Cineplex Inc.

Impacts of adoption of International Financial Reporting Standards (IFRS) 16

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Presenter: Gord Nelson, Chief Financial Officer

CINEPLEX®

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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 Cineplex's MD&A and AIF, as filed on our investor relations site and www.sedar.com.

Cineplex Inc. – IFRS 16 Impacts: Agenda

1. Key Messages
2. Introduction to IFRS 16
3. Selected Policy Elections and Key Assumptions
4. Our Lease Portfolio
5. Projected IFRS 16 Impact on Financial Statements
6. Q&A

Key Messages

No impact on:

- How we operate the business
- Our cash flow
- Underlying economics and credit risk profile of the business

IFRS 16 impacts:

- Cineplex elected “modified retrospective” approach with no restatement of prior year results
- Debt and asset values on Balance Sheet will increase
- EBITDA to increase as straight-line rent expense moves out of operating expenses
- Depreciation and interest expense will increase related to the new asset and liability
- Dilutive impact on Net Income and EPS in earlier years as new depreciation and interest expense is greater than straight-line rent expense
- Exhibition segment is impacted most as it has >90% of the consolidated lease value

IFRS 16 Enhanced Disclosures in 2019:

- Enhanced disclosure throughout 2019 includes the introduction of a new non-GAAP measure (“Adjusted EBITDAaL” - Adjusted EBITDA after Leases)

Introduction to IFRS 16

IFRS 16 treats leased assets similar to owned assets or financing leases.

Balance Sheet impact on new and renewed leases:

- The lease liability is measured at the present value of the lease payments over the lease life (includes contractual term plus any reasonably certain renewal options)
- Right-of-use assets is initially equal to the lease liability, less any tenant inducements received, plus provisions for lease exit costs

Income Statement:

- Right-of-use assets are depreciated on a straight-line basis over the term of the lease, including any reasonably certain renewal options
- Interest charge on lease liability at incremental borrowing rates declines over time
- Variable expenses such as percentage rent, CAM and property taxes will continue to be recorded as Other costs (Occupancy expenses)
- Low value and short-term leases will continue to be recorded as Other costs (Occupancy expenses)
- Gain/loss on certain lease modifications and terminations will be recorded to a gain/loss account

Cash Flow:

- Operating cash flow will be higher due to the elimination of straight-line rent, offset by interest on the lease liability
- Financing cash flow will be lower due to principal repayments associated with the lease
- No net impact on total cash flow

Selected Policy Elections and Key Assumptions by Cineplex

IFRS 16 Policy Elections and Key Assumptions

APPROACH

"Modified Retrospective" with no restatement of 2018 and earlier periods.

LOW VALUE AND SHORT-TERM LEASES

Exempted from IFRS 16 and charged directly to Statement of Operations

INCREMENTAL BORROWING RATES

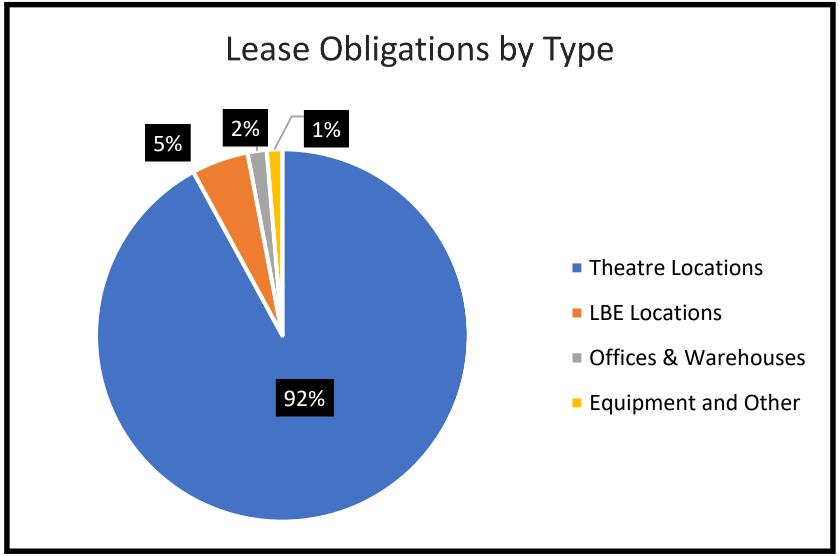
3.3% - 3.5%

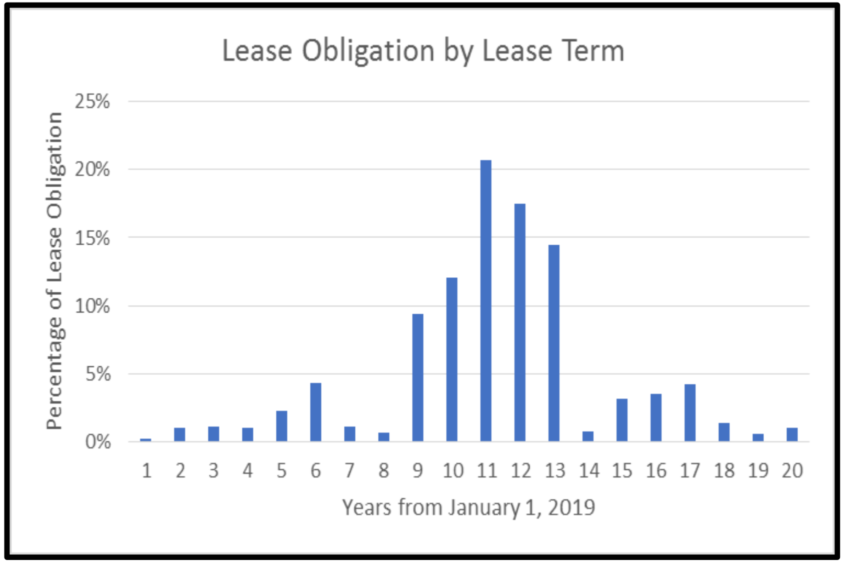
WEIGHTED AVERAGE REMAINING LEASE LIFE

11 years

Our Lease Portfolio

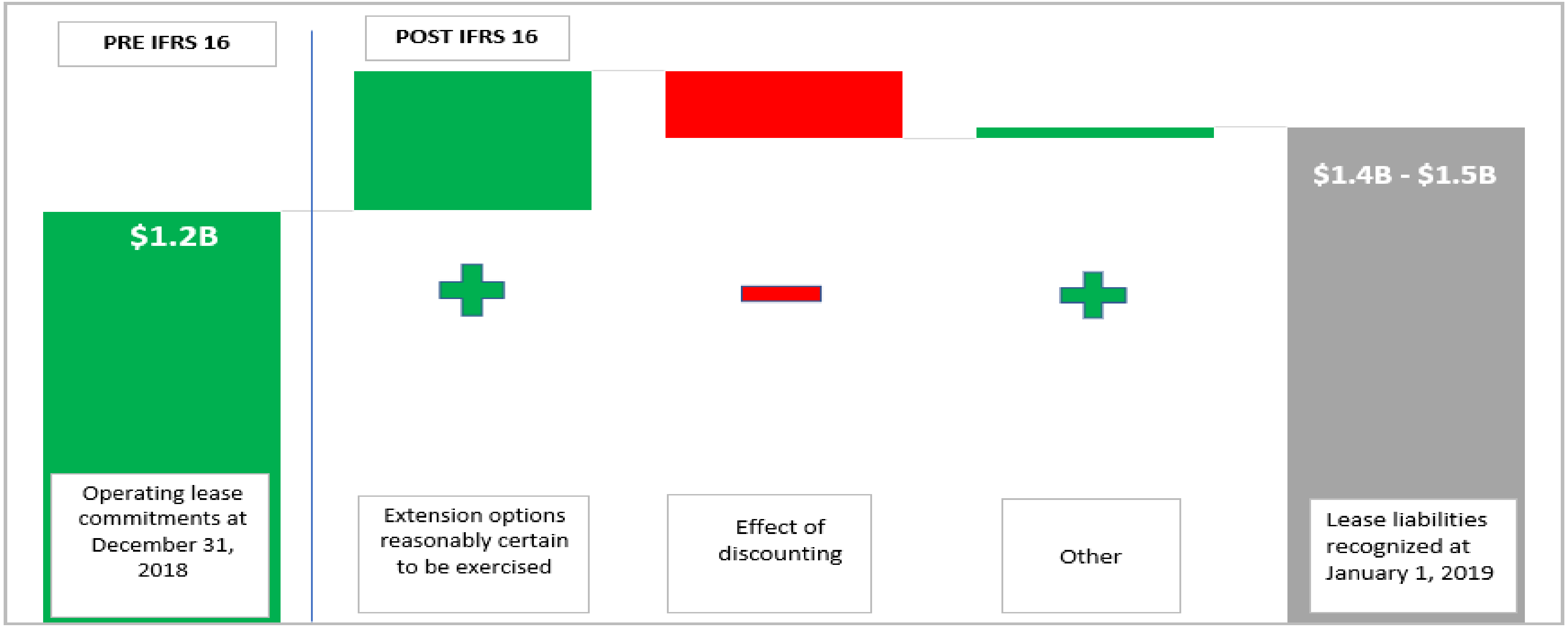
- Theatre leases represent in excess of 90% of our total lease obligations
- Theatre leases are typically 15-20 years in term (with additional option periods)
- Our weighted-average remaining lease term (including reasonable expectations for renewal options) is approximately 11 years





Projected IFRS 16 Impact – Opening Lease Liability

- The projected opening lease liability will be approximately $1.4 to $1.5 billion



Projected IFRS 16 Impact – Balance Sheet

- Upon transition, right-of-use assets and lease liabilities will be recorded on our balance sheet
- Certain other lease related assets and liabilities will no longer be reflected on our balance sheet
- On adoption, no net impact to equity

	Impact	Line Item
↓	≈$12M	Property, equipment and leaseholds
↑	≈$1.3B	Right-of-use assets
↓	≈$10M	Intangible assets
↑	≈$1.3B	TOTAL ASSETS
↑	≈$1.4B	Lease obligations
↓	≈$107M	Other liabilities
↑	≈$1.3B	TOTAL LIABILITIES
↔	NIL	EQUITY

Projected IFRS 16 Impact – Statement of Operations

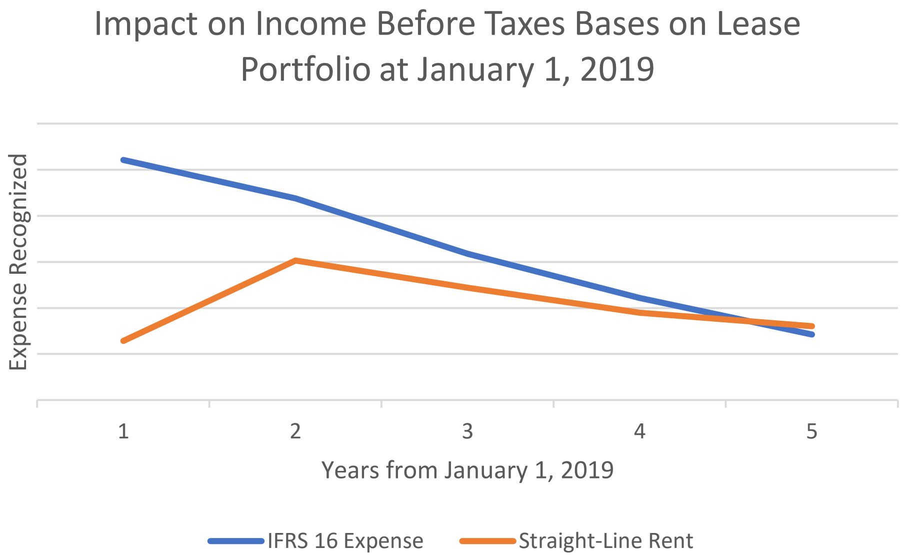
- Effective Q1 2019, straight-line rent previously recorded in Other costs will be removed and the cash rent payments will now be split into two components; an interest expense and repayment of principal component
- New income statement items will include Depreciation-right-of-use assets and Interest expense-lease obligations
- Net income and EPS will be negatively impacted in the short-term as the new depreciation and interest expense is greater than the rent expense reduction

	Impact	Line Item
↓	≈\$170M	Other costs (Occupancy) related to Cash Rent
↑	≈<\$15M>	Other costs (Occupancy) related to non-cash rent [1]
↑	≈\$155M	EBITDA
↑	≈\$150M	Depreciation - right-of-use assets
↑	≈\$50M	Interest expense - lease obligations
↓	≈<\$45M>	Income before taxes
↓	≈<\$12M>	Deferred income taxes
↓	≈<\$33M>	Net Income
↓	≈<\$0.52>	EPS

[1] elimination of non-cash rent amounts included in prior reporting periods (2018 and earlier)

Projected IFRS 16 Impact – Statement of Operations

- The chart below is for illustrative purposes only
- Over time, the interest expense on lease obligations reduces as principal repayments are made and the difference between straight-line rent and the sum of depreciation-right-of-use assets and interest expense-lease obligations ("IFRS 16 Expense") reverses direction, resulting in the short-term dilutive net income and EPS impacts transitioning to become accretive



Projected IFRS 16 Impact – Non-GAAP Measure – "Adjusted EBITDAaL"

- In order to present operating results in a manner consistent with the way management views the operations and to maintain comparability to prior reporting periods, a new non-GAAP measure will be introduced – "Adjusted EBITDAaL" (Adjusted EBITDA after Leases)

	2019	**2018**
	IFRS 16	*As reported in prior period*
(A)	Adjusted EBITDA	Adjusted EBITDA
	less	*less*
(B)	N/A	Non-Cash Rent & Finance Leases (1)
	less	*less*
(C)	Cash Rent	N/A
	equals	*equals*
(A)-(B)-(C)	Adjusted EBITDAaL	Adjusted EBITDAaL

(1) for the year ended December 31, 2018 non-cash rent and finance lease adjustments amounted to approximately $15.1 million

Projected IFRS 16 Impact – Statement of Cash Flows

- No impact on total cash flow
- Operating cash flow increases by the rent expense elimination, offset by increased interest expense on lease obligations
- Cash used in financing activities increases by the repayment of lease obligations – principal component

Impact		Line Item	Impacts		
⬆	≈$120M	Cash provided by operating activities	⬇ ⬆	≈$170M ≈$50M	Other costs (Occupancy) Interest expense - lease obligations
⬆	≈$120M	Cash used in financing activities	⬇	≈$120M	Repayment of lease obligations - principal component
⬌	**Nil**	**No change to Total Cash Flow**			

Q&A