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"

Ellis Jacob
Chief Executive Officer

"Gord Nelson"

Gord Nelson
Chief Financial Officer

Toronto, Ontario

February 10, 2021

Independent auditor's report

To the Shareholders of Cineplex Inc.

Our opinion

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

What we have audited

The Company's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Material uncertainty related to going concern

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

Key audit matters

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

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

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

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 10, 2021

Cineplex Inc.
Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

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

COVID-19 business impacts and risks and going concern (note 2)
Subsequent events (note 34)

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

(expressed in thousands of Canadian dollars)

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

Approved by the Board of Directors

"Phyllis Yaffe"
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, 2020 and 2019

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

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

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

(expressed in thousands of Canadian dollars)

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

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

Cineplex Inc.

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

(expressed in thousands of Canadian dollars)

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

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

Cineplex Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(expressed in thousands of Canadian dollars)

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

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

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

1. General information

Cineplex Inc. ("Cineplex") an Ontario, Canada corporation, is one of Canada's largest entertainment organizations, with theatres and location-based entertainment venues in ten provinces. Cineplex also operates businesses in digital commerce, cinema media, digital place-based media and amusement solutions through its wholly owned subsidiaries, Cineplex Entertainment Limited Partnership (the "Partnership"), Famous Players Limited Partnership ("Famous Players"), Galaxy Entertainment Inc. ("GEI"), Cineplex Digital Media Inc. ("CDM"), and Player One Amusement Group Inc. ("P1AG"). Cineplex is headquartered at 1303 Yonge Street, Toronto, Ontario, M4T 2Y9.

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity measures:

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

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

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

Cost reduction and subsidy measures:

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

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

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

Some of the new measures implemented on reopening included:

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

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

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

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

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

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

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

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

As of December 31, 2020, Cineplex was in compliance with all financial covenants under the terms of its senior secured credit facilities ("Credit Facilities"). However, management's forecasts indicate a potential breach of covenants within the next twelve months as a result of the ongoing pandemic. Management's forecasts may change materially as the impact of COVID-19 on Cineplex's business is better understood over the course of time. A violation of its covenants would represent an event of default under the terms of the Credit Facilities, enabling the lenders to demand immediate repayment of all amounts due. See note 34, Subsequent events, for a description of certain amendments to the Credit Facilities entered into after year end.

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

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

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

3. Cash and cash equivalents

Cash and cash equivalents comprise the following:

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

4. Trade and other receivables

Trade and other receivables comprise the following:

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

5. Inventories

Inventories comprise the following:

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

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

6. Property, Equipment, and Leaseholds

Property, equipment and leaseholds consist of:

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

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

7. Right-of-use assets

Right-of-use assets consists of:

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

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

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

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

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

8. Deferred income taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Interests in joint ventures and associates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SCENE

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

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

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

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

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

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

10. Intangible assets

Intangible assets consist of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of:

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

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

13. Share-based compensation

Omnibus Incentive Plan ("Incentive Plan")

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

Stock Options

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

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

Stock options have been granted as follows:

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

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

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

Cineplex recorded $1,203 of employee benefits recovery with respect to the options during the year ended December 31, 2020 (2019 - $2,537). At December 31, 2020, $nil associated with the options is reflected in current share-based compensation liability on the consolidated balance sheets (2019 - $6,299). The intrinsic value of vested share options at December 31, 2020 is $nil (2019 - $632), based on the purchase price of $9.27 per share (2019 - $34.00). Cineplex undertook a one-time voluntary stock option cancellation program in December 2020 under which qualified holders of outstanding options granted from 2012 to 2017 were given the opportunity to cancel their options in exchange for a market value payment. In December, 1,307,301 options were cancelled for aggregate proceeds of $453.

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

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

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

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

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

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

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

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

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

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

RSU

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

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

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

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

PSU

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

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

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

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

Deferred equity units

Members of the Board of Directors and certain officers of Cineplex may elect to defer a portion of their compensation in the form of deferred equity units. For the year ended December 31, 2020, Cineplex recognized compensation recovery of $8,246 (2019 - $3,385) associated with the deferred equity units. At December 31, 2020, $2,768 (2019 - $11,278) was included in share-based compensation liability.

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

14. Dividends payable

Cineplex has declared the following dividends during the years:

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

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

15. Lease obligations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16. Long-term debt

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

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

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

The Credit Facilities contain numerous restrictive covenants that limit the discretion of Cineplex's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Cineplex to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. The Revolving Facility is drawn upon and repaid on a regular basis and as such is presented on a net basis in the Statement of Operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Long-term debt consists of:

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

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

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

17. Convertible debentures

Convertible debentures consist of the following:

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

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

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

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

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

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

18. Post-employment benefit obligations

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

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

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

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

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

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

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

Reconciliation of the net post-retirement benefit obligations

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

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

Significant assumptions

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

Sensitivity analysis

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

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

19. Other liabilities

Other liabilities consist of the following:

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

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

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

20. Share capital

Cineplex is authorized to issue an unlimited number of common shares and 10,000,000 preferred shares of which none are outstanding.

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

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

21. Revenue

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

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

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

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

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

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

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

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

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

22. Other costs

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

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

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

23. Net (loss) income per share

Basic

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

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

Diluted

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

Diluted EPS is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the outstanding shares for the period), based on the monetary value of the rights attached to the potentially dilutive shares. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercise of conversions, exchanges or options. The options and convertible debentures are anti-dilutive in 2020.

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

24. Operating segments

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

Film Entertainment and Content

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

Media

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

Amusement and Leisure

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

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

Location-Based Entertainment

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

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

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

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

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

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

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

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

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

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

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

(iii) Corporate and other represents the cost of centralized corporate overhead that is not allocated to the other operating segments and includes the change in fair value of financial instruments.

Cineplex's cash management and other treasury functions are centralized; interest expense not related to the lease obligations and interest income are not allocated to segments. Income taxes are accounted for by entity, and cannot be attributable to individual segments. Cineplex does not report balance sheet information by segment because that information is not used to evaluate performance or allocate resources between segments.

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

25. Barter transactions

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

26. Related party transactions

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

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

Joint ventures

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

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

Compensation of key management

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

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

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

27. Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

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

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

28. Commitments, guarantees and contingencies

Commitments

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

Capital commitments for operating locations to be completed or renovated during 2021 - 2024	$ 82,100
Letters of credit	$ 10,234

Guarantees

During 2005 and 2006, Cineplex entered into agreements with third parties to divest a total of 36 theatres, 30 of which were leased properties. Cineplex is guarantor under the leases for the remainder of the lease terms for certain theatres that it has sold in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease; ten or fewer of those theatres are still operated by a third party lease under which Cineplex arguably could be responsible as a guarantor.

Cineplex has assessed the fair value of the lease guarantees and determined that the fair value of these guarantees at December 31, 2020 is nominal. As such, no additional amounts have been provided in the consolidated financial statements for these guarantees. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, Cineplex could face a substantial financial burden, which could be mitigated by Cineplex operating any theatres under default.

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

Other

Cineplex or a subsidiary of Cineplex is a defendant in various claims and lawsuits arising in the ordinary course of business. From time to time, Cineplex is involved in disputes with landlords, contractors, suppliers, former employees and other third parties. It is the opinion of management that any liability to Cineplex, which may arise as a result of these matters, will not have a material adverse effect on Cineplex's operating results, financial position or cash flows.

29. Financial instruments

Fair value of financial instruments

The carrying value and fair value of Cineplex's financial instruments at December 31, 2020 and 2019 are as follows:

		2020		2019	
	Input level	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Convertible debentures	1	219,271	344,713	—	—
Other liabilities - equipment liabilities	2	4,168	4,168	4,195	4,195
Interest rate swap agreements, net	2	26,359	26,359	11,217	11,217
Deferred consideration - AMC	2	3,134	3,134	3,134	3,134

Cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and dividends payable are reflected in the consolidated financial statements at carrying values that approximate fair values because of the short-term maturities of these financial instruments.

At the time of entering into the Third Credit Amendment Agreement, there was no further change to the interest margins charged by the Bank on Cineplex's outstanding debt from that implemented under the First and Second Credit Amendment Agreements. The debt is considered a Level 3 fair value measurement and no other observable inputs are available. If the interest rate were to increase by 2% to 4%, the effect would be to decrease the fair value of the debt by approximately $30,000 to $60,000. The numerous external factors impacting the future performance of Cineplex, as discussed in note 2, COVID-19 business impacts, risks and going concern, and note 11, Goodwill and impairment of long-loved assets, goodwill and investments, indicate that there is significant uncertainty in the inputs to, and therefore the measurement of, the fair value of the debt as at December 31, 2020. As a result, changes in these underlying assumptions could cause the fair value to vary materially.

The equipment liabilities are recorded at amortized cost, as derived from expected cash outflows and Cineplex's estimated incremental borrowing rate, 4.9%. The equipment liabilities are included in accounts payable and accrued liabilities (current portion) and in other liabilities on the balance sheet.

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable on Cineplex's first $450,000 of borrowings. Cineplex ceased hedge accounting for the interest rate swaps during the fourth quarter of 2019. The interest rate swap is measured at fair market value at each reporting period with changes in fair market value recognized in the consolidated statement of operations.

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

The deferred consideration for AMC (an undiscounted amount of $3,134 based on estimated non-capital losses arising from the 2012 acquisition of AMC Ventures Inc.) is recorded at fair value and included in other liabilities (note 19, Other liabilities). There was no change in fair value of $3,134 for the year ended December 31, 2020.

The convertible debentures are publicly traded on the TSX, and are recorded at amortized cost (note 17, Convertible debentures).

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical financial assets or financial liabilities that Cineplex has the ability to access.

Fair values determined by Level 2 inputs use inputs other than the quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 inputs include quoted prices for similar financial assets and financial liabilities in active markets, and inputs other than quoted prices that are observable for the financial assets or financial liabilities. Cineplex uses market interest rates and yield curves that are observable at commonly quoted intervals in the valuation of its interest rate swap agreements. The derivative positions are valued using models developed internally by the respective counterparty that uses as its basis readily observable market parameters (such as forward yield curves) and are classified within Level 2 of the valuation hierarchy. Cineplex considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives. Any adjustments resulting from credit risk are recorded as a change in fair value of the derivatives and reflected in OCI.

Level 3 inputs are unobservable inputs for the financial asset or financial liability, and include situations where there is little, if any, market activity for the financial asset or financial liability. Cineplex's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the financial asset or financial liability.

Credit risk

Credit risk is the risk of financial loss to Cineplex if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Management believes the credit risk on cash and cash equivalents is low because the counterparties are banks with high credit ratings.

Accounts receivable include trade and other receivables. Trade receivables are amounts billed to customers for the sales of goods and services, and represent the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within 30 to 45 days. Other receivables include amounts due from suppliers and landlords and other miscellaneous amounts. Cineplex's credit risk is primarily related to its trade receivables, as other receivables generally are recoverable through ongoing business relationships with the counterparties.

Cineplex grants credit to customers in the normal course of business. Cineplex typically does not require collateral or other security from customers; however, credit evaluations are performed prior to the initial granting of credit when warranted and periodically thereafter. Cineplex records a reserve for estimated uncollectible amounts, which management believes reduces credit risk. See note 32, Significant accounting policies, judgments and estimation uncertainty, for Cineplex's policy on impairment of financial assets.

The following schedule reflects the balance and age of trade receivables at December 31, 2020 and 2019:

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

	2020	2019
Trade receivables carrying value	$ 29,188	$ 136,647
Percentage past due	57%	36%
Percentage outstanding more than 120 days	27%	3%

The following schedule reflects the changes in the allowance for trade receivables during the years ended December 31, 2020 and 2019:

	2020	2019
Expected credit loss for trade receivables - Beginning of year	$ 516	$ 628
Additional allowance recorded	1,244	508
Amounts written off	(569)	(620)
Expected credit loss for trade receivables - End of year	$ 1,191	$ 516

Due to Cineplex's diversified client base, management believes Cineplex does not have a significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that Cineplex will encounter difficulty in meeting obligations associated with its financial liabilities.

The table below reflects the contractual maturity of Cineplex's undiscounted cash flows for its financial liabilities and interest rate swap agreements:

					2020
	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	$ 82,992	$ 82,992	$ —	$ —	$ —
Interest rate swap agreements	26,359	7,201	15,449	3,709	—
Long-term debt	506,000	—	506,000	—	—
Interest on long-term debt	70,618	24,642	45,976	—	—
Equipment obligations	4,168	1,975	2,018	150	25
Deferred consideration - AMC	3,134	—	3,134	—	—
Convertible debentures	316,250	—	—	316,250	—
Convertible debentures interest	86,388	18,184	36,369	31,835	—
Total contractual obligations	$1,095,909	$ 134,994	$ 608,946	$ 351,944	$ 25

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

	2019				
	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	$ 220,188	$ 220,188	$ —	$ —	$ —
Dividends payable	9,500	9,500	—	—	—
Interest rate swap agreements	11,217	852	5,455	4,028	882
Long-term debt	625,000	—	—	475,000	150,000
Interest on long-term debt	87,280	24.063	48,125	34,132	5,000
Equipment obligations	4,195	2,006	2,014	150	25
Deferred consideration - AMC	3,134	3,134	—	—	—
Total contractual obligations	$ 960,514	$ 235,704	$ 55,594	$ 513,310	$ 155,907

Existing lease commitments are disclosed in note 15. Cineplex also has significant new theatre and other capital commitments (note 28, Commitments, guarantees and contingencies), as well as contingent obligations in the form of letters of credit, guarantees and the Incentive Plan for options, RSUs, and PSUs.

Management believes the Cineplex's cash flows from certain planned asset sales, including but not limited to the sale of its head office building, income tax recoveries, and funding sourced by the issuance of Debentures will be adequate to support all of its financial liabilities. Refer to note 2, COVID-19 business impacts, risks and going concern, for a discussion of management's liquidity measures.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign currency exchange rates.

The majority of Cineplex's revenues and expenses are in Canadian dollars, with the remainder denominated in US dollars. Approximately 13.4% of Cineplex's revenues are derived from sales to customers in the United States, which are naturally hedged by the Cineplex's US-based operating costs. Management considers currency risk to be low and does not hedge its currency risk. An assumed increase of 10% in exchange rates at December 31, 2020 would have increased other comprehensive income by $3,061 and decreased net income by $2,920. An assumed decrease of 10% in exchange rates at December 31, 2020 would have decreased other comprehensive income by $3,053 and increased net income by $2,920.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Cineplex is exposed to interest rate risk on its long-term debt, which bears interest at floating rates.

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

Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swap agreements. The interest rate swap agreements are recognized in the consolidated balance sheets at their estimated fair value. During the year ended December 31, 2020, Cineplex recorded non-cash interest expense of $13,922 relating its interest rate swaps (2019 - interest expense of $10,472).

There was no impact on OCI in the current and prior period resulting from a 1% change in interest rates on Cineplex's long-term debt and interest rate swap agreements. The following table shows Cineplex's exposure to interest rate risk and the pre-tax effects on net income for the years ended December 31, 2020 and 2019 of a 1% change in interest rates management believes is reasonably possible:

			2020
	Pre-tax effects on net income and OCI - increase (decrease)		
		1% decrease in interest rates	**1% increase in interest rates**
	Carrying value of financial liability	**Net income**	**Net income**
Long-term debt	$ 506,000	$ 5,836	$ (5,836)
Interest rate swap agreements - net	26,360	(12,192)	11,692
		$ (6,356)	$ 5,856

			2019
	Pre-tax effects on net income and OCI - increase (decrease)		
		1% decrease in interest rates	**1% increase in interest rates**
	Carrying value of financial liability	Net income	Net income
Long-term debt	$ 625,000	$ 6,399	$ (6,399)
Interest rate swap agreements - net	11,217	(17,597)	16,995
		$ (11,198)	$ 10,596

The carrying value of the interest rate swaps liability was $26,359 at December 31, 2020. If interest rates changed plus or minus 1% from existing estimates throughout the contract period, the carrying value would decrease to $14,668 or increase to $38,551, primarily affecting interest expenses.

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

30. Capital disclosures

Cineplex's objectives when managing capital are to:

a) maintain financial flexibility to preserve its ability to meet financial obligations and growth objectives, including future investments;
b) deploy capital to provide an appropriate investment return to its shareholders; and
c) maintain a capital structure that allows multiple financing options, should a financing need arise.

Cineplex defines its capital as follows:

a) equity;
b) long-term debt, convertible debentures, and finance lease obligations, including the current portion;
c) fair value equipment liabilities, including the current portion; and
d) cash and cash equivalents.

It is Cineplex's policy to distribute annually to shareholders available cash from operations after cash required for maintenance capital expenditures, working capital and other reserves at the discretion of the Board of Directors. Distributions will be limited and only permitted when the leverage ratio is less than 2.75 to 1 as required under Credit Facility, both prior to and immediately after giving effect to any such distribution. Distributions are not allowed during the financial covenant suspension period.

During the fiscal period, Cineplex entered into a First and Second Credit Agreement Amendment with The Bank of Nova Scotia, as administrative agent, and the lenders from time to time named therein. The credit agreement amendments provide Cineplex with financial covenant relief in light of the COVID-19 pandemic and its effects on Cineplex's business. As a result, financial covenant testing has been temporarily suspended until the end of the second quarter of 2021. On the reinstatement of financial covenant testing, the total leverage ratio may not exceed 3.75 to 1, and will be reduced over the course of 2021 each quarter until it is at 3 to 1 for the fourth fiscal quarter of 2021. Growth capital expenditures will be limited to certain agreed projects during the year. After December 31, 2020, additional growth capital expenditures will be permitted subject to a pro forma leverage covenant of 2.75 to 1, both prior to and immediately after giving effect to any such growth capital expenditures.

The basis for Cineplex's capital structure is dependent on Cineplex's expected growth and changes in the business and regulatory environments. To maintain or adjust its capital structure, Cineplex may purchase shares for holding or cancellation, issue new shares, raise debt or refinance existing debt with different characteristics.

Objectives and strategies are reviewed periodically by management. During 2020, Cineplex completed the offering of convertible debentures for $316,250 aggregate principal amount where $100,000 of the proceeds raised were used to permanently repay the credit facility outstanding as required under the Arrangement Agreement. In 2020, Cineplex's capital composition, objectives or strategies all changed in response to the substantial business challenges of COVID-19.

31. Assets held for sale and discontinued operations

During the quarter ended September 30, 2019, Cineplex initiated a review process of WorldGaming Network LP's ("WGN") online esports business, engaging a third party adviser to identify a strategic equity partner. On June 29, 2020, Cineplex sold all of its interest in WGN for a nominal amount. A nominal gain was recognized on the disposition and is included in net loss from discontinued operations.

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

Cineplex applied IFRS 5, *Non-current assets held for sale and discontinued operations* ("IFRS 5") to measure, present and disclose the financial information for WGN during the period in which WGN had met the criteria to be recorded as a discontinued operation. Effective with the quarter ended September 30, 2019, WGN's financial performance and cash flows are presented in these consolidated financial statements as discontinued operations on a retroactive basis. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

The major classes of assets and liabilities classified as held for sale are as follows:

	December 31, 2020	December 31, 2019
Trade and other receivables	$ —	$ 607
Prepaid expenses and other current assets	—	11
Property, equipment and leaseholds	—	724
Intangible assets	—	5,231
Assets held for sale	$ —	$ 6,573
Accounts payable and accrued liabilities	$ —	$ 1,254
Deferred revenue	—	316
Deferred income taxes	—	1,238
Liabilities related to assets held for sale	$ —	$ 2,808
Net assets held for sale	$ —	$ 3,765

The following table discloses revenues and expenses for the year ended December 31:

	2020	2019
Revenues		
Media revenues	$ 602	$ 1,075
Other revenues	199	16
	801	1,091
Expenses		
Depreciation and amortization - other assets	—	3,623
Loss on disposal of assets	129	—
Other costs	2,212	7,001
Impairment of intangible assets	5,156	—
Foreign exchange	(117)	268
	7,380	10,892
Loss before income taxes	(6,579)	(9,801)
Recovery of income taxes		
Current	(384)	(1,415)
Deferred	(1,243)	(761)
	(1,627)	(2,176)
Net loss from discontinued operations	$ (4,952)	$ (7,625)
Foreign currency translation adjustment from discontinued operations	7	210
Other comprehensive loss from discontinued operations	$ (4,945)	$ (7,415)

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

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

		2020		2019
Net cash used in operating activities	$	(1,768)	$	367
Net cash used in investing activities		(215)		(1,168)
Effect of exchange rate differences on cash		(408)		254
Net cash used in discontinued operations	$	(2,391)	$	(547)

32. Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of preparation and measurement

Cineplex prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), defined as International Financial Reporting Standards ("IFRS") as set out in the CPA Canada Handbook - Accounting. The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Cineplex's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated financial statements are disclosed later in this note.

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments and available-for-sale investments.

Reportable operating segments

Cineplex is comprised of four reportable operating segments, Film Entertainment and Content, Media, Amusement and Leisure, and Location-Based Entertainment. The reportable segments are business units offering differing products and services. Details of Cineplex's four reportable operating segments are provided in (note 24, Operating segments).

Consolidation

Subsidiaries are all entities over which Cineplex has control. Cineplex controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Cineplex. They are deconsolidated from the date that control ceases.

Cineplex applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by Cineplex. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Cineplex recognises any non-controlling interest in the acquiree at fair value of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by Cineplex is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of operations.

Inter-company transactions, balances and unrealised gains and losses on transactions between Cineplex entities are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with Cineplex's accounting policies.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Associates are all entities over which Cineplex has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Cineplex's investment in associates includes goodwill identified on acquisition.

Cineplex determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, Cineplex calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the statement of operations.

Profits and losses resulting from upstream and downstream transactions between Cineplex and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by Cineplex.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of operations.

Investments in joint ventures and associates

Investments in joint arrangements are classified either as joint operations and proportionately consolidated or as joint ventures or associates and equity-accounted, depending on the contractual rights and obligations of each investor.

Under the equity method of accounting, interests in joint ventures and associates are initially recognised at cost and adjusted thereafter to recognise Cineplex's share of the post-acquisition profits or losses and movements in OCI. When Cineplex's share of losses in a joint venture or an associate equals or exceeds its interests in that joint venture or associate (which includes any long-term interests that, in substance, form part of Cineplex's net investment in the joint ventures), Cineplex does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

Unrealised gains on transactions between Cineplex and its joint ventures and associates are eliminated to the extent of Cineplex's interest in the joint ventures and associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by Cineplex.

Cineplex assesses at each year-end whether there is any objective evidence that its interests in joint ventures and associates are impaired. In determining the value-in-use of an investment, Cineplex estimates its share of the present value of the estimated cash flows expected to be generated by the joint venture or associate, including the cash flows from the operations of the joint venture or associate and the proceeds on the ultimate disposal of the investment, or the present value of the estimated future cash flows expected to arise from dividends to be received from the joint venture or associate and its ultimate disposal. If impaired, the carrying value of Cineplex's share of the underlying assets of joint ventures or associates is written down to its estimated recoverable amount (being the higher of fair value less costs of disposal and value in use) and charged to the consolidated statements of operations.

Cineplex has interests in a jointly controlled entity and accounts for its share of assets and liabilities, revenue and expenses of the joint operation. Cineplex conducts a portion of its business through SCENE GP, a joint operation whereby the joint operation participants are bound by contractual agreements establishing joint control. Joint control exists when unanimous consent of the joint operation participants is required regarding strategic, financial and operating policies of the joint operation. Cineplex's share of results from SCENE has been recognized in Cineplex's consolidated financial statements. Inter-company transactions between Cineplex and SCENE are eliminated to the extent of Cineplex's interest.

Foreign currency translation

Functional and presentation currency

Cineplex determines its subsidiaries' functional currency by reviewing the currency of the primary economic environment in which each entity operates (the "functional currency"). The functional currency of three subsidiaries of P1AG is the United States dollar. The functional currency of all other entities of the Cineplex group is the Canadian dollar.

The consolidated financial statements are presented in Canadian dollars.

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at fiscal year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of operations.

Subsidiaries

The results and balance sheet of the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates, and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill recognized on the acquisition of a subsidiary are treated as assets and liabilities of the subsidiary and translated at the closing rate.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash equivalents are readily converted into known amounts of cash, and are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognized when Cineplex becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Cineplex has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligations are discharged, canceled or expire. Regular purchases and sales of financial assets are recognized on the trade-date, the date on which Cineplex commits to purchase or sell the asset.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the financial liability simultaneously.

IFRS 9 contains three classification categories for financial assets and liabilities measured at amortized cost, fair value through profit or loss ("FVPL") and fair value through other comprehensive income ("FVOCI").

At initial recognition, Cineplex classifies its financial instruments in the following categories depending on the purpose for which the financial instruments were acquired:

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

i. Financial assets and financial liabilities at FVPL: The only instruments held by Cineplex classified in this category are certain equipment purchase liabilities, and the deferred consideration payable for business combinations. Derivatives are included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations. Gains and losses arising from changes in fair value are presented in the consolidated statements of operations. Financial assets and financial liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, which is classified as non-current. Financial assets and liabilities at FVPL are presented within changes in operating assets and liabilities in the consolidated statements of cash flows.

ii. Financial assets and liabilities at amortized cost: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cineplex's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

Financial liabilities at amortized cost include trade payables, dividends and distributions payable, bank indebtedness and long-term debt and the non-derivative component of convertible debentures. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt, and the non-derivative component of convertible debentures are recognized initially at fair value, net of any transaction costs incurred and, subsequently, at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Equity investments are required to be measured fair value with all changes recognized at FVPL. At initial recognition, Cineplex can make an irrevocable election to classify the instruments at FVOCI, with all subsequent changes in fair value being recognized in OCI. Cineplex has not classified any equity instruments at FVOCI.

iii. Financial instruments at FVOCI: Cineplex ceased the use of hedge accounting for its interest rate swap agreements during the fourth quarter of 2019 as a result of the terms of the Arrangement Agreement. The interest rate swap are measured at fair market value at each reporting period with changes in fair market value recognized in the consolidated statement of operations.

Impairment of financial assets

At each reporting date, Cineplex assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, Cineplex recognizes an impairment loss. IFRS 9 uses forward-looking Expected Credit Loss ("ECL"), Cineplex applies the impairment model to financial asset measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

i. 12-month ECLs which are ECLs that result from possible default events within 12 months after the reporting date; and

ii. lifetime ECLs which are ECLs that result from all possible default events over the expected life of a financial instruments.

Cineplex applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Impairment losses on financial assets carried at amortized cost or FVOCI are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Inventories

Inventories consist of food service inventories, gaming inventories and other inventories, including work in progress.

Food service inventories, gaming equipment purchased for re-sale, merchandise that is used as redemption prizes and work-in progress inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price less applicable selling expenses.

Gaming inventories includes gaming equipment purchased for re-sale or transferred from property, equipment and leaseholds and merchandise that is used as redemption prizes for certain games. Gaming equipment also includes equipment that has been transferred from property, equipment and leaseholds to inventory when it is no longer in route operations and it will be sold or auctioned to third parties at the discretion of management. Gaming equipment is transferred to inventory at its net book value and stated at the lower of the net book value or net realizable value. Net realizable value is the estimated selling price less applicable selling expenses.

Other inventories include consumable supplies and work-in-progress being assembled for sale or installation by CDM.

Impairment of non-financial assets

Property, equipment and leaseholds and intangible assets subject to amortization are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows relating to the relevant intangible asset ("cash-generating units" or "CGUs"). Cineplex considers each theatre a CGU. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the CGU's carrying value exceeds its recoverable amount.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists.

Goodwill acquired through a business combination is allocated to each CGU or group of CGUs that is expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. Cineplex groups theatre CGUs based on geographical regions of financial management responsibility in testing goodwill for impairments.

Cineplex groups CGUs based on trade name in testing indefinite-lived trade names for impairment.

Cineplex evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Property, equipment and leaseholds

Property, equipment and leaseholds are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Cineplex and the cost can be measured reliably. The carrying value of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of operations during the year in which they are incurred.

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

Buildings	30 - 40 years
Equipment	3 - 10 years
Leasehold improvements	term of lease but not in excess of the useful lives

For owned buildings constructed on leased property, the useful lives do not exceed the terms of the land leases.

Cineplex allocates the amount initially recognized in respect of an item of property, equipment and leaseholds to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually or whenever events or circumstances suggest a change that may otherwise indicate an impairment exists and adjusted if appropriate. Construction-in-progress is depreciated from the date the asset is ready for productive use.

Gains and losses on disposals of property, equipment and leaseholds are determined by comparing the proceeds with the carrying value of the asset and are included as part of other gain or loss on the sale of assets in the consolidated statements of operations.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Cineplex's share of the net identifiable assets of the acquired business at the date of acquisition.

Identifiable intangible assets

Intangible assets include trademarks, trade names, leases, software and customer relationships acquired by Cineplex. As Cineplex intends to use certain of the trademarks and trade names of the Partnership and GEI for the foreseeable future, the useful lives of those trademarks and trade names are indefinite and no amortization is recorded. Other trade names are expected to be substantially discontinued and are amortized over their expected useful lives (note 10, Intangible assets). Management tests indefinite-lived intangible assets for impairment at least annually, and considers at least annually or whenever events or circumstances indicate that the life of an indefinite-lived intangible asset may be finite. The advertising contracts have limited lives and are amortized over their useful lives, estimated to be between five to nine years. The estimated fair value of lease contract assets is amortized on a straight-line basis over the remaining term of the lease into amortization expense.

The major categories of intangible assets are amortized on a straight-line basis as follows:

Internally generated software	3 - 5 years
Customer relationships	5 - 10 years
Trade names	not amortized

Leases

Cineplex conducts a significant part of its operations in leased premises. In assessing whether a contract is, or contains a lease, Cineplex applies the definition of a lease and related guidance set out in IFRS 16 for all lease contracts entered into or modified. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under the provisions of IFRS 16, substantially all of Cineplex's leases are recorded as lease obligations and right-of-use assets.

Lease payments included in the measurement of the lease obligation are comprised of the following:

i. Fixed lease payments, including in-substance fixed payments;
ii. Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
iii. Amounts expected to be payable under a residual value guarantee;
iv. The exercise price of purchase options that Cineplex is reasonably certain to exercise, lease payments in an option renewal period if Cineplex is reasonably certain to exercise the extension option, and penalties for early termination of the lease unless Cineplex is reasonably certain not to terminate early; and
v. Less any lease incentives receivable.

Variable payments for leases that do not depend on an index or rate are not included in the measurement of the lease liability. The variable payments are recognized as an expense in the period in which they are incurred and are included in the consolidated statement of operations.

Cineplex accounts for any lease and associated non-lease components separately, as opposed to a single arrangement, which is permitted under IFRS 16. Cineplex records non-lease components such as common area maintenance as an expense in the period in which they are incurred and are included in the consolidated statement of operations.

Interest on the lease obligations is calculated using the effective interest method with rent payments reducing the liability. The lease obligation is remeasured whenever a lease contract is modified and the lease modification is not accounted for as a separate lease, or there is a change in the assessment of the exercise of an extension option. The lease obligation is remeasured by discounting the revised lease payments using a revised discount rate resulting in a corresponding adjustment to the right-of-use asset or is recorded in gain or loss if the carrying amount of the right-of-use asset has been reduced to zero or the modification results in a reduction in the scope of the lease.

The right-of-use assets are depreciated on a straight-line basis from the date of commencement to the earlier of the end of the useful life of the asset or the end of the lease term.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36, *Impairment of Assets* which replaces the previous requirement to recognize a provision for onerous lease contracts under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

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

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statements of operations in the year in which they are incurred.

Employee benefits

Cineplex is the sponsor of a number of employee benefit plans. These plans include a defined benefit pension plan, additional unfunded defined benefit obligations for former Famous Players employees, and a group registered retirement savings plan.

i. Post-employment benefit obligations

For defined benefit plans, the level of benefit provided is based on the length of service and annual earnings of the person entitled.

The cost of defined benefit plans is determined using the projected unit credit method. The related benefit liability recognized in the consolidated balance sheets is the present value of the defined benefit obligation at the consolidated balance sheet dates less the fair value of plan assets. The cost of the group registered retirement savings plan is charged to expense as the contributions become payable.

Actuarial valuations for defined benefit plans are carried out periodically and considered at each annual consolidated balance sheet date. The discount rate applied in arriving at the present value of the benefit liability represents yields on high-quality corporate bonds that are denominated in Canadian dollars, the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related benefit liability.

The net defined benefit liability (asset) is recognized on the balance sheet without any deferral of actuarial gains and losses. Past service costs are recognized in net income when incurred. Post-employment benefits expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income without recycling to the consolidated statements of operations.

Employee benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months.

ii. Share-based compensation - options

Cineplex grants stock options to certain employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Until December 16, 2019 the options were considered equity-settled, and fair value of each tranche was measured at the date of grant using the Black-Scholes option pricing model. Compensation expense was based on the number of awards expected to vest and was recognized over the tranche's vesting period, included as employee benefits expense in other costs. On December 16, 2019, the options were considered cash-settled, and the fair value of the excess of outstanding options in excess of the exercise price was recognized as a current share-based compensation liability and reduction of contributed surplus. Any change in fair value is recognized in income. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

iii. Share-based compensation - other plans

Cineplex has a number of other cash-settled share-based compensation plans. The obligation for these plans is recorded at fair value on a percentage vested basis. Changes in the obligation are reflected in employee benefits in other costs in the consolidated statements of operations.

Provisions

Provisions for asset retirement obligations, theatre shutdowns and legal claims, where applicable, are recognized when Cineplex has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. Cineplex performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. Provisions are included in other liabilities on the consolidated balance sheets.

Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations, except to the extent that they relate to items recognized directly in equity or in OCI, in which case, the income taxes are also recognized directly in equity or in OCI.

Current income taxes are the expected taxes payable on the taxable income for the year, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous years.

In general, deferred income taxes are recognized in respect of temporary differences arising between the income tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted at the consolidated balance sheet dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and joint ventures, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by Cineplex and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

Dividends

Dividends on common shares are recognized in the consolidated financial statements in the year in which the dividends are approved by the Board of Directors of Cineplex.

Revenue

Film Entertainment and Content

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

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

Media

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

Advertising Media

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

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

Installation and Digital Hardware for digital signage network

Cineplex sells digital hardware, installation and other professional services for digital signage networks. The installation and other professional services that Cineplex provides are not a significant integration service, does not customize or modify the hardware and can be performed by another party. The installation and other professional services are therefore accounted for as a separate performance obligation and the transaction price is allocated to each performance obligation based on the stand-alone selling prices. Revenue for installation and other professional services are recognized upon completion of the installation of the digital hardware at the individual site being installed for the customer. If contracts include the purchase of hardware, revenue for the hardware is recognized at the point in time when hardware is delivered to the customer. Delivery occurs when the hardware has been shipped to the customer's specific location, the legal title has passed and the customer has accepted the hardware.

Digital software services subscription

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

Creative Services

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

Amusement and Leisure

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

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

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

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

Income per share

Basic EPS is calculated by dividing the net income for the year attributable to equity owners of Cineplex by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options and similar instruments is computed using the treasury stock method. Cineplex's potentially dilutive common shares include stock options granted to employees and the conversion feature of the convertible debentures.

Film rental costs

Film rental costs are recorded based on the terms of the respective film licence agreements. In some cases, the final film cost is dependent on the ultimate duration of the film's play and, until this is known, management uses its best estimate of the final settlement of these film costs. Film costs and the related film costs payable are adjusted to the final film settlement in the year Cineplex settles with the distributors. Actual settlement of these film costs could differ from those estimates.

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

Consideration received from vendors

Cineplex receives rebates from certain vendors with respect to the purchase of concession goods. In addition, Cineplex receives payments from vendors for advertising undertaken by the theatres on behalf of the vendors. Cineplex recognizes rebates earned for purchases of each vendor's product as a reduction of concession costs and recognizes payments received for services delivered to the vendor as media or other revenue.

Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgments

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

a) Goodwill and recoverable amount of long lived assets
Recoverable amount

Cineplex tests at least annually whether goodwill suffered any impairment. Management makes key assumptions and estimates in determining the recoverable amount of groups of CGUs' goodwill, including attendance and the related revenue growth rates, variable and fixed cash flows, operating margins and discount rates (note 11, Goodwill and impairment of long-loved assets, goodwill and investments).

b) Financial instruments
Fair value of over-the-counter derivatives

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

c) Revenue recognition
Gift cards

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

d) Income taxes

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

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

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

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

f) Share-based compensation

Management is required to make certain assumptions and to estimate future financial performance to estimate the fair value of share-based awards at each consolidated balance sheet date. Significant estimates and assumptions relating to the option plan are disclosed in note 13, Share-based compensation. The LTIP and Incentive Plan requires management to estimate future non-GAAP earnings measures, future revenue growth relative to specified industry peers, and total shareholder return, both absolutely and relative to specified industry peers. Future non-GAAP earnings are estimated based on current projections, updated at least annually, taking into account actual performance since the grant of the award. Future revenue growth relative to peers is based on historical performance and current projections, updated at least annually for actual performance since the grant of the award by Cineplex and its peers. Total shareholder return for Cineplex and its peers is updated at each consolidated balance sheet date based on financial models, taking into account financial market observable inputs.

g) Lease terms

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

Accounting standards applied or adopted in the current year

Accounting for Government Subsidies

Cineplex recorded, presented, and disclosed the government subsidies received in Canada and the United States in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. During the year ended December 31, 2020, Cineplex recorded subsidies in the amount of $61,851 which have been offset in other costs.

Accounting standards issued

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

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

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

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

- the rent concession is for relief for payments that were originally due on or before June 30, 2021. Any subsequent rental increases of amounts deferred can extend beyond June 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

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

Cineplex will not apply the practical expedient to lease concessions.

Accounting standards issued but not yet applied

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

IAS 1 Presentation of Financial Statements - Amendment

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

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

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

33. Comparative figures

Certain 2019 consolidated financial statement comparative figures have been reclassified to conform to the current year’s presentation. The comparative operating segment note has been reclassified to include the Location-Based Entertainment segment. These amounts were previously grouped with the Amusement and Leisure segment. Typographical errors have been corrected in the consolidated statement of comprehensive income for the year ended December 31, 2019.

34. Subsequent events

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

Subsequent to December 31, 2020, Cineplex completed a sale and leaseback transaction for its head office buildings located at 1303 Yonge Street and 1257 Yonge Street, Toronto, Ontario for gross proceeds of $57,000. Fifty percent of the net proceeds were used to permanently reduce Cineplex's Revolving Credit Facilities to $591,668.

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

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

- Allow the issuance by Cineplex of second lien secured notes (the "Second Lien Notes") with the following terms:
  - a minimum of $200,000 and a maximum of $250,000 of notes may be issued on or prior to March 31, 2021;
  - tenor of at least five years;
  - secured second lien ranking, subordinate to the security granted for the obligations under the Credit Facilities, and shall be subject to the terms of an intercreditor agreement that incorporates certain agreed intercreditor principles and otherwise in form and substance satisfactory to the agent under to the Credit Facilities; and
  - mandatory repayment of the Credit Facilities from the issuance of Second Lien Notes, $100,000 of which would constitute a permanent reduction.

- The following amendments to the Credit Facilities would become effective upon the completion of the issuance of at least $200,000 of Notes on or prior to March 31, 2021:
  - The suspension of financial covenant testing would be extended until the fourth quarter of 2021. On resumption of financial covenant testing in the fourth quarter of 2021, testing will be based on an annualized calculation of Adjusted EBITDA (as further adjusted per Credit Agreement definitions) for the fourth quarter of 2021 and immediately following two fiscal quarters, and thereafter on a trailing four fiscal quarter period;
  - The Total Leverage Ratio of 3.75x will apply when financial covenants are reinstated, and will be reduced until the third quarter of 2022 at which point it will reach a level of 3.00x;
  - The liquidity covenant would continue and be amended and extended beginning in February 2021, through to and including December 2021, requiring available liquidity as defined on a monthly basis (November 1, 2020 through January 31, 2021 - $100,000; February 2021 - $75,000; March 2021 - $60,000; April 1, 2021 through December 31, 2020 - $100,000;
  - The addition of a Senior Leverage Ratio to be based on annualized Adjusted EBITDA and set at 1.0x lower than the Total Leverage Ratio. Senior Leverage Ratio to be defined as (i) Total Debt less any Second Lien Notes to (ii) Adjusted EBITDA;
  - Effective with the fourth quarter of 2021, additional growth capital expenditures will be subject to pro-forma leverage covenant of 2.75x (both prior to and immediately after giving effect to any such growth capital expenditure) based on actual last twelve month EBITDA; and
  - Distributions continue to be blocked during the extended financial covenant suspension period and only permitted when the leverage ratio is less than 2.75x (both prior to and immediately after giving effect to any such distribution).

On February 8, 2021, Cineplex announced that it has entered into an engagement letter with BMO Capital Markets and Scotiabank in connection with a proposed private placement offering (the "Note Offering") of second lien

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

secured notes (the "Notes"), subject to market and other conditions, Cineplex intends to use the net proceeds from the proposed Note Offering, if completed, to repay indebtedness under its Credit Facilities, in accordance with the terms of the Third Amendment.