operations		210		(304)
Other comprehensive loss from discontinued operations	$	(7,415)	$	(8,807)

The following table discloses cash flows for the years ended December 31:

		2019		2018
Net cash provided by (used in) operating activities	$	367	$	(4,551)
Net cash used in investing activities		(1,168)		(608)
Effect of exchange rate differences on cash		254		(342)
Net cash outflow from discontinued operations	$	(547)	$	(5,501)

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

4. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2019	2018
Cash at bank and on hand, net of outstanding cheques	$ 26,080	$ 25,242

5. Trade and other receivables

Trade and other receivables comprise the following:

	2019	2018
Trade receivables	$ 136,647	$ 144,973
Other receivables	31,418	20,613
	$ 168,065	$ 165,586

6. Inventories

Inventories comprise the following:

	2019	2018
Food service inventories	$ 9,304	$ 8,207
Gaming inventories	14,447	16,644
Other inventories, including work-in-progress	7,244	5,741
	$ 30,995	$ 30,592

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

7. 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, 2018						
Cost	$ 18,907	$ 704,403	$ 26,102	$ 720,691	$ 37,092	$ 1,507,195
Accumulated depreciation	—	(395,590)	(21,221)	(462,255)	—	(879,066)
Net book value	$ 18,907	$ 308,813	$ 4,881	$ 258,436	$ 37,092	$ 628,129
Year ended December 31, 2018						
Opening net book value	$ 18,907	$ 308,813	$ 4,881	$ 258,436	$ 37,092	$ 628,129
Additions, net of transfers	465	60,493	8,396	58,439	(5,983)	121,810
Disposals	—	(747)	—	(2,679)	(457)	(3,883)
Foreign exchange rate changes	—	154	—	3,546	—	3,700
Depreciation for the year	—	(45,205)	(2,038)	(68,159)	—	(115,402)
Closing net book value	$ 19,372	$ 323,508	$ 11,239	$ 249,583	$ 30,652	$ 634,354
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
At December 31, 2019						
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

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

8. Right-of-use assets

The following table presents right-of-use assets for Cineplex for the year ended December 31, 2019:

Right-of-use assets consist of:

	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

9. 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:

	2019	2018
Deferred income tax assets		
Property, equipment and leaseholds and deferred tenant inducements - difference between net carrying value and undepreciated capital cost	$ 10,534	$ 23,574
Accounting provisions not currently deductible	46,316	8,392
Rent averaging liabilities	—	9,690
Deferred revenue	958	5290
Interest rate swap agreements	2,882	1,311
Income tax credits available	381	291
Operating losses available for carry-forward	17,022	18,154
Total gross deferred income tax assets	78,093	66,702
Future deferred tax liabilities		
Intangible assets	(11,871)	(14,307)
Goodwill	(54,146)	(51,411)
Other	858	932
Total gross deferred income tax liabilities	(65,159)	(64,786)
Net deferred income tax asset	$ 12,934	$ 1,916

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

With the exception of operating losses used to reduce taxable income, which cannot be estimated, the net deferred income taxes are expected to be recognized after 2020.

The provision for income taxes included in the consolidated statements of operations differs from the statutory income tax rate for the years ended December 31, 2019 and 2018 as follows:

	2019	2018
Income from continuing operations before income taxes	$ 48,286	$ 107,773
Combined statutory income tax rates for the current year	26.79%	26.89%
Income taxes payable at statutory rate	12,934	28,979
Recognition of previously unrecognized deferred income tax assets	—	(6,154)
Adjustments relating to prior periods	(2,126)	(1,231)
Other permanent differences	961	720
Provision for income taxes	$ 11,769	$ 22,314

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

At December 31, 2019, subsidiaries of Cineplex had recognized deferred tax assets associated with operating (non-capital) losses available for carry-forward. Cineplex believes the circumstances under which the losses occurred are unlikely to recur given the existing business organization and projected operating results. Those losses expire as follows:

2027	$ 4,964
2028	8,822
2029	5,122
2030	2,184
2032	254
2034	1,947
2035	2,770
2036	2,749
2037	13,394
2038	3,110
2039	13,276
Indefinite	6,745
	$ 65,337

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 $26.6 million of losses by Cineplex, which offset taxable income generated in 2014, thereby increasing taxes and interest payable by approximately $8.6 million, 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.

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

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 2019, an additional $116 of minimum taxes were payable such that the minimum income tax credits totalled $381 through December 31, 2019 (2018 - $265) and have been recorded as deferred income tax assets and a reduction of deferred income tax expense.

10. 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, a 50% interest in YoYo's, and 34.7% interest in VRstudios Inc.

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, 2019 and 2018:

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 and associates	$ 24,578	$ 3,643	$ 28,221

2018	**CDCP**	**Other**	**Total**
Ownership percentage	78.2%	34.7%-50%	
Voting percentage	50%	34.7%-50%	
Interest at beginning of year	$ 34,998	$ 355	$ 35,353
Investments	295	4,685	4,980
Dividends or distributions	(4,561)	—	(4,561)
Net change in receivable or payable	(522)	(141)	(663)
Share of net income (loss)	4,186	(438)	3,748
Share of OCI	55	—	55
Net interest in joint ventures	$ 34,451	$ 4,461	$ 38,912

(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:

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

2018	**CDCP**	**Other**	**Total**
Assets			
Cash and cash equivalents	$ 4,356	$ 1,144	$ 5,500
Trade and other receivables	6,574	1,485	8,059
Inventories	—	190	190
Prepaid expenses and other current assets	—	458	458
	10,930	3,277	14,207
Equipment	30,177	638	30,815
Total assets	$ 41,107	$ 3,915	$ 45,022
Liabilities			
Accounts payable and accrued liabilities	$ 2,123	$ 1,537	$ 3,660
Deferred revenue	158	1,995	2,153
	2,281	3,532	5,813
Long-term debt	—	2,469	2,469
Total liabilities	2,281	6,001	8,282
Equity (Deficit)	38,826	(2,086)	36,740
Total liabilities and equity	$ 41,107	$ 3,915	$ 45,022

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

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

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)

2018	**CDCP**	**Other**	**Total**
Revenues	$ 24,076	$ 4,602	$ 28,678
Depreciation and amortization	11,617	88	11,705
Interest expense	157	302	459
Other expenses	6,949	5,231	12,180
Total expenses	18,723	5,621	24,344
Net income (loss)	$ 5,353	$ (1,019)	$ 4,334
Other comprehensive loss	(13)	—	(13)
Comprehensive income (loss)	$ 5,340	$ (1,019)	$ 4,321

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

SCENE GP

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, SCENE GP. The summarized balance sheets of SCENE GP at December 31 are as follows:

		2019		**2018**
Assets				
Cash and cash equivalents	$	3,299	$	5,964
Trade and other receivables		25,027		23,971
Prepaid expenses		—		105
		28,326		30,040
Intangible Assets		715		823
Equipment		252		348
Right-of-use assets		102		—
Total assets	$	29,395	$	31,211
Liabilities				
Accounts payable and accrued liabilities	$	29,926	$	39,514
Deferred revenue		42,979		49,857
Lease obligations		105		—
Total liabilities		73,010		89,371
Deficiency		(43,615)		(58,160)
	$	29,395	$	31,211

The summarized results of operations of SCENE GP are as follows:

		2019		**2018**
Revenues	$	98,952	$	89,340
Expenses		122,408		119,681
Net loss	$	(23,456)	$	(30,341)

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

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

11. Intangible assets

Intangible assets consist of the following:

	Customer relationships	Fair value of leases - assets	Other	Trademarks and trade names	Total
At January 1, 2018					
Cost	$ 32,585	$ 21,911	$ 52,927	$ 63,599	$ 171,022
Accumulated amortization	(13,858)	(10,478)	(27,675)	—	(52,011)
Net book value	$ 18,727	$ 11,433	$ 25,252	$ 63,599	$ 119,011
Year ended December 31, 2018					
Opening net book value	$ 18,727	$ 11,433	$ 25,252	$ 63,599	$ 119,011
Additions	—	—	5,475	—	5,475
Foreign exchange rate changes	720	—	2	—	722
Amortization	(5,456)	(1,744)	(9,250)	—	(16,450)
Closing net book value	$ 13,991	$ 9,689	$ 21,479	$ 63,599	$ 108,758
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
At December 31, 2019					
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

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

12. Goodwill

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

	2019	2018
Balance - Beginning of year	$ 817,235	$ 816,489
Foreign exchange rate changes	(445)	746
Balance - End of year	$ 816,790	$ 817,235

Cineplex performs its annual test for goodwill in the fourth quarter in accordance with its policy described in note 31. In assessing goodwill for impairment, Cineplex compared the aggregate recoverable amount of the assets included in the relevant CGUs to their respective carrying amounts. The recoverable amount was determined based on the fair value less costs of disposal of the groups of CGUs. This approach requires assumptions about revenue growth rates, operating margins, and discount rates.

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:

	2019	2018
Exhibition	$ 594,950	$ 594,950
Media	206,385	206,385
Amusement and leisure	15,455	15,900
	$ 816,790	$ 817,235

Revenue growth rates and operating margins are 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. The projections also take into account the expected impact of new product and service initiatives. Discount rates applied to the groups of 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 9.0% and 14.0% (2018 - between 6.3% and 23.1%), and perpetual growth rates between 0.5% and 1% (2018 - between 1% and 3%), which are consistent with the observed long-term average growth rates in the exhibition, amusement and leisure, and digital media industries.

Cineplex concluded that there were no impairments of its individual CGUs, and the reasonable range of recoverable amounts for the individual CGUs were greater than their carrying values. For one CGU in the Exhibition group of CGUs, if the discount rate were to increase by 0.2%-0.5%, assuming a constant cash flow margin, the carrying amount of the CGU would exceed the reasonable range for the recoverable amounts, representing approximately 0%-0.8% of the Exhibition goodwill. For all other CGUs, no reasonably possible change in assumption would cause the recoverable amount to fall below the carrying value.

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.

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

13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of:

	2019	2018
Accounts payable - trade	$ 100,326	$ 89,407
Film payables and accruals	44,103	40,447
Accrued salaries and benefits	27,594	23,668
Sales taxes payable	10,915	12,173
Accrued occupancy costs	3,474	2,882
Other payables and accrued liabilities	33,776	17,830
	$ 220,188	$ 186,407

14. Share-based compensation

Option plan

Cineplex has an incentive share option plan (the "Plan") for certain employees. The aggregate number of shares that may be issued under the Plan is limited to 5,250,000. All of the options must be exercised over specified periods not to exceed ten years from the date granted. As at December 31, 2019, 1,063,414 options are available for grant under the plan.

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

Shares 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

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 are 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. The expense associated with unvested options, including any changes in fair value resulting from changes in market share price, will be recognized over the remaining vesting period to maturity, estimated to be March 31, 2020 (the earliest closing date). Forfeitures are estimated at nil, based on historical forfeiture rates.

Cineplex recorded $2,537 of employee benefits expense with respect to the options during the year ended December 31, 2019 (2018 - $1,718). At December 31, 2019, $6,299 associated with the options is reflected in current share-based compensation liability on the consolidated balance sheets (2018 - $7,903 was reflected in contributed surplus). The intrinsic value of vested share options at December 31, 2019 is $632 (2018 - $30), based on the purchase price of $34.00 per share (2018 - $25.44).

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

A summary of option activities in 2019 and 2018 is as follows:

		2019		2018	
	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	6.92	2,433,589	$ 42.84	2,157,589	$ 45.50
Granted		757,639	25.05	559,703	33.59
Forfeited		(67,707)	38.51	(276,661)	45.12
Exercised		—	—	(7,042)	31.30
Options outstanding, December 31	6.67	3,123,521	$ 38.62	2,433,589	$ 42.84

At December 31, 2019 and 2018, options are vested and exercisable as follows:

	2019	2018
Options vested and exercisable at $33.59	123,413	—
Options vested and exercisable at $51.25	231,377	117,733
Options vested and exercisable at $47.86	300,249	202,791
Options vested and exercisable at $49.14	374,061	280,603
Options vested and exercisable at $40.45	430,282	432,577
Options vested and exercisable at $33.49	169,977	169,977
Options vested and exercisable at $27.33	53,351	53,351
Options vested and exercisable at $23.12	12,746	12,746
	1,695,456	1,269,778

The fair values of options granted in 2019 and 2018 were determined using the Black-Scholes valuation model using the following significant inputs:

	2019	2018
Number of options granted	757,639	559,703
Share price	$25.05 - $25.06	$ 33.59
Exercise price	$25.05 - $25.06	$ 33.59
Expected option life (years)	4.0	4.5
Volatility	16%	17%
Dividend yield	3.38%	5.00%
Annual risk-free rate	2.06%	1.55%
Fair value of options granted	$ 2.34	$ 2.74

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

Long-term incentive plan ("LTIP")

Officers and key employees are eligible to participate in the LTIP. Each annual LTIP grant is for a three-year service period beginning October 1. On December 15, 2019, the estimated vesting period was revised to March 31, 2020, resulting in the associated expense being recognized over a shorter period. The LTIP award consists of a restricted stock unit ("RSU") plan awarding base Share equivalents which may decrease or increase subject to certain market conditions and a phantom share unit ("PSU") plan awarding Share equivalents which may decrease or increase subject to certain performance and market conditions. The base Share equivalents attract compounding notional dividends at the same rate as outstanding Shares, which are notionally re-invested as additional base Share equivalents. The awards will be settled in cash at the end of the service period.

The grants of Share equivalents were as follows:

	PSU Share equivalents granted	RSU Share equivalents granted	PSU Share equivalents minimum payout	PSU Share equivalents maximum payout
2019 LTIP award	105,777	54,940	7,788	211,553
2018 LTIP award	79,089	39,549	—	158,178
2017 LTIP award	129,136	—	49,976	236,104

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period, which has been revised to terminate March 31, 2020. The effects of changes in estimates of performance results are recognized in the year of change. Forfeitures are estimated at $nil. For the year ended December 31, 2019, Cineplex recognized compensation costs of $7,140 (2018 - $1,325) under the LTIP. At December 31, 2019, $8,104 (2018 - $5,983) 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, 2019, Cineplex recognized compensation recovery of $3,385 (2018 - $2,672) associated with the deferred equity units. At December 31, 2019, $11,278 (2018 - $7,089) was included in current share-based compensation liability.

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

15. Dividends payable

Cineplex has declared the following dividends during the years:

	2019		2018	
Record date	**Amount**	**Amount per share**	**Amount**	**Amount per share**
January	$ 9,183	$ 0.1450	$ 8,866	$ 0.1400
February	9,183	0.1450	8,866	0.1400
March	9,183	0.1450	8,867	0.1400
April	9,183	0.1450	8,868	0.1400
May	9,500	0.1500	9,183	0.1450
June	9,500	0.1500	9,183	0.1450
July	9,500	0.1500	9,183	0.1450
August	9,500	0.1500	9,183	0.1450
September	9,500	0.1500	9,183	0.1450
October	9,500	0.1500	9,183	0.1450
November	9,500	0.1500	9,183	0.1450
December	9,500	0.1500	9,183	0.1450

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.

In January 2020, Cineplex declared a dividend of $9,500, or $0.1500 per share, payable in February 2020.

16. Lease obligations

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

	Property	Equipment	Total
Year ended December 31,			
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

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

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, 2019:

Less than one year	$	178,205
One to five years		661,979
More than five years		815,621
Total undiscounted lease obligations	$	1,655,805

The following table provides the lease amounts recognized in the statement of operations for the period ended December 31, 2019:

		2019
Depreciation expense on right-of-use assets	$	145,946
Interest expense on lease obligations	$	48,659
Expense relating to variable lease payments not included in the measurement of the lease obligations (i)	$	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). 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.

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, 2019 were not material.

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

17. Long-term debt

In the fourth quarter of 2018, Cineplex increased and extended its bank credit facilities (the "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"). The amendment to the Revolving Facility required no cash flow but was accounted for as an extinguishment under IFRS 9 as it includes a prepayment option at par with no significant penalty at the date of renegotiation. The Term Facility was accounted for as modification under IFRS 9 but there was no material adjustment to be recognized.

The Credit Facilities consist of the following:
a) a five-year, $650,000, senior, secured, Revolving Facility; and
b) a seven-year, $150,000, senior, secured, Term Facility.
The Revolving Facility increased $175,000 and the Term Facility was unchanged. There are 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 are substantially similar to the prior Credit Facilities.

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 rates 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.

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.

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 $450.0 million of borrowings. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its first $450.0 million of borrowings qualify for hedge accounting in accordance with IFRS 9, *Financial Instruments*. Under the provisions of IFRS 9, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income.

Under the Credit Facilities, an acquisition of control (acquisition of 50% or more of the outstanding shares of Cineplex by any party) such as that contemplated under the Arrangement Agreement triggers an event of default. As a result of the Arrangement Agreement entered into with Cineworld, all debt under both the Revolving Facility and Term Facility is expected to be repaid upon the close of transaction during the first half of 2020, and Cineplex is expected to lose the ability to make any further draws under the Credit Facilities accordingly. Consequently, it is expected the hedged cash flows will no longer exist, and therefore, hedging accounting would not be appropriate beyond that date. Accordingly, losses of $12.1 million associated with the interest rate swaps previously recognized in OCI were recognized as interest expense in the fourth quarter of 2019. Any subsequent changes in the value of these interest rate swaps will be recognized in net income.

The Credit Facilities are secured by all of the Partnership's and Cineplex's assets and are guaranteed by Cineplex.

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

The following table outlines Cineplex's current interest rate swap agreements as of December 31, 2019:

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:

	2019	2018
Term Facility	$ 150,000	$ 150,000
Revolving Facility	475,000	430,000
	$ 625,000	$ 580,000
Letters of credit reserved against Revolving Facility	$ 8,748	$ 8,396
Revolving Facility available	166,252	211,604

At December 31, 2019, Cineplex was subject to a margin of 0.70% (2018 - 0.55%) on the prime rate and 1.70% (2018 - 1.55%) on the bankers' acceptance rate, plus a 0.25% (2018 - 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 3.85% for the year ended December 31, 2019 (2018 - 3.53%). Cineplex pays a commitment fee on the daily unadvanced portion of the Revolving Facility, which will vary based on certain financial ratios and was 0.34% at December 31, 2019 (2018 - 0.31%).

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 $9,936 at December 31, 2019 (December 31, 2018 - $8,400), 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.

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

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

	2019	2018
DB SERP obligation, net of assets	$ 9,032	$ 7,647
Famous Players Plans obligations	1,646	1,603
Net post-retirement benefit obligation	$ 10,678	$ 9,250

Reconciliation of the net post-retirement benefit obligations

	2019	2018
Accrued benefit obligations		
Balance - Beginning of year	$ 10,003	$ 9,819
Current service cost	431	438
Interest cost	393	345
Benefits paid	(116)	(116)
Actuarial losses (gains)	871	(483)
Balance - End of year	$ 11,582	$ 10,003
Less: Fair value of plan assets	$ 904	$ 753
Net post-retirement benefit obligation	$ 10,678	$ 9,250

Significant assumptions

	2019	2018
Accrued benefit obligations at December 31		
Discount rate - all plans	3.00% - 3.10%	3.70% - 3.80%
Health care cost trend rates at December 31		
Initial rate	6.16%	6.39%
Ultimate rate	4.46%	4.46%
Year ultimate rate reached	2028	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.

	2019	2018
Impact of 1% increase in the discount rate	$ (1,209)	$ (1,075)
Impact of 1% decrease in the discount rate	$ 1,440	$ 1,281

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

19. Other liabilities

Other liabilities consist of the following:

	2019	2018
Deferred tenant inducements	$ —	$ 56,610
Excess of straight-line amortization over lease payments	—	36,490
Fair value of leases - liabilities	—	13,320
Asset retirement obligations	3,296	2,357
Deferred gain on sale of density rights	—	1,091
Licensing obligations - non-current	2,142	4,059
Deferred consideration - AMC business acquisition	3,134	3,134
Other, including provisions	1,241	2,049
	$ 9,813	$ 119,110

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, 2019 and 2018 and transactions during the periods are as follows:

2019				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance - December 31, 2019	63,333,238	$ 852,379	$ —	$ 852,379

2018				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance - December 31, 2017	63,330,446	$ 852,290	$ 4,471	$ 856,761
Issuance of shares on exercise of options	2,792	89	—	89
Transfer on repayment of convertible debentures to contributed surplus	—	—	(4,471)	(4,471)
Balance - December 31, 2018	63,333,238	$ 852,379	$ —	$ 852,379

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

21. Revenue

The following tables disclose the changes in deferred revenue for the years ended December 31, 2019 and 2018:

	December 31, 2018	Additions	Revenue Recognized	December 31, 2019
Gift cards	$ 172,301	$ 168,262	$ 155,808	$ 184,755
SCENE loyalty program	24,893	45,833	49,449	21,277
Advances and deposits	16,822	68,299	68,155	16,966
	$ 214,016	$ 282,394	$ 273,412	$ 222,998

The following tables provide the disaggregation of revenue into categories by nature for the years ended December 31, 2019 and 2018:

Box revenues	**Year ended December 31, 2019**	**2018**
Box office revenues	$ 705,521	$ 724,244

Food service revenues	**Year ended December 31, 2019**	**2018**
Food service - theatres	$ 446,639	$ 440,733
Food service - location-based entertainment	36,691	34,768
Total food service revenues	$ 483,330	$ 475,501

Media revenues	**Year ended December 31, 2019**	**2018 Restated** (note 3)
Cinema media	$ 115,415	$ 106,834
Digital place-based media	81,340	55,986
Total media revenues	$ 196,755	$ 162,820

Amusement revenues	**Year ended December 31, 2019**	**2018**
Amusement solutions excluding exhibition	$ 178,209	$ 165,486
Amusement solutions - exhibition	10,907	10,664
Amusement solutions - location based entertainment	39,115	29,643
Total amusement revenues	$ 228,231	$ 205,793

Other revenues	**Year ended December 31, 2019**	**2018 Restated** (note 3)
Other revenues	$ 51,309	$ 44,080

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

22. Other costs

	Year ended December 31,	
	2019	**2018 Restated** (note 3)
Employee salaries and benefits	$ 317,433	$ 298,477
Rent	4,482	155,637
Realty and occupancy taxes and maintenance fees	75,132	72,665
Utilities	33,935	32,914
Purchased services	70,464	62,037
Other inventories consumed, including amusement and digital place-based media	93,524	74,109
Venue revenue share	48,629	46,722
Repairs and maintenance	36,182	33,131
Advertising and promotion	23,688	26,819
Office and operating supplies	15,304	14,108
Licences and franchise fees	19,454	17,259
Insurance	5,238	5,163
Professional and consulting fees	12,007	6,348
Telecommunications and data	7,750	7,284
Bad debts	869	1,883
Equipment rental	1,371	3,381
Business interruption insurance proceeds	—	(5,449)
Other costs	17,231	17,870
	$ 782,693	$ 870,358

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

23. Net income per share

Basic

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

	2019	2018 Restated (note 3)
Net income attributable to owners of Cineplex - continuing operations	$ 36,540	$ 85,556
Net income attributable to owners of Cineplex	$ 28,915	$ 77,053
Weighted average number of shares outstanding	63,333,238	63,332,159
Basic EPS from continuing operations	$ 0.58	$ 1.35
Basic EPS from discontinued operations	(0.12)	(0.13)
Basic EPS	$ 0.46	$ 1.22

Diluted

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.

	2019	2018 Restated (note 3)
Net income attributable to owners of Cineplex - continuing operations	$ 36,540	$ 85,556
Net income attributable to owners of Cineplex	$ 28,915	$ 77,053
Weighted average number of shares outstanding	63,333,238	63,332,159
Adjustments for stock options	2,446	9,269
Weighted average number of shares for diluted EPS	63,335,684	63,341,428
Diluted EPS from continuing operations	$ 0.58	$ 1.35
Diluted EPS from discontinued operations	(0.12)	(0.13)
Diluted EPS	$ 0.46	$ 1.22

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

24. Operating segments

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

Film Entertainment and Content

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

Media

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

Amusement and Leisure

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

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, loss on disposal of assets, foreign exchange gain, the equity 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 related to lease obligations. Prior year adjusted EBITDAaL deducts rent previously recognized as a reduction in finance lease obligations, and non-cash rent previously presented as amortization of tenant inducements, rent averaging liabilities, density rights and fair-value lease contract liabilities.

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.

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

The following tables disclose the results of the Film Entertainment and Content, Media and Amusement and Leisure segments for the years ended December 31, 2019 and 2018:

Year ended December 31, 2019	Film Entertainment and Content (i)	Media (i)	Amusement and Leisure	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	—	217,324	—	228,231
Other	$ 48,993	—	2,316	—	51,309
Total revenues	$ 1,212,060	$ 195,680	$ 257,406	$ —	$ 1,665,146
Primary geographical markets					
Canada	$ 1,212,060	$ 164,339	$ 133,136	$ —	$ 1,509,535
United States and other countries	—	31,341	124,270	—	155,611
Total revenues	$ 1,212,060	$ 195,680	$ 257,406	$ —	$ 1,665,146
Timing of revenue recognition					
Transferred at a point in time	$ 1,212,060	$ 51,445	$ 257,406	$ —	$ 1,520,911
Transferred over time	—	144,235	—	—	144,235
Total revenues	$ 1,212,060	$ 195,680	$ 257,406	$ —	$ 1,665,146
Adjusted EBITDAaL	178,860	106,350	29,148	(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 related to lease obligations paid 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 3)					(7,625)
Net income					$ 28,891
		—	—	—	
Other operating segment disclosures					
Depreciation - right-of-use assets	$ 130,290	$ 3,437	$ 11,576	$ 643	$ 145,946
Depreciation and amortization - other assets	$ 75,077	$ 13,607	$ 40,199	$ —	$ 128,883
Interest expense - lease obligations	$ 44,466	$ 505	$ 3,649	$ 39	$ 48,659

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

Year ended December 31, 2018	Film Entertainment and Content (i)	Media (i)	Amusement and Leisure (Restated)	Corporate and other (iii)	Consolidated
Major product and service lines					
Box office	$ 724,244	$ —	$ —	$ —	$ 724,244
Food service	440,733	—	34,768	—	475,501
Media	—	162,072	748	—	162,820
Amusement	10,664	—	195,129	—	205,793
Other	42,751	—	1,329	—	44,080
Total revenues	$ 1,218,392	$ 162,072	$ 231,974	$ —	$ 1,612,438
Primary geographical markets					
Canada	$ 1,218,392	$ 149,304	$ 116,786	$ —	$ 1,484,482
United States and other countries	—	12,768	115,188	—	127,956
Total revenues	$ 1,218,392	$ 162,072	$ 231,974	$ —	$ 1,612,438
Timing of revenue recognition					
Transferred at a point in time	$ 1,218,392	$ 27,969	$ 231,974	$ —	$ 1,478,335
Transferred over time	—	134,103	—	—	134,103
Total revenues	$ 1,218,392	$ 162,072	$ 231,974	$ —	$ 1,612,438
Adjusted EBITDAaL	198,028	95,246	20,802	(66,781)	247,295
Non-cash rent - included in rent expense (iv)					(11,106)
Cash rent previously recognized as a finance lease (v)					(3,956)
Other adjustments (ii)					(3,255)
Depreciation and amortization - other assets					127,423
Interest expense - lease obligations					535
Interest expense - other					30,155
Interest income					(274)
Income taxes expense					22,314
Net income from continuing operations					$ 85,459
Net loss from discontinued operations (note 3)					(8,503)
Net income					$ 76,956
Other operating segment disclosures					
Depreciation and amortization - other assets	$ 88,005	$ 11,291	$ 28,127	$ —	$ 127,423
Interest expense - lease obligations	$ 535	$ —	$ —	$ —	$ 535

(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 loss on disposal of assets, CDCP equity 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.

(iv) Calculated as the total amortization of tenant inducements, rent averaging liabilities and fair-value lease contract liabilities. This accounting treatment was applicable under IAS 17 *Leases* in 2018 but not applicable under IFRS 16 *Leases* in 2019.

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

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

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.

25. Barter transactions

Cineplex occasionally enters into barter arrangements with other parties to exchange goods or services. During the year ended December 31, 2019, Cineplex provided advertising and media services to third parties and recognized advertising revenues of $1,140 (2018 - $2,389). Cineplex received sponsorship and advertising services in exchange, recording marketing expenses of $952 (2018 - $2,219). 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") serves as a member of the Board. During the year ended December 31, 2019, Cineplex incurred theatre occupancy expenditures for theatres under lease commitments with Riocan in the amount of $42,989 (2018 - $44,786).

Joint ventures

Cineplex leased digital projection systems from CDCP in the amount of $1,897 for the year ended December 31, 2019 (2018 - $1,791).

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, 2019, Cineplex earned revenue of $780 for these services (2018 - $682).

Compensation of key management

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

	2019	2018
Salaries and short-term employee benefits	$ 4,448	$ 4,632
Post-employment benefits	972	811
Share-based payments	5,674	626
	$ 11,094	$ 6,069

(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:

	2019	2018 Restated (note 2)
Trade and other receivables	$ (4,140)	$ (6,929)
Inventories	(188)	(665)
Prepaid expenses and other current assets	(140)	(978)
Accounts payable and accrued liabilities	14,028	(4,767)
Income taxes payable	(14,479)	730
Deferred revenue	8,706	18,539
Post-employment benefit obligations	1,429	23
Share-based compensation	6,291	(6,866)
Other liabilities	(2,780)	(2,746)
	$ 8,727	$ (3,659)

Property, equipment and leasehold purchases are included in accounts payable and accrued liabilities as at December 31, 2019, in the amount of $33,158 (2018 - $17,793).

28. Commitments, guarantees and contingencies

Commitments

As of December 31, 2019, Cineplex has aggregate capital commitments as follows:

Capital commitments for operating locations to be completed or renovated during 2020 - 2023	$ 133,286
Letters of credit	$ 8,748

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 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, 2019 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, 2019 and 2018 are as follows:

		2019		2018	
	Input level	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Long-term debt	2	625,000	625,000	580,000	580,000
Other liabilities - equipment liabilities	2	4,195	4,195	5,972	5,972
Interest rate swap agreements, net	2	11,217	11,217	5,338	5,338
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.

The face value of long-term debt reflects fair value, as the debt bears floating interest at market rates.

The equipment liabilities are recorded at amortized cost, as derived from expected cash outflows and Cineplex's estimated incremental borrowing rate, 2.7%. 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 considered its hedging relationships and determined that the interest rate swap agreements on its first $450,000 of borrowings qualify for hedge accounting in accordance with IFRS 9, *Financial Instruments*. Under the provisions of IFRS 9, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income (note 17).

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). There was no change in fair value of $3,134 for the year ended December 31, 2019.

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

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

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 31, 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, 2019 and 2018:

	2019	2018
Trade receivables carrying value	$ 136,647	$ 144,973
Percentage past due	36%	27%
Percentage outstanding more than 120 days	3%	5%

The following schedule reflects the changes in the allowance for trade receivables during the years ended December 31, 2019 and 2018:

	2019	2018
Allowance for trade receivables - Beginning of year	$ 628	$ 221
Additional allowance recorded	508	2,552
Amounts written off	(620)	(2,145)
Allowance for trade receivables - End of year	$ 516	$ 628

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

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:

					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
Equipment obligations	4,195	2,006	2,014	150	25
Deferred consideration - AMC	3,134	3,134	—	—	—
Total contractual obligations	$ 873,234	$ 235,680	$ 7,469	$ 479,178	$ 150,907

					2018
					Payments due by period
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	$ 186,407	$ 186,407	$ —	$ —	$ —
Dividends payable	9,183	9,183	—	—	—
Interest rate swap agreements	8,076	(8)	1,767	5,194	1,123
Long-term debt	580,000	—	—	430,000	150,000
Equipment obligations	6,241	2,050	3,942	150	99
Finance lease obligations	16,517	3,955	6,128	4,290	2,144
Deferred consideration - AMC	3,134	3,134	—	—	—
Minimum commitments in Media	13,503	2,518	5,205	5,480	300
Total contractual obligations	$ 823,061	$ 207,239	$ 17,042	$ 445,114	$ 153,666

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

Cineplex also has significant contractual obligations in the form of property leases and equipment leases that were accounted for as operating leases prior to January 1, 2019 (note 16) and new theatre and other capital commitments (note 28), as well as contingent obligations in the form of letters of credit, guarantees and long-term incentive and option plans.

Cineplex expects to fund lease commitments through cash flows from operations. New theatre capital commitments not funded through cash flows from operations will be funded through Cineplex's committed Revolving Facility (note 17).

Management believes the Cineplex's cash flows from operations and the Revolving Facility will be adequate to support all of its financial liabilities.

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 9.3% 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, 2019 would have increased other comprehensive income by $6,007 and decreased net income by $341. An assumed decrease of 10% in exchange rates at December 31, 2019 would have decreased other comprehensive income by $6,014 and increased net income by $341.

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.

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. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI until the hedged interest payment is recorded, while the ineffective portion is recognized in the consolidated statements of operations as interest expense when incurred. During the year ended December 31, 2019, Cineplex recorded non-cash interest expense of $10,472 relating to the cash flow hedge (2018 - interest expense of $1,466). Cineplex expects to reclassify $194 from hedging reserves and other to the consolidated statement of operations in 2020 (2019 - $1,484), excluding the impact of income taxes.

In December 2019, Cineplex determined that hedged cash flows beyond March 31, 2020 were not sufficiently likely to exist, and therefore hedge accounting is not appropriate beyond that date. Accordingly, losses associated with the interest rate swaps previously recognized in OCI were recognized as interest expense in the fourth quarter of 2019. Any subsequent changes in value will be recognized in net income.

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

The following table shows Cineplex's exposure to interest rate risk and the pre-tax effects on net income and OCI for the years ended December 31, 2019 and 2018 of a 1% change in interest rates management believes is reasonably possible:

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**	**OCI**	**Net income**	**OCI**
Long-term debt	$ 625,000	$ 6,399	$ —	$ (6,399)	$ —
Interest rate swap agreements - net	11,217	(17,597)	—	16,995	—
		$ (11,198)	$ —	$ 10,596	$ —

2018

	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	OCI	Net income	OCI
Long-term debt	$ 580,000	$ 4,978	$ —	$ (4,978)	$ —
Interest rate swap agreements - net	5,338	(4,500)	(15,507)	4,500	15,966
		$ 478	$ (15,507)	$ (478)	$ 15,966

The carrying value of the interest rate swaps liability was $11,217 at December 31, 2019. If interest rates changed plus or minus 1% from existing estimates throughout the contract period, the carrying value would change to an asset of $5,778 or a liability of $28,814, primarily affecting interest expenses.

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.

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

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.

Cineplex is subject to certain covenants on its credit facilities agreement, which defines certain non-GAAP terms and measures. The total leverage ratio may not exceed 3.75 to 1 unless an acquisition is undertaken, in which case, the ratio allowance increases to 4.25 to 1 for a 12-month period before reverting automatically to 3.75 to 1. The total leverage ratio is determined by dividing total debt at the period-end (as defined in the credit facilities agreement) by the adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") (as defined in the credit facilities agreement) for the past four quarters. Cineplex also must maintain a fixed charge coverage ratio of greater than 1.25 to 1. The fixed charge coverage ratio (as defined in the credit facilities agreement) is computed by dividing the sum of adjusted EBITDA (as defined in the credit facilities agreement) and rent expense for the past four quarters by fixed charges for the same period. Fixed charges include interest expense, scheduled debt repayments, maintenance capital expenditures, rent expense and income taxes paid in the year. Management reviews the covenants on a quarterly basis in conjunction with filing requirements under its credit facilities agreement but also maintains a rolling projection to assess future growth capital commitments. Cineplex has complied with all covenant requirements during the years ended December 31, 2019 and 2018. Management also monitors the annualized payout ratio, calculated as dividends declared divided by adjusted free cash flow. All of these ratios are managed with certain target ranges determined by management to allow for flexibility in considering growth opportunities.

The basis for the Cineplex's capital structure is dependent on the 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 2019, there was no material change to Cineplex's capital composition, objectives or strategies. In 2018, Cineplex increased and extended its Credit Facilities, and repaid convertible debentures outstanding.

31. 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 three reportable operating segments, Film Entertainment and Content, Media and Amusement and Leisure. The reportable segments are business units offering differing products and services. Details of Cineplex's three reportable operating segments are provided in (note 24).

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.

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

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.

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

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

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.

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:

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 uses derivatives in the form of interest rate swap agreements, which are designated as cash flow hedges to manage risks related to its variable rate debt. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI or OCL until the hedged interest payment is recorded, while the ineffective portion is recognized as interest expense when incurred (note 29).

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 were 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.

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

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 flows 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 asset'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.

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.

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

The major categories of property, equipment and leaseholds are depreciated on a straight-line basis as follows:

Buildings	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 11). 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.

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

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

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; and
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.*

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.

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

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.

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

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.

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.

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

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

Media

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

Advertising Media

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

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

Installation and Digital Hardware for digital signage network

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

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

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.

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
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 future cash flows based on historical and budgeted operating results, growth rates, tax rates and after-tax discount rates (note 12).

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.

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

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.

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 (note 2).

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 14. The LTIP 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

IFRS 5, Non-current assets held for sale and discontinued operations

Cineplex has met the criteria of recording WGN as a discontinued operation under the accounting standard IFRS 5. Therefore, effective with the quarter ended September 30, 2019, WGN's financial performance and cash flows are presented in these financial statements as discontinued operations on a retroactive basis.

As per IFRS 5, non-current assets and disposal groups should be classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use, and measured at the lower of their carrying amount and fair value less costs to sell and are no longer depreciated or amortized. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

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

The criteria for held for sale classification are regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell with be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items on the consolidated balance sheet. A disposal group qualifies as discontinued operation if it is in a component of an entity that either has been disposed of, or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical are of operations;
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as after tax loss from discontinued operations in the consolidated statement of operations and comparative period have been restated.

IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16, which replaced IAS 17. The new standard is mandatorily effective for fiscal years beginning on or after January 1, 2019. Under the new standard, all leases are reported on lessees' balance sheets, except those that meet limited exception criteria. Cineplex has applied IFRS 16 using the modified retrospective approach and as a result comparative information has not been restated and will continue to be reported under IAS 17 and IFRIC 4, *Determining Whether an Agreement Contains a Lease*. Cineplex has identified and reviewed relevant contracts from all lines of its business to assess if they fall within the scope of IFRS 16, in whole or in part and to quantify lease and non-lease components.

Cineplex recognized lease obligations and right-of-use assets at the date of adoption of IFRS 16. The lease obligations are measured at the present value of the future lease payments during the lease terms which is a weighted average of approximately 11 years for all Cineplex leases at the date of adoption, discounted using incremental borrowing rates which, in most instances, are similar to Cineplex's average interest rate on borrowings under Cineplex's credit facility. Lease terms include the non-cancellable period, a rent free period if applicable, and any extension options which are reasonably certain to be exercised unless the lease agreement contains a bilateral termination clause. For leases entered into after January 1, 2019, the commencement date of the lease begins on the date on which the lessor makes the underlying asset available for use to Cineplex.

For leases entered into, on or after January 1, 2019, the right-of-use asset will be initially calculated at an amount equal to the initial value of the lease liability less any lease payments made or lease incentives received at or before the commencement date, plus any initial direct costs incurred, an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

For short-term leases of equipment that have a lease term of 12 months or less and low-value assets, Cineplex has elected to not recognize a lease obligation and right-of-use asset and instead will recognize a lease expense as permitted under IFRS 16 in the consolidated statement of operations. Cineplex has recorded a lease obligation and right-of-use asset for all property leases including those with a term of 12 months or less.

At January 1, 2019, the right-of-use assets have been initially calculated at an amount equal to the initial value of the lease obligations adjusted for specific balance sheet items at December 31, 2018 which are no longer permitted under IFRS 16. There is no impact on retained earnings. For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and lease obligation at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

On transition, Cineplex recognized $1,342,593 of right-of-use assets and $1,441,856 of lease obligations.

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

When measuring lease liabilities, Cineplex discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 3.5%.

The right-of-use assets are depreciated using the straight-line from the date of adoption to the earlier of the end of the useful life of the asset or the end of the lease term as determined under IFRS 16. For leases entered into after January 1, 2019, the right-of-use assets are depreciated 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.

The following table reconciles Cineplex's operating lease obligations at December 31, 2018, as previously disclosed in Cineplex's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019:

	January 1, 2019
Operating lease commitments for leased premises at December 31, 2018	$ 1,200,073
Discounted using the incremental borrowing rate at January 1, 2019	1,000,221
Extension options reasonably certain to be exercised	408,511
Finance lease obligations recognized at December 31, 2018	13,847
Equipment and other leases recognized at January 1, 2019	19,277
Lease obligations recognized at January 1, 2019	$ 1,441,856

The following table shows the impact on each individual line item on the balance sheet as of December 31, 2018 resulting from the adoption of IFRS 16 on January 1, 2019. Line items that were not affected by the changes have not been included. As a result, the sub totals and totals disclosed cannot be recalculated from the numbers provided.

	December 31, 2018	Finance lease (i)	Asset retirement obligation (ii)	Fair-value rent (iii)	Deferred tenant inducement (iv)	Rent averaging (v)	Density right (vi)	PVLP (vii)	Balances post IFRS 16 adoption
Assets									
Non-current assets									
Property, equipment and leaseholds	634,354	(11,239)	(405)	—	—	—	—	—	622,710
Right-of-use assets	—	11,239	1,167	(3,631)	(56,610)	(36,490)	(1,091)	1,428,009	1,342,593
Intangible assets	108,758	—	—	(9,689)	—	—	—	—	99,069
Total assets	$ 1,856,449	$ —	$ 762	$ (13,320)	$ (56,610)	$ (36,490)	$ (1,091)	$ 1,428,009	$ 3,177,709
Liabilities									
Current liabilities									
Lease obligations	3,058	(3,058)	—	—	—	—	—	106,892	106,892
Total current liabilities	430,877	(3,058)	—	—	—	—	—	106,892	534,711
Non-current liabilities									
Lease obligations	10,789	3,058	—	—	—	—	—	1,321,117	1,334,964
Other liabilities	119,110	—	762	(13,320)	(56,610)	(36,490)	(1,091)	—	12,361
Total liabilities	$ 1,177,438	$ —	$ 762	$ (13,320)	$ (56,610)	$ (36,490)	$ (1,091)	$ 1,428,009	$ 2,498,698

(i) Property, equipment and leaseholds associated with finance lease assets were reallocated to right-of-use assets, and finance lease liabilities were reallocated to lease obligations upon adoption of IFRS 16.

(ii) Asset retirement obligation ("ARO") assets were reallocated to right-of-use assets, and ARO liabilities were re-valued based on the lease term and incremental borrowing rate upon adoption of IFRS 16.

(iii) Fair-value rent assets and liabilities were reallocated to right-of-use assets upon adoption of IFRS 16.

(iv) Deferred tenant inducements were reallocated to right-of-use assets upon adoption of IFRS 16.

(v) Straight-line rent averaging liabilities were reallocated to right-of-use assets upon adoption of IFRS 16.

(vi) Density right deferred gains were reallocated to right-of-use assets upon adoption of IFRS 16.

(vii) Cineplex recognized right-of-use assets and lease obligations equal to the present value of future lease payments ("PVLP") upon adoption of IFRS 16 using the modified retrospective method.

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

IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23")

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019 and did not have any impact on Cineplex's balance sheet and statement of operations.

32. Comparative figures

Certain 2018 consolidated financial statement comparative figures have been reclassified to conform to the current year's presentation.

33. Subsequent Events

Subsequent to the end of the annual period, the shareholders of Cineplex and Cineworld approved the Arrangement Agreement and Cineworld Transaction (completion remains subject to certain other conditions including regulatory and court approvals) (note 1).

CINEPLEX.COM