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If you have sold or transferred all of your holding of Ordinary Shares in Cineworld Group plc, please forward this Circular and the accompanying documents (but not the personalised Form of Proxy), as soon as possible, to the purchaser or the transferee or to the person through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this document to any jurisdiction outside the United Kingdom should seek appropriate advice before taking any action. The distribution of this Circular and any accompanying documents into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this Circular and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

You should read the whole of this Circular and all documents incorporated into it by reference in their entirety. Your attention is drawn to the letter from the Chairman of Cineworld Group plc which is set out in Part I of this document and which contains a unanimous recommendation from the Board of Cineworld Group plc that you vote in favour of the Resolution to be proposed at the General Meeting referred to below. Part II of this document entitled “Risk Factors” includes a discussion of certain risk factors which should be taken into account when considering the matters referred to in this document.



CINEWORLD GROUP PLC

(Registered in England and Wales with registered number 05212407)

PROPOSED ACQUISITION OF CINEPLEX INC.

and

NOTICE OF GENERAL MEETING

A notice convening a General Meeting of Cineworld Group plc (“**Cineworld**” or the “**Company**”) to be held at the Cineworld Cinema in Wandsworth, Southside Shopping Centre, Wandsworth High Street, London SW18 4TF at 11:00 a.m. on 11 February 2020 is set out at the end of this document.

For Shareholders, a Form of Proxy for use at the General Meeting is enclosed with this document. Whether or not you propose to attend the General Meeting, you are requested to complete and submit a Form of Proxy to the Company’s Registrars, Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU to arrive by no later than 11:00 a.m. on 7 February 2020 (or, in the case of an adjournment, not later than 48 hours (excluding any part of a day that is not a working day) before the time fixed for the holding of the adjourned meeting).

You may also submit your proxy electronically at www.signalshares.com using your Investor Code, which can be found on your share certificate or dividend notification. If you are a member of CREST you may be able to use the CREST electronic proxy appointment service. Proxies sent electronically must be sent as soon as possible and, in any event, so as to be received by not later than 11:00 a.m. on 7 February 2020 (or, in the case of an adjournment, not later than 48 hours (excluding any part of a day that is not a working day) before the time fixed for the holding of the adjourned meeting).

Completion and return of a Form of Proxy will not preclude you from attending and voting in person at the General Meeting, should you so wish.

This document is a circular relating to the Acquisition which has been prepared in accordance with the Listing Rules and approved by the Financial Conduct Authority.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been so authorised. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the affairs of Cineworld Group plc since the date of this document or that the information in it is correct as of any subsequent time.

HSBC Bank plc, Merrill Lynch International and Goldman Sachs International, which are authorised and regulated in the United Kingdom by the Prudential Regulation Authority and the Financial Conduct Authority, are acting exclusively for Cineworld and for no one else in connection with the Acquisition and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Acquisition and, subject to their respective responsibilities and liabilities which may arise under FSMA or the regulatory regime established thereunder, will not be responsible to anyone other than Cineworld for providing the protections afforded to their respective clients nor for giving advice in relation to the arrangements described in this document or any other transaction or arrangement referred to in this document.

This document contains or incorporates by reference forward-looking statements which are based on the beliefs, expectations and assumptions of the Board and other members of senior management about the Cineworld Group's business, the Acquisition and the Cineplex Group's business. All statements other than statements of historical fact included in this document may be forward-looking statements. Generally, words such as "will", "may", "should", "could", "estimates", "continue", "believes", "expects", "aims", "targets", "projects", "intends", "anticipates", "plans", "prepares", "seeks" or, in each case, their negative or other variations or similar or comparable expressions identify forward-looking statements. These forward-looking statements reflect the beliefs of the Board and other members of senior management, as well as assumptions made by them and information currently available to them. Although the Board and other members of senior management believe that these beliefs and assumptions are reasonable, by their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

For the avoidance of doubt, nothing in this document (including any forward-looking statement) constitutes a qualification of the working capital statement contained in paragraph 9 of Part VI (Additional Information) of this Circular. Each forward-looking statement speaks only as of the date of the particular statement. Cineworld does not undertake any obligation to update publicly or revise any forward-looking statement as a result of new information, future events or other information, although such forward-looking statements will be publicly updated if required by the Financial Conduct Authority, the Listing Rules and the Disclosure and Transparency Rules, the rules of the London Stock Exchange or otherwise by applicable law.

Percentages in tables have been rounded and accordingly may not add up to 100 per cent. Certain financial data have also been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

Unless otherwise indicated, all references in this document to "US dollars", "USD", "USD\$" or "US\$" are to the lawful currency of the United States. Cineworld prepares its financial statements in US dollars. All references in this document to "Canadian dollars", "CAD", "CAD\$" or "C\$" are to the lawful currency of Canada. Cineplex prepares its financial information in Canadian dollars and the financial information on Cineplex presented in this document is presented in Canadian dollars unless otherwise indicated. Unless otherwise indicated, all references in this document, to "sterling", "pounds sterling", "GBP" and "£" are to the lawful currency of the United Kingdom. Unless otherwise indicated, all references in this document to "euro", "EUR" or "€" are to the lawful currency of the EU.

The average exchange rates of Canadian dollars are shown relative to US dollars below. The rates below may differ from the actual rates used in the preparation of the financial statements and other financial information that appears elsewhere in this document. The inclusion of these exchange rates is for illustrative purposes only and does not mean that the US dollar amounts actually represent such Canadian dollar amounts or that such US dollar amounts could have been converted into Canadian dollars at any particular rate, if at all.

Average exchange rate of Canadian dollars relative to US dollars

Year	Period End	Canadian dollar		
		Average	High	Low
2015	1.3874	1.2790	1.3959	1.1611
2016	1.3439	1.3248	1.4579	1.2530
2017	1.2581	1.2982	1.3749	1.2110
2018	1.3637	1.2961	1.3638	1.2268
2019	1.2991	1.3268	1.3631	1.2990
1 January 2019 to 30 September 2019	1.3236	1.3292	1.3631	1.3027
2020 (through 22 January 2020)	1.3117	1.3038	1.3145	1.2965

Source: Bloomberg

On the Latest Practicable Date, the exchange rate of Canadian dollars relative to US dollars was C\$1 = US\$0.7624.

No statement in this document is intended as a profit forecast or estimate and no statement in this document should be interpreted to mean that earnings per share for the most recent, current or future financial years would necessarily match or exceed the historical published earnings per share.

Neither the content of Cineworld's website nor Cineplex's website, nor the content of any website accessible from hyperlinks on Cineworld's website or Cineplex's website, is incorporated into, or forms part of, this document and investors should not rely on them, without prejudice to the documents incorporated by reference into this document which will be made available on Cineworld's website.

Capitalised terms have the meaning ascribed to them in Part VII (*Definitions*) of this Circular.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Announcement of the Acquisition	16 December 2019
Interim order of the Court in connection with the Plan of Arrangement obtained	9 January 2020
Competition Act Approval received	14 January 2020
HSR Act Approval received	16 January 2020
Publication and posting of this document, the Notice of General Meeting and the Form of Proxy	24 January 2020
Latest time and date for receipt of Forms of Proxy	11:00 a.m. on 7 February 2020
Cineworld General Meeting	11:00 a.m. on 11 February 2020
Cineplex Meeting	4:00 p.m. (Toronto time) on 11 February 2020
Expected date of final order of the Court approving the Plan of Arrangement	18 February 2020
Long Stop Date for Completion	30 June 2020

Unless otherwise stated, references to times in this document and in the expected timetable above are to London time.

Future dates are indicative only and are subject to change by Cineworld, in which event details of the new times and dates will be notified to the Financial Conduct Authority and, where appropriate, Shareholders.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Anthony Bloom <i>Non-Executive Chairman</i> Alicja Kornasiewicz <i>Deputy Chair and Non-Executive Director</i> Moshe (Mooky) Greidinger <i>Chief Executive Officer</i> Israel Greidinger <i>Deputy Chief Executive Officer</i> Nisan Cohen <i>Chief Financial Officer</i> Renana Teperberg <i>Chief Commercial Officer</i> Arni Samuelsson <i>Non-Executive Director</i> Camela Galano <i>Non-Executive Director</i> Dean Moore <i>Non-Executive Director</i> Eric (Rick) Senat <i>Non-Executive Director</i> Helen Weir <i>Non-Executive Director</i> Scott S. Rosenblum <i>Non-Executive Director</i>
Company Secretary	Fiona Smith
Registered Office	8th Floor Vantage London Great West Road Brentford TW8 9AG
Sole Sponsor	Goldman Sachs International Plumtree Court 25 Shoe Lane London EC4A 4AU
Joint Lead Financial Advisers	Merrill Lynch International 2 King Edward St London EC1A 1HQ HSBC Bank plc 8 Canada Square Canary Wharf London E14 5HQ
Legal Advisers (English Law)	Slaughter and May One Bunhill Row London EC1Y 8YY
Legal Advisers (Canadian Law)	McCarthy Tétrault LLP 66 Wellington Street West Suite 5300 TD Bank Tower Box 48 Toronto ON M5K 1E6
Legal Advisers (US Law)	Skadden, Arps, Slate, Meagher & Flom LLP Four Times Square New York 10036-6522

Reporting Accountants

PricewaterhouseCoopers LLP
1 Embankment Place
Charing Cross
London
WC2N 6RH

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

PART I

LETTER FROM THE CHAIRMAN

CINEWORLD GROUP PLC

(Incorporated and registered in England and Wales with registered number 05212407)

Directors:

Anthony Bloom
Alicja Kornasiewicz
Moshe (Mooky) Greidinger
Israel Greidinger
Nisan Cohen
Renana Teperberg
Arni Samuelsson
Camela Galano
Dean Moore
Eric (Rick) Senat
Helen Weir
Scott S. Rosenblum

Registered Office:

8th Floor
Vantage London
Great West Road
Brentford TW8 9AG

24 January 2020

To the holders of Ordinary Shares

Dear Shareholder,

Proposed Acquisition of Cineplex and Notice of General Meeting

1. Introduction

On 16 December 2019, Cineworld and Cineplex announced that they had reached agreement for Bidco, an indirect, wholly-owned subsidiary of Cineworld, to acquire, for cash, all of the issued and outstanding and to be issued Cineplex Shares. The Acquisition will be implemented by way of a statutory plan of arrangement in accordance with the laws of the Province of Ontario, Canada at a price of C\$34 per Cineplex Share (the “**Offer Price**”), which values the entire issued and outstanding and to be issued share capital of Cineplex at C\$2.18 billion (US\$1.66 billion), with an implied enterprise value of C\$2.8 billion (US\$2.1 billion).¹ Based on equity research analyst consensus for Cineplex’s 2019E EBITDA, the Acquisition implies an enterprise valuation multiple of 6.3x EBITDA (including run-rate combination benefits).²

Cineplex is Canada’s largest cinema operator (by number of screens). As at 30 September 2019, it had 1,695 screens in 165 cinemas concentrated in major metropolitan and mid-sized markets in all 10 provinces of Canada. While box office sales constitute Cineplex’s largest single revenue stream, Cineplex also operates businesses in a number of other entertainment and media sectors, including food service, digital commerce, alternative and event-based programming, cinema media, digital advertising and amusement solutions. Cineplex is a corporation existing under the laws of the Province of Ontario and its common shares are traded on the Toronto Stock Exchange under the stock symbol “CGX”. In FY 2018, Cineplex generated total

1 Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

2 2019E EBITDA for Cineplex is based on the consensus of seven equity research analysts as presented on a pre-IFRS 16 basis, including full annualised pre-tax combination benefits of US\$130 million. This is not intended to be, and is not to be construed as, a profit estimate nor should it be interpreted to mean that (i) the future earnings per share, profits, margins or cash flows of the Enlarged Group will necessarily be greater than the historical published earnings per share, profits, margins or cash flows of the Cineworld Group; or (ii) that Cineworld endorses the equity research analyst consensus. The valuation multiple has been calculated using Canadian dollars.

revenues of C\$1.61 billion (US\$1.23 billion) and Adjusted EBITDA of C\$256.4 million (US\$195.5 million).³

The Acquisition will result in Cineworld becoming the leading cinema chain in Canada, where Cineplex is the largest cinema operator by box office revenue and number of screens, with a market share of approximately 75 per cent. by box office revenue as at 30 September 2019. Moreover, the Acquisition will advance Cineworld's position in the highly desirable North American cinema market by enhancing its position with studios and other providers of entertainment content and enabling further economies of scale to be achieved. Following Completion, the Enlarged Group will have 11,193 screens globally and a combined 8,901 screens across the United States and Canada, making it the largest cinema operator in North America.⁴

The Acquisition, related expenses and refinancing of the existing Cineplex debt (the “**Refinancing**”) will be funded by borrowings of approximately US\$2.3 billion, to be raised by utilising the committed Debt Facilities. Further details of the committed Debt Facilities, including the Refinancing, are set out in paragraph 7.1(e) of Part VI (*Additional Information*).

Due to its size, the Acquisition constitutes a Class 1 transaction under the Listing Rules. Cineworld is therefore required to seek the approval of its Shareholders for the Acquisition at a General Meeting. As Completion is conditional on, among certain other requirements, receiving this approval, Shareholders will be asked to vote in favour of the Resolution, allowing Cineworld to proceed with the Acquisition. Accordingly, at the end of this document there is a notice convening a General Meeting to be held at 11:00 a.m. on 11 February 2020 at the Cineworld Cinema in Wandsworth, Southside Shopping Centre, Wandsworth High Street, London SW18 4TF.

I am writing to provide you with an explanation of the background to and reasons for the Acquisition and to explain why the Board considers the Acquisition to be in the best interests of Cineworld and its Shareholders as a whole. The Board unanimously recommends that you vote in favour of the Resolution, as the Directors intend to do in relation to their own holdings which, as at the Last Practicable Date, amounted to approximately 0.2 per cent. of Cineworld's total issued ordinary share capital.⁵ The Major Shareholder has agreed to vote in favour of the Resolution in relation to its holding, which amounts to approximately 27.9 per cent. of Cineworld's total issued ordinary share capital as at the Latest Practicable Date.⁶

You should read the whole of this Circular and not rely solely on the summarised information contained in this Part I (*Letter from the Chairman*).

2. Background to and reasons for the Acquisition

2.1 Background and strategy

Cineworld is an international cinema chain which, as at 1 December 2019, operated 786 cinemas with 9,498 screens in ten different countries. Cineworld offers a variety of movies in different formats using the latest technologies and its strategy is to be “The Best Place to Watch a Movie” by providing the best customer experience, maintaining technological leadership, continuously expanding and upgrading its estate, and training and retaining highly motivated, experienced and loyal staff.

In February 2018, Cineworld completed the highly successful Regal Acquisition, marking Cineworld's entry into the North American cinema market and significantly increasing the size of Cineworld's portfolio. By integrating operating best practice from both sides of the Atlantic, cost synergies are significantly greater and being delivered at a faster pace than originally expected. Total run-rate combination benefits are now expected to be at least US\$190 million following successful contract negotiations and better than anticipated results from revenue initiatives.

3 Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

4 Based on Cineworld's screens as at 1 December 2019 and Cineplex's screens as at 30 September 2019.

5 Not taking into account any interests held by the Major Shareholder or GCH.

6 The Major Shareholder is a wholly-owned subsidiary of GCH. Shares in GCH are held in trust for the benefit of the children of Mooky Greidinger and Israel Greidinger but are not controlled by Mooky Greidinger or Israel Greidinger.

2.2 Rationale for the Acquisition

The Board believes the Acquisition is strategically and financially compelling.

Entry into the stable and attractive Canadian cinema market with a strong market position

Cineworld believes that the Acquisition represents an exciting opportunity to enter the stable and attractive Canadian market. It provides Cineworld with the leadership position in Canada, where Cineplex is the largest cinema operator by both box office revenue and number of screens, with a market share by box office revenue as at 30 September 2019 of approximately 75 per cent.

In 2018, the Canadian box office grossed approximately C\$1,021 million (US\$790 million), with an annual attendance of approximately 98 million (representing approximately 2 per cent. of global box office revenue). Between 2014 and 2018 Canadian box office revenue and average ticket prices grew at compound annual growth rates of 1.9 per cent. and 3.5 per cent. respectively.

Opportunity to deploy Cineworld's operational best practices across the Cineplex exhibition circuit

The Cineworld management team has grown revenue and EBITDA significantly in the period FY 2014 to FY 2018, through a combination of organic growth and successful strategic acquisitions.

This growth has been achieved by deploying Cineworld's operational capabilities to enhance the customer experience, successfully acquiring new sites, introducing proven new technologies, diversifying multiplex and concession offerings, implementing loyalty schemes, enhancing digital engagement with consumers and adopting a highly disciplined approach to costs. In parallel, an ongoing asset rationalisation programme has delivered additional value and enabled further deleveraging following the completion of the Regal Acquisition.

Cineworld believes that Cineplex's exhibition circuit is a highly attractive, well-invested portfolio. It believes that the Cineworld management team can replicate its strategy by applying a number of Cineworld's operational best practices to drive additional performance from Cineplex's cinema portfolio.

Cineworld believes these practices will further improve the customer experience in Canada, generating additional attendance and yield growth. These practices include, for example:

- the ability to introduce Cineworld's successful Unlimited subscription programme, which is already well-established in the UK and has been successfully launched in the US, thus further improving customer loyalty;
- optimisation of sales channels and the online customer interface by leveraging Cineworld's technology platform, for example by the roll-out of reserved seating, with incremental margins;
- enhancing concession offerings through Cineworld's know-how and implementing best practice from the combined businesses;
- increasing advertising revenues by leveraging Cineworld's scale and expertise; and
- achieving further cost efficiencies, with a focus on procurement and utilising the Enlarged Group's scale and relationships with key suppliers.

Cineworld believes that the close alignment between the US and Canadian markets will allow the Enlarged Group to be managed with focus and efficiency without incurring heavy cost overheads.

Highly synergistic transaction with material combination benefits

Cineworld estimates that, following Completion, the Enlarged Group will be able to achieve run-rate annualised pre-tax combination benefits of approximately US\$130 million (excluding one-off implementation costs).

The Acquisition price implies an enterprise value of C\$2.8 billion (US\$2.1 billion)⁷, and a valuation multiple of 6.3x 2019E EBITDA (including combination benefits).⁸

Cineworld expects the combination benefits to consist of:

- approximately US\$65 million from cost efficiencies benefiting from the Enlarged Group's commercial scale, streamlining of functions, infrastructure consolidation and the removal of Cineplex's listing expenses; and
- approximately US\$65 million from business initiatives including the application of operational best practices, the introduction of its subscription programme and additional advertising.

The combination benefits identified reflect both additional benefits and possible cost reductions which are contingent on the Acquisition and could not be achieved independently. Additional savings from North American capital expenditure optimisation are not included.

Cineworld expects that these combination benefits will be phased with approximately US\$120 million realised by the end of FY 2020⁹ (on a run-rate basis) and US\$130 million in FY 2021, and expects to incur pre-tax costs of approximately US\$20 million to implement the combination benefits (split between FY 2020 and FY 2021). These pre-tax costs are mostly related to cost initiative phasing and are built up from a detailed analysis of each of the cost efficiencies and business initiatives identified.

The Cineworld management team is confident in its ability to realise full value for all Shareholders following the Acquisition, particularly given its existing track record of delivering synergistic combination benefits. Following the Regal Acquisition, Cineworld now expects to achieve total run-rate merger benefits of at least US\$190 million from, for example, successful contract negotiations and better than anticipated results from revenue initiatives. This represents an increase from the US\$100 million of merger benefits that were originally expected when the Regal Acquisition was announced in December 2017.

Compelling financial impact of the Acquisition

The Acquisition is expected to be double-digit accretive to earnings and free cash flow per share in the first full year following Completion (FY 2021).

Cineworld's return on invested capital associated with the Acquisition is expected to exceed its cost of capital in FY 2020.¹⁰

Cineworld plans to maintain its existing dividend policy (with a pay-out ratio of approximately 55 per cent., as calculated on a pre-IFRS 16 basis) following Completion, underpinned by the future prospects of the Enlarged Group.

If Completion were to have occurred at the end of FY 2019, it is estimated, based on the consensus of equity research analyst forecasts, that the leverage ratio of the Enlarged Group would be approximately 4.0x net debt / 2019E EBITDA (on a pre-IFRS 16 basis and assuming that the full annualised pre-tax combination benefits of US\$130 million were taken into account in calculating EBITDA)¹¹ with strong cash generation driving future deleveraging.

7 Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

8 2019E EBITDA for Cineplex is based on the consensus of seven equity research analysts as presented on a pre-IFRS 16 basis, including full annualised pre-tax combination benefits of US\$130 million. This is not intended to be, and is not to be construed as, a profit estimate nor should it be interpreted to mean that (i) the future earnings per share, profits, margins or cash flows of the Enlarged Group will necessarily be greater than the historical published earnings per share, profits, margins or cash flows of the Cineworld Group; or (ii) that Cineworld endorses the equity research analyst consensus. The valuation multiple has been calculated using Canadian dollars.

9 Pre-tax combination benefits of approximately US\$50m for 9 months in-year benefit in 2020.

10 ROIC is calculated as ((Cineplex EBIT contribution + run-rate combination benefits)*(1 - Cineplex standalone forecast effective tax rate)) divided by Cineplex acquisition EV.

11 2019E EBITDA and net debt for the Enlarged Group are based on the consensus of 15 equity research analysts' forecasts for Cineworld and seven equity research analysts' forecasts for Cineplex, in each case, as presented on a pre-IFRS 16 basis, including full annualised pre-tax combination benefits of US\$130 million, the fully diluted equity value of Cineplex and applicable

Cineworld is targeting leverage to return towards 3x net debt / EBITDA by the end of 2021 (on a pre-IFRS 16 basis).¹² The deleveraging achieved following completion of the Regal Acquisition, from net debt of US\$4.0 billion in March 2018 to US\$3.3 billion in June 2019 (a reduction in net debt of US\$0.7 billion), supports Cineworld's belief in both the ability of management to achieve reductions in debt and the strength of the inherent cash flows of the business.

Cineworld's expectations regarding these financial effects are based upon the realisation of combination benefits on the basis described above and do not take into account any exceptional restructuring costs, which are not expected to exceed US\$20 million.

Amusement and Leisure and Digital Media businesses

The Acquisition also includes Cineplex's Amusement and Leisure and Digital Media businesses.

The Amusement and Leisure business consists of two operating segments: Amusement Solutions (gaming and vending equipment) and Location Based Entertainment (entertainment restaurants and centres). Cineworld believes this business is capable of attracting a growing customer base within the Millennial and Gen Z populations as an increased share of wallet spend is directed towards experience-based entertainment.

The Digital Media business is a digital place-based business that offers strategic expertise, content creation, data analytics and executional innovation. It benefits from favourable industry dynamics and growth prospects given its focus on the out-of-home space that offers exposure to the growing digital advertising market.

These non-exhibition businesses (excluding Cineplex's Cinema Media segment) contributed approximately 20 per cent. of Cineplex Group revenue in FY 2018.¹³

With a focus on deleveraging, Cineworld will remain disciplined in its overall allocation of capital and management resources, and will carefully consider the long-term strategic fit of these attractive businesses within the Cineworld portfolio.

Opportunity to acquire another cinema operator of scale in an attractive market

Amidst the continued wave of consolidation in the cinema exhibition and general entertainment space, Cineworld believes that the Acquisition represents a compelling opportunity to acquire a leading cinema operator in an attractive and complementary market.

Cineworld has maintained a strategy of identifying and pursuing synergistic acquisition opportunities in appropriate markets. This included the Regal Acquisition, which made Cineworld one of the largest cinema operators in the world, and previously the acquisition of Cinema City International. Cineworld believes the Acquisition represents a continuation of this successful strategy in a market that is closely aligned with Cineworld's core US business.

transaction fees. This is not intended to be, and is not to be construed as, a profit estimate nor should it be interpreted to mean that (i) the future earnings per share, profits, margins or cash flows of the Enlarged Group will necessarily be greater than the historical published earnings per share, profits, margins or cash flows of the Cineworld Group; or (ii) that Cineworld endorses the equity research analyst consensus.

12 2021E EBITDA and net debt for the Enlarged Group is based on the consensus of 15 equity research analysts' forecasts for Cineworld and seven equity research analysts' forecasts for Cineplex, in each case, as presented on a pre-IFRS 16 basis, and including approx. US\$130 million run-rate annualised pre-tax combination benefits. This is not intended to be, and is not to be construed as, a profit forecast nor should it be interpreted to mean that (i) the future earnings per share, profits, margins or cash flows of the Enlarged Group will necessarily be greater than the historical published earnings per share, profits, margins or cash flows of the Cineworld Group; or (ii) that Cineworld endorses the equity research analysts' consensus.

13 Approximate figures provided to within 5% margin of error.

Cineworld would become the leading North American cinema operator

The Acquisition will advance Cineworld's position in the North American cinema market, following the completion of the Regal Acquisition in February 2018, providing further economies of scale, enhancing its relationships with content creators as well as enabling Cineworld to leverage its deep understanding of the North American market to drive operational best practices and efficiencies across the Enlarged Group.

Following Completion, the Enlarged Group will have 11,193 screens globally and a combined 8,901 screens across the United States and Canada, making it the leading operator in North America.¹⁴

Cineworld strongly believes in the long-term fundamentals of the cinema market

Cineworld believes that the Enlarged Group will be well positioned in a sector with long-term structural resilience and a compelling re-rating opportunity when comparing current valuation multiples to long-term averages.

Cineworld strongly believes in the attractiveness and long-term popularity of the cinema market which continues to provide value and compares favourably with alternative forms of out-of-home entertainment such as theatre, concerts and sports events.

While 2019 North American box office did not quite reach 2018's record high of US\$11.9 billion, it is the second-highest annual domestic box office gross ever behind 2018, totalling approximately US\$11.4 billion. The top three grossing movies of the year were *Avengers: Endgame*, *The Lion King* and *Toy Story 4*. 2019 is the fifth consecutive year in which North American box office revenue has exceeded US\$11 billion. There is a compelling pipeline of anticipated box office hits due to be released throughout 2020 and 2021 and Cineworld believes that the recent increase in the level of investment in content will drive box office quality and improve the diversification of that content, underscoring cinema's value to the consumer as part of their out-of-home entertainment experience.

In addition, there is significant growth potential from further sector innovation, including premium formats, concession offerings and associated pre- and post-film experiences, customer loyalty schemes and digital customer engagement.

Cineworld believes that the current market dynamics make this an ideal time for the Acquisition, with Cineworld's expertise in the sector enabling it to deliver long-term benefits from its ownership of Cineplex.

3. Summary of the principal terms of the Acquisition

Acquisition Agreement

On 15 December 2019, Cineworld, Bidco and Cineplex entered into the Acquisition Agreement, pursuant to the terms of which Cineworld agreed to acquire (through its indirectly wholly-owned subsidiary, Bidco), for cash, all of the issued and outstanding and to be issued Cineplex Shares on the terms and subject to the conditions of the Acquisition Agreement. The Acquisition will be implemented by way of a statutory plan of arrangement in accordance with the laws of the Province of Ontario at a price of C\$34 per Cineplex Share, which values the fully diluted share capital of Cineplex at C\$2.18 billion (US\$1.66 billion), with an implied enterprise value of C\$2.8 billion (US\$2.1 billion).¹⁵ Following implementation of the Plan of Arrangement, Bidco will acquire all of the issued and outstanding and to be issued Cineplex Shares and following Completion, Cineplex will be an indirect, wholly-owned subsidiary of Cineworld.

Shareholder approvals

Due to its size, the Acquisition is classed as a Class 1 transaction under the Listing Rules. As such, Cineworld is seeking the approval of Shareholders for the Acquisition at the General Meeting, which has been convened for 11:00 a.m. on 11 February 2020 at the Cineworld Cinema in Wandsworth, Southside Shopping Centre, Wandsworth High Street, London SW18 4TF. Shareholders will be asked to vote in favour of the Resolution.

¹⁴ Based on Cineworld's screens as at 1 December 2019 and Cineplex's screens as at 30 September 2019.

¹⁵ Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

The Directors intend to vote in favour of the Resolution in relation to their beneficial holdings, which, as at the Latest Practicable Date, amounted to approximately 0.2 per cent. of Cineworld's existing issued ordinary share capital.¹⁶ The Major Shareholder has agreed to vote in favour of the Resolution in relation to its holding, which amounts to approximately 27.9 per cent. of Cineworld's existing issued ordinary share capital as at the Latest Practicable Date.

The Acquisition also requires the approval of Cineplex Shareholders by not less than two-thirds of the votes cast by holders of Cineplex Shares present in person or represented by proxy and entitled to vote at the Cineplex Meeting. Each of the Cineplex Directors has agreed to vote their Cineplex Shares in favour of the Arrangement Resolution at the Cineplex Meeting, which amount to approximately 0.7 per cent. of the issued and outstanding Cineplex Shares as at the Latest Practicable Date.

Conditions

Completion under the Acquisition Agreement is subject to, and can only occur upon satisfaction or (to the extent permitted by law) waiver of, a number of outstanding conditions, including, but not limited to:

- (a) Cineworld Shareholder Approval having been obtained;
- (b) Cineplex Shareholder Approval having been obtained;
- (c) Investment Canada Act Approval having been obtained;
- (d) no Cineplex Material Adverse Event having occurred; and
- (e) the Final Order to approve the Arrangement having been obtained from the Court.

Termination fees

The Acquisition Agreement contains reciprocal break fee arrangements, pursuant to which Bidco may be required to pay Cineplex a break fee of up to £28.3 million (payable in Canadian dollars) (approximately C\$49.9 million¹⁷) or Cineplex may be required to pay Bidco a break fee of up to C\$55.4 million (approximately US\$42.2 million¹⁸), if the Acquisition Agreement is terminated under certain circumstances. The Major Shareholder has also agreed to pay an additional break fee of up to £28.3 million (payable in Canadian dollars) (approximately C\$49.9 million¹⁹) to Cineplex if the Acquisition Agreement is terminated under certain circumstances.

Further details regarding the break fee arrangements and the other material terms contained within the Acquisition Agreement are set out in Part III (Principal Terms of the Acquisition).

4. Financing of the Acquisition

The consideration in respect of the Acquisition will be financed entirely by the committed Debt Facilities of approximately US\$2.3 billion.

Further details of the committed Debt Facilities are set out in paragraph 7.1(e) of Part VI (*Additional Information*).

5. Information on the Cineplex Group

Cineplex is Canada's largest cinema operator, with approximately 69 million theatre admissions annually. As at 30 September 2019, Cineplex had 1,695 screens in 165 cinemas concentrated in major metropolitan and mid-sized markets across all 10 provinces of Canada. While box office sales constitute the core of Cineplex's

16 Not taking into account any interests held by the Major Shareholder or GCH.

17 Based on the spot GBP/CAD foreign exchange rate published by Bloomberg at 11:30:00 p.m. (Toronto Time) on 15 December 2019 in accordance with the terms of the Acquisition Agreement.

18 Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

19 Based on the spot GBP/CAD foreign exchange rate published by Bloomberg at 11:30:00 p.m. (Toronto Time) on 15 December 2019 in accordance with the terms of the Acquisition Agreement.

business and its largest individual revenue stream, Cineplex also generates revenue from a number of other entertainment and media sectors, including food service, digital commerce (CineplexStore.com), alternative and event-based programming (Cineplex Events), cinema media (Cineplex Media), digital place-based media (Cineplex Digital Media) and amusement solutions (Player One Amusement Group) as described in more detail below.

Cineplex operates its cinema estate using its Cineplex Odeon, SilverCity, Galaxy Cinemas, Scotiabank Theatres, Cineplex Cinemas, Cineplex VIP Cinemas, Famous Players and Cinema City brands. Cineplex's cinema estate includes a range of premium offerings such as 3D, 4DX, UltraAVX, VIP Cinemas, IMAX, D-BOX, ScreenX and "Cineplex Clubhouse" which, in aggregate, accounted for 44.1 per cent. of Cineplex's total box office revenues in FY 2018. Cineplex is currently implementing enhancements at a number of sites across its cinema estate including the addition of all-recliner seating at selected venues.

Cineplex's portfolio of businesses consists of three principal divisions: (i) Film Entertainment and Content; (ii) Media; and (iii) Amusement and Leisure.

Cineplex's Film Entertainment and Content division comprises box office sales, its cinema food and drink (including, in certain cinemas, alcohol) service (with internally developed brands such as "Outtakes", "Poptopia" and a joint venture interest in "YoYo's Yoghurt Café" as well as third-party branded fast food outlets including "Tim Hortons" and "Pizza Pizza"), alternative and event-based programming (such as screenings of concerts, sports events and foreign-language films) and digital commerce (including online film purchases and rentals).

Cineplex's Media division consists of its Cinema Media business (such as advertising sales for Cineplex's own-brand website, mobile app and print magazine and sales of pre-film advertising at Cineplex cinemas) and its digital place-based media business (which designs, installs and operates digital signage networks across a range of public venues). Cineplex's Amusement and Leisure division includes its Player One Amusement Group business (one of the largest distributors and operators of amusement, gaming and vending equipment in North America) and location-based entertainment sites (operated under various brands including "The Rec Room" and "Playdium"). With a focus on deleveraging, Cineworld will remain disciplined in its overall allocation of capital and management resources, and will carefully consider the long-term strategic fit of these attractive businesses within the Cineworld portfolio.

In FY 2018, 75.5 per cent. of Cineplex's total revenue was generated by its Film Entertainment and Content division, with its Media division contributing 10 per cent. and its Amusement and Leisure division generating the remaining 14.5 per cent. of total revenue.

In addition, Cineplex holds a 50 per cent. interest in the SCENE loyalty programme which is operated under a joint venture agreement with Scotiabank. This allows members to earn and redeem points for purchases at Cineplex cinemas as well as at location-based entertainment sites within Cineplex's Amusement and Leisure division, online at the Cineplex store and at certain other locations operated by SCENE programme partners. The SCENE loyalty programme has enabled Cineplex to gather valuable data on its members over its 10-year history, facilitating the implementation of targeted marketing programmes and offers to specific subsets of its membership base. As at 30 September 2019, the SCENE loyalty programme numbered approximately 10.1 million members.

As at 31 December 2018, Cineplex employed approximately 13,000 people across Canada and the United States, with approximately 12 per cent. of its workforce consisting of full-time employees and approximately 88 per cent. consisting of part-time employees. During FY 2018, Cineplex generated total revenue of C\$1.61 billion (US\$1.23 billion) and Adjusted EBITDA of C\$256.4 million (US\$195.5 million). As at 30 September 2019, Cineplex had gross assets of C\$3.03 billion (US\$2.31 billion).²⁰

20 Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

6. Current trading and outlook

6.1 Cineworld

On 3 December 2019, Cineworld released a trading update for the period from 1 January 2019 to 1 December 2019, extracts of which are set out below:

- *Integration benefits from Regal greater than anticipated, with estimated run-rate synergies increased from US\$150m to US\$190m.*
- *Successful launch of Unlimited program in the US in July 2019 generating positive impact on cash flow and box office performance.*
- *Given weaker box office, partially offset by strong execution of synergies and revenue initiatives, trading for the full year is expected to be slightly below management's expectations.*

Box Office

As anticipated, the box office performance for the reported period was slower than the comparative period in 2018 reflecting the phasing of major releases and postponement of some highly anticipated movies to 2020. The second half of the year started strongly with the release of "The Lion King", "Spider-Man: Far from Home", the record-breaking "Joker" and recently "Frozen 2". There are still two major blockbusters to be released in 2019 with "Jumanji: The Next Level" and "Star Wars: The Rise of Skywalker" in December.

Outlook

Despite a challenging comparative period, Group performance has been resilient across the portfolio. We remain focused on operational performance, cash flow generation and de-leveraging which will be achieved within our current capital allocation framework with no change to the dividend policy.

The impact of the major releases in December is expected to continue the recent positive box office trend. However given the weaker full year box office, partially offset by strong execution of synergies and revenue initiatives, management expects trading for the full year²¹ to be slightly below management's expectations.

The Directors can confirm that Cineworld's financial outlook as described above remains correct as at the date of this document (see paragraph 11 of Part VI (*Additional Information*) for further information).

6.2 Cineplex

On 14 November 2019 Cineplex released its Q3 2019 results. For the nine months ended 30 September 2019, Cineplex reported total revenue growth of 3.2 per cent. and Adjusted EBITDA (stated on a pre-IFRS 16 basis) growth of 0.6 per cent.

The revenue breakdown for this period was as follows:

Source of Revenue	% Change vs. Prior Period (Q3 YTD 2018)
Box office revenues	-3.4%
Food service revenues	+1.0%
Media revenues	+21.3%
Amusement revenues	+14.7%
Other revenues	+24.0%
Total revenues	+3.2%

With the exception of box office revenues, Cineplex reported record results for all revenue lines for the first nine months of 2019.

During the first nine months of 2019, attendance decreased by 5.3 per cent. as a result of the weaker film slate in the first quarter of 2019 compared to the first quarter of 2018. The first quarter of 2018 included the

²¹ For the full year ending 31 December 2019.

success of *Black Panther* which became the third highest grossing film of all time in North America, and the carryover strength of *Star Wars: The Last Jedi* and *Jumanji: Welcome to the Jungle* from the fourth quarter of 2017.

Although Cineplex has not yet released its results for the fourth quarter of 2019, Canadian industry box office revenue is estimated to be up marginally in the fourth quarter of 2019 compared to the third quarter of 2019 and Cineplex has a market share of approximately 75 per cent. of the Canadian movie exhibition industry.²² During the fourth quarter of 2019, Cineplex opened one new theatre location, one Playdium location and continued to add premium screens with one additional VIP location, four additional 4DX screens and five additional ScreenX screens. In addition, Cineplex announced one additional VIP renovation, an additional Playdium location and introduced the *Junxion* concept which includes a movie theatre, dining destination and entertainment complex all in one location. From a food service perspective, Cineplex continued to expand alcohol beverage service to additional theatres in provinces where alcohol sales are permitted and announced an expanded partnership with *Skip the Dishes* that will add expanded home delivery. The Digital Place-Based Media business continued to add new locations with previously announced customers. With the exception of any expenses related to the Acquisition and stock-based compensation expenses as a result of fluctuations in Cineplex's stock price during the fourth quarter of 2019, Cineplex is not anticipating any other material negative trends.

7. Costs and risks relating to the Acquisition

Whilst the Board considers the Acquisition to be in the best interests of Cineworld and its Shareholders as a whole there are a number of potential risks and uncertainties that Shareholders should consider before voting on the Resolution. Your attention is drawn to the further discussion of certain of these risks and uncertainties set out in Part II (*Risk Factors*).

In particular, following Completion, Cineplex will be integrated into the Cineworld Group and, although Cineworld is putting in place a detailed integration plan, as with any integration exercise this process may present both expected and unexpected challenges and costs. In particular, Cineworld expects to incur costs in respect of the team put in place to implement the integration process. In addition, it is possible that, even after integration of the businesses, the expected benefits of the Acquisition might take longer than anticipated to realise or might not be realised.

As set out above, the Enlarged Group will have further indebtedness due to the new financing under the committed Debt Facilities and will be required to service interest payments in respect of this increased indebtedness.

Cineworld will also incur a number of other customary costs in relation to the Acquisition more generally (including legal, accounting, financial adviser, sponsor and other transaction fees), some of which will be payable regardless of whether the Acquisition reaches Completion.

8. General Meeting

Set out at the end of this document is a notice convening the General Meeting which is to be held at 11:00 a.m. on 11 February 2020 at the Cineworld Cinema in Wandsworth, Southside Shopping Centre, Wandsworth High Street, London SW18 4TF at which the Resolution will be proposed. The Resolution is set out in full at the end of this document in the Notice of General Meeting. As a Class 1 transaction for the purposes of the Listing Rules, the Acquisition may only be completed if it is first approved by Shareholders. The Resolution requires the approval of Shareholders representing a simple majority of the votes cast (in person or by proxy) at the meeting in order to be passed.

²² By box office revenue as at 30 September 2019.

9. Action to be taken

Whether or not you propose to attend the General Meeting in person, you are requested to:

- (A) complete, sign and return the enclosed Form of Proxy in accordance with the instructions contained therein and contained in this Circular so as to be received by the Registrars by no later than 11:00 a.m. on 7 February 2020;
- (B) submit your proxy electronically at www.signalshares.com using your Investor Code, which can be found on your share certificate or dividend notification, by no later than 11:00 a.m. on 7 February 2020; or
- (C) if you hold shares through CREST you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to the Registrars so that it is received by no later than 11:00 a.m. on 7 February 2020.

The return of a completed Form of Proxy, electronic proxy appointment or CREST Proxy Instruction will not prevent you from attending the General Meeting and voting in person if you wish to do so.

10. Financial advice

The Board has received financial advice from BofA Securities and HSBC in relation to the Acquisition. In providing their financial advice to the Board, BofA Securities and HSBC have relied upon the Board's commercial assessment of the Acquisition.

11. Recommendation

In the Board's opinion, the Acquisition is in the best interests of Shareholders as a whole. Accordingly, the Board unanimously recommends Shareholders to vote in favour of the Resolution to be proposed at the General Meeting, as the Directors intend to do in respect of their own beneficial shareholdings of Ordinary Shares, representing approximately 0.2 per cent. of Cineworld's issued ordinary share capital as at the Latest Practicable Date.²³

We are pleased that the Major Shareholder, which holds 27.9 per cent. of Cineworld's total issued ordinary share capital as at the Latest Practicable Date, has agreed to vote in favour of the Resolution in relation to its holding.

Yours sincerely,

Anthony Bloom
Chairman

²³ Not taking into account any interests held by the Major Shareholder or GCH.

PART II

RISK FACTORS

Prior to making any decision to vote in favour of the Resolution at the General Meeting, Shareholders should carefully consider, together with all other information contained in this document, the specific risk factors described below.

Cineworld considers these to be the known material risk factors relating to, or which will otherwise be impacted by, the Acquisition for Shareholders to consider. These should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. There may be other risks of which the Board is not aware or which it believes to be immaterial which may, in the future, be connected to the Acquisition and have a material and adverse effect on Cineworld's and/or Cineplex's, and, following Completion, the Enlarged Group's business, financial condition, results of operations or future prospects.

The risks described below are only those which relate to, or which will otherwise be impacted by, the Acquisition. Note that the risk factors are set out in order of materiality within each section.

1. RISKS RELATED TO THE ACQUISITION

The Acquisition is conditional upon certain conditions which may not be satisfied.

Completion under the Acquisition Agreement is subject to, and can only occur upon satisfaction or (to the extent permitted by law) waiver of, a number of conditions, including but not limited to: (i) Cineworld Shareholder Approval; (ii) Cineplex Shareholder Approval; (iii) the Final Order having been obtained from the Court; (iv) subject to certain exceptions, no Cineplex Material Adverse Event having occurred; and (v) various regulatory consents, such as Investment Canada Act Approval, having been obtained. Although Cineworld and Cineplex have certain obligations in relation to the satisfaction of the conditions to the Acquisition under the Acquisition Agreement, these conditions may not be fulfilled (or waived, where capable of being waived) and the Acquisition may therefore not be completed. Bidco has agreed to pay a termination fee of up to £28.3 million (payable in Canadian dollars) (approximately C\$49.9 million²⁴) to Cineplex if the Acquisition Agreement is terminated in certain circumstances, including if the Acquisition Agreement is terminated by Cineplex, Cineworld or Bidco because Cineworld Shareholder Approval is not obtained or because the Board makes a Cineworld Change in Recommendation.

Acquisition-related costs may exceed Cineworld's expectations.

Cineworld expects to incur costs in relation to the Acquisition, including integration and post closing costs in order to successfully combine the operations of Cineworld and Cineplex. The actual costs of the integration process may exceed those estimated and there may be further additional and unforeseen expenses incurred in connection with the Acquisition. In addition, Cineworld will incur legal, accounting, financing and transaction fees and other costs relating to the Acquisition, some of which are payable whether or not the Acquisition is completed.

The Directors believe that integration and Acquisition costs will be at least partially offset by the combination benefits achievable in the first year following Completion as a result of the Acquisition, although these combination benefits may not be achieved in the short term or at all, particularly if the Acquisition is delayed or is not completed. These factors could materially adversely affect the Enlarged Group's results of operations.

The Enlarged Group may experience difficulties in integrating the existing businesses carried on by Cineworld and Cineplex.

Cineworld and Cineplex currently operate and, until Completion, will continue to operate, as two separate and independent businesses. Following Completion, these two separate businesses will be integrated and the

²⁴ Based on the spot GBP/CAD foreign exchange rate published by Bloomberg at 11:30:00 p.m. (Toronto Time) on 15 December 2019 in accordance with the terms of the Acquisition Agreement.

success of the Enlarged Group will depend, in part, on the effectiveness of the integration process and the ability of the Enlarged Group to realise the anticipated benefits and cost savings from combining the respective businesses. Some of the potential challenges in combining the businesses may not become known until after Completion. In addition, Cineworld could be required to give certain undertakings and commitments regarding its future plans in Canada generally or for Cineplex specifically to satisfy the relevant Canadian governmental authorities that the Acquisition is likely to be of net benefit to Canada in order to obtain Investment Canada Act Approval. Such undertakings or commitments could limit the commercial and operational flexibility of the Enlarged Group, which might in turn have an adverse effect on the integration of the Cineworld and Cineplex businesses.

The process of integrating the businesses could potentially lead to the interruption of the existing operations of the businesses, or a loss of customers or key personnel, which could in turn have an adverse effect on the business, results of operations or financial condition of the Enlarged Group. Any delays or difficulties encountered in connection with the integration of the businesses may also lead to reputational damage to the Enlarged Group.

The Enlarged Group may not realise, or it may take longer than expected to realise, the perceived benefits and combination benefits of the Acquisition.

The Enlarged Group may be unable to achieve the anticipated benefits and combination benefits that Cineworld expects will arise as a result of the Acquisition as quickly or to the extent anticipated or at all. Cineworld believes that the consideration for the Acquisition is justified in part by the business growth opportunities, margin benefits, cost savings and other combination benefits it expects to achieve by combining its operations with Cineplex. The anticipated combination benefits have been supported by a conservative benefit and cost model, in conjunction with the experience of Cineworld management from prior transactions. However, these expected benefits may not materialise, and other assumptions upon which Cineworld determined the consideration payable for Cineplex may prove to be incorrect. To the extent that Cineworld incurs higher integration costs or achieves lower margin benefits or cost savings than expected, the Enlarged Group's results of operations and financial condition may be negatively impacted. It could also adversely affect the services that each of Cineworld and Cineplex currently provide, and those that the Enlarged Group will provide going forward. This could have an adverse effect on relationships with customers, film distributors, employees, suppliers and other market participants.

The terms of the financing arrangements of the Enlarged Group may limit its commercial and financial flexibility.

The commercial and financial flexibility of Cineworld and Cineplex is currently restricted by certain covenants under the terms of their respective financing facilities and, following the Acquisition, the Enlarged Group will be restricted by certain covenants under the terms of the Debt Facilities. These covenants include customary restrictions relating to incurring indebtedness and liens, making investments and acquisitions, effecting mergers and asset sales and changes to business, prepaying indebtedness and paying dividends. Any inability to exploit commercial opportunities as a result of such covenants may have a material adverse effect on Cineworld, Cineplex or, following the Acquisition, the Enlarged Group.

Following the Acquisition, the Enlarged Group will have substantial debt obligations in relation to its borrowings, which will be greater than the aggregate of those under which each of Cineworld and Cineplex is currently operating. As a result, the Enlarged Group will have correspondingly higher debt service charges. Such charges could also increase due to higher interest rates, whether as a result of market driven increases to floating interest rates or otherwise, and due to more stringent borrowing requirements, whether mandated by law or required by lenders, and may adversely affect the Enlarged Group's profitability, particularly if any hedging instruments used are not completely effective and the Enlarged Group is not able to extend or renew such instruments.

Risks of executing the Acquisition could cause the market price of the Ordinary Shares to decline.

The market price of Ordinary Shares may decline as a result of the Acquisition if, among other reasons, the integration of Cineplex's business is delayed or unsuccessful, Cineworld does not achieve the expected

benefits of the Acquisition as quickly or to the extent anticipated or at all, the effect of the Acquisition on Cineworld's financial results is not consistent with the expectations of investors, or Shareholders sell a significant number of Ordinary Shares after Completion.

2. RISKS RELATING TO THE BUSINESS AND INDUSTRY IN WHICH CINEWORLD AND CINEPLEX OPERATE

Dependence on third party film production and performance.

The largest source of revenue for both Cineworld and Cineplex is, and is expected to continue to be, generated by box office sales, which represented 60.8 per cent. and 44.9 per cent. of the revenue of Cineworld and Cineplex, respectively, in FY 2018. Cineworld and Cineplex license newly released, first run films and, as a result, their businesses and results of operations depend heavily on the continued availability, diversity, quantity, appeal and performance of films in the markets in which Cineworld and Cineplex operate.

The revenue generated by Cineworld and Cineplex from box office sales may be materially adversely affected by a number of factors relating to the films available, including:

- there being fewer or no major films to drive cinema admissions;
- a major film not performing at the box office in line with expectations;
- a major film being released late;
- disruption in the production of films;
- a reduction in the marketing efforts of the major studios and distributors;
- major films being released at the same time as competing films or other events; or
- major films not being released during the key summer and year end holiday seasons or, in the case of children's films, during the school holidays.

In addition, a significant change in the type and breadth of films offered by film studios may adversely affect admission levels of various demographic bases of the film going audience, which could have an adverse effect on box office revenue.

Following the Acquisition, the Enlarged Group will have increased exposure to these risks, and if any of these risks crystallise it could have an adverse effect on the business and results of operations of the Enlarged Group.

Dependence on third party film distributors and on existing distribution agreements between film studios and their own distributors to license films.

Cineworld and Cineplex rely on third party distributors of films, over whom they have no control, to obtain the rights to some of the films that they exhibit. Film distributors license films to cinema operators, including Cineworld and Cineplex. The film distribution business is dominated by a number of Hollywood film studios and is highly concentrated in the United States; films distributed by Cineworld's top seven film distributors accounted for approximately 88 per cent. of Cineworld's box office revenues and Cineplex's top seven film distributors accounted for approximately 88 per cent. of Cineplex's box office revenues during FY 2018.

If Cineworld and Cineplex are unable to obtain a licence from one or more major film distributors for a particular territory or to do so on favourable terms, or if one or more agreements or licences is terminated, it could have a material adverse effect on the business or results of operations of the Enlarged Group. Given Cineplex's high dependence on a small number of film distributors, the Enlarged Group will have greater exposure to these risks as a result of the Acquisition.

Revenue from retail sales is an important contributor to the profits of Cineworld and Cineplex.

Retail sales of food and drink represent the largest source of revenue after box office receipts for both Cineworld and Cineplex, representing 27.9 per cent. and 29.4 per cent. of Cineworld and Cineplex's total

revenues, respectively, during FY 2018. Retail sales generally fluctuate in line with admissions and the type of film on show, and admissions may not increase or may not be maintained at the current level. Moreover, retail spend per person may decrease due to changes in consumer preferences, decreased disposable income or other economic and cultural factors, such as the perceived disparity between the price at which such items are sold in cinemas as compared to external vendors, which are often located in close proximity to cinemas. In addition, if any of the governments in the territories in which Cineworld and Cineplex are active chooses to, as a result of public concerns over diet and health or environmental or other issues, introduce regulations which impact the marketing, advertising, sale or consumption of the food and drink that are sold in cinemas (for example, the “Soft Drinks Industry Levy” introduced in the United Kingdom in 2018 and the proposals to ban single-use plastics currently being considered by regulatory authorities in the United Kingdom, EU and Canada respectively) and Cineworld and Cineplex are unable to respond effectively with alternatives, this could lead to a decline in retail sales. A decrease in retail revenue could have a material adverse effect on the business and results of operations of Cineworld and Cineplex. Given that retail sales of food and drink represent a higher proportion of revenue of Cineplex’s business than of Cineworld’s existing business, the Enlarged Group will have a higher exposure to these risks following the Acquisition.

Sourcing, distribution and related supply chains are an important part of ensuring the ongoing profitability of retail sales.

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

- Substantially all of Cineplex’s non-alcohol beverage concessions are products supplied by one major beverage company. If this relationship were to be disrupted, Cineplex may be forced to negotiate a substitute arrangement that could be less favourable to Cineplex than the current arrangement. Any such disruption could therefore increase the cost of concessions and harm Cineplex’s operating margins, which may adversely affect its business and results of operations.
- Cineplex relies on one major supplier to source popcorn seed, and has entered contracts with this supplier to guarantee a fixed supply. As crop yields can be affected by drought or other environmental factors, the supplier may be unable to fulfil the whole of its contractual commitments, requiring Cineplex to source the remaining needed corn product from other suppliers potentially at a higher cost.

These higher costs could lead to a decrease in retail profitability of Cineplex, which, following the Acquisition, could have a material adverse effect on the business and results of operations of the Enlarged Group.

Risk of decrease in advertising revenues.

Advertising and media revenues accounted for approximately 5 per cent. and approximately 10 per cent. of the revenues of Cineworld and Cineplex respectively in FY 2018. Advertising revenue is partially linked to the level of admissions and the number of cinemas, and as such it may decrease in the event that admissions do not meet a specified threshold. Advertising revenue may also be affected by overall demand for advertising and competitive pressure from other end-markets for a share of advertising budgets. In addition, traditional forms of advertising revenue may be adversely affected by increased demand for alternative means of advertising, such as via mobile devices or on social media.

Cineplex also has numerous large media and digital place-based media customers, the loss of which could impact Cineplex’s results. There is no guarantee that Cineplex could replace the revenues generated by these large customers if their business was lost, which could have a negative impact on Cineplex’s profitability.

Any substantial decline in the advertising or media revenue of Cineworld or Cineplex could have a material adverse effect on their business and results of operations, and following the Acquisition, on the business and operations of the Enlarged Group.

Cineplex's entertainment and leisure operations are subject to significant competitive pressures.

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

3. ECONOMIC RISKS AFFECTING CINEWORLD, CINEPLEX AND, FOLLOWING THE ACQUISITION, THE ENLARGED GROUP

Exposure to foreign currency exchange rate risk could affect results of operations and comparability of results between financial reporting periods.

Cineworld and, following the Acquisition, the Enlarged Group's business operations are subject to risks associated with fluctuations in currency exchange rates. Cineworld's reporting currency is US dollars. A large portion of Cineworld's revenue, assets and liabilities is denominated in currencies other than US dollars, including pounds sterling, the euro, Israeli shekel, Polish zloty, Hungarian forint, Bulgarian lev, Romanian leu and Czech koruna. Cineplex's revenue, assets and liabilities are largely denominated in Canadian dollars, meaning that, following the Acquisition, the Enlarged Group will also be exposed to a fluctuation in the exchange rate between the US dollar and the Canadian dollar. Changes in exchange rates between the US dollar and Canadian dollar will therefore affect the value of reported earnings generated by Cineplex and the value of those assets and liabilities of the Enlarged Group denominated in Canadian dollars. Such changes may also have an impact on operating expenses to the extent that such operating expenses are in Canadian dollars and financing is obtained by the Enlarged Group in a different currency or the Enlarged Group's principal revenues are generated in a different currency.

Cineworld and Cineplex are subject to risks relating to leases.

A substantial number of Cineworld's and Cineplex's cinemas are located on property that is leased, and rental costs represent a substantial portion of their cost of sales. Such leasehold interests are generally subject to periodic rent reviews, lease expirations, termination for default and renegotiations. As a result, Cineworld and Cineplex are susceptible to changes in the property rental market, such as increases in market rents, which they may not be able to pass on to customers in the form of higher prices, or landlords not wishing to renew the leases. Any such rental increases or loss of locations may negatively impact on Cineworld and Cineplex's revenues and profit margins and could have a material adverse effect on their business, results of operations and financial condition. In addition, it may not be possible to terminate a lease on an underperforming site before the initial term expires, even if operations cease on such site, which could limit the ability of Cineworld and Cineplex to expand in other locations and which could adversely affect their profitability.

While a significant number of Cineplex's leases are long-term, with terms generally ranging from 15 to 20 years in duration with multiple unilateral rights to extend, 81 of Cineplex's cinema leases are due to expire in the next five years, of which 15 do not have unilateral renewal or extension options. Therefore, following the Acquisition, with the addition of these cinema sites leased by Cineplex, the Enlarged Group will have a higher exposure to these risks.

4. OTHER RISKS AFFECTING CINEWORLD AND CINEPLEX AND, FOLLOWING THE ACQUISITION, THE ENLARGED GROUP

Following the Acquisition, the Enlarged Group may be subject to additional merger approval requirements or foreign investment review regulations in connection with future acquisition opportunities.

In light of Cineworld's existing presence in the United Kingdom, United States, Ireland, Poland, Israel, Hungary, the Czech Republic, Bulgaria, Romania and Slovakia and Cineplex's significant market share in Canada (where Cineplex is the largest cinema operator by box office revenue and number of screens, with a market share of approximately 75 per cent. by box office revenue as at 30 September 2019), the pursuit of future acquisition opportunities that would increase the number of cinemas held by the Enlarged Group, whether through acquisitions of competitors or of individual sites, may result in additional requirements to obtain merger approvals from the relevant competition authorities under antitrust regulations. In addition, such future acquisition opportunities may be subject to governmental oversight and review under foreign investment review regulations. If any such merger approvals or foreign investment clearances are required, the Enlarged Group may be required to dispose of cinemas in order to complete such acquisitions or may not succeed in acquiring other companies or cinema operations. Given the increased presence the Enlarged Group will have in the North American market following the Acquisition, the likelihood of any such risks crystallising may be higher.

Security breaches and other disruptions could compromise the information of Cineworld and Cineplex and expose them to regulatory sanction and other liability.

In the ordinary course of their business, Cineworld and Cineplex collect and store sensitive data, including intellectual property (such as the films which they are showing), their proprietary business information and that of their customers, suppliers and business partners, and personally identifiable information of their customers and employees, in their data centres and on their networks. This includes, for example, data tied to loyalty programmes and credit, debit and charge card information. The secure processing, maintenance and transmission of this information is critical to the operations and business strategy of Cineworld and Cineplex. Despite the security measures implemented by Cineworld and Cineplex, their respective information technology systems and infrastructure may be vulnerable to attacks by hackers or may be breached due to employee error, malfeasance or other disruptions. Any such breach could compromise the networks of Cineworld and Cineplex and the information stored therein could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption of the operations of Cineworld and Cineplex and the services they provide to customers, and/or damage to their reputation, which could adversely affect their business, competitive position and results of operations, and following the Acquisition, those of the Enlarged Group. In addition, following the Acquisition, the Enlarged Group will be required to incorporate and, if necessary, align Cineplex's existing data security policies. Any difficulties experienced with this integration could increase the likelihood of these risks crystallising, which may result in a higher probability of the Enlarged Group's business, competitive position and results of operations being affected.

PART III

PRINCIPAL TERMS OF THE ACQUISITION

1. Acquisition Agreement

1.1 Introduction

On 15 December 2019, the Company, Bidco and Cineplex entered into an arrangement agreement (the “**Acquisition Agreement**”). Under the terms of the Acquisition Agreement, Bidco will acquire all of the issued and outstanding and to be issued Cineplex Shares and, immediately following Completion, Cineplex will be an indirect, wholly-owned subsidiary of Cineworld. The Acquisition will be implemented by way of a statutory plan of arrangement in accordance with the laws of the Province of Ontario, Canada.

The Acquisition Agreement is governed by the laws of the Province of Ontario and the federal laws of Canada (as applicable). The following is a summary of the principal terms of the Acquisition Agreement.

1.2 Consideration

The Acquisition will be implemented at the Offer Price payable in cash. The total consideration payable by Bidco for all of the issued and outstanding and to be issued Cineplex Shares will be C\$2.18 billion (US\$1.66 billion), with an implied enterprise value of C\$2.8 billion (US\$2.1 billion).²⁵

Following the grant of the Final Order by the Superior Court of Justice (Ontario) Commercial List (the “**Court**”) approving the Arrangement and on the business day prior to the filing by Cineplex of the Articles of Arrangement with the OBCA Director, Bidco shall, on the terms and subject to the conditions set out in the Acquisition Agreement, place into escrow sufficient cash in order to pay and deliver the aggregate consideration to the Cineplex Shareholders as provided for in the Plan of Arrangement.

At the Effective Time, all unvested Cineplex share options and equity awards outstanding immediately prior to the Effective Time will automatically and unconditionally vest and be cancelled or redeemed in exchange for a right to receive from Cineplex a cash payment equal to: (i) in the case of share options, the amount (if any) by which the Offer Price exceeds the exercise price of such share option; and (ii) in the case of equity awards, the Offer Price for each equity award held (adjusted, as applicable, in respect of any performance-related multipliers).

Five minutes after the Effective Time: (i) each Cineplex Share held by a Cineplex Shareholder who is not a Dissenting Cineplex Shareholder shall be transferred to Bidco in exchange for the Offer Price; and (ii) each Cineplex Share held by a Dissenting Cineplex Shareholder who has properly followed the dissent procedure prescribed by the OBCA shall be deemed to be transferred to Bidco in exchange for a debt claim for an amount equal to the fair value of their Cineplex Shares, which fair value is determined by the Court in accordance with the procedures prescribed by the OBCA (as modified by the Interim Order).

1.3 Conditions

Completion under the Acquisition Agreement is subject to, and can only occur upon satisfaction or (to the extent permitted by law) waiver of, a number of outstanding conditions, including, but not limited to:

- (a) Cineworld Shareholder Approval having been obtained;
- (b) Cineplex Shareholder Approval having been obtained;
- (c) Investment Canada Act Approval having been obtained;
- (d) no Cineplex Material Adverse Event having occurred; and
- (e) the Final Order to approve the Arrangement having been obtained from the Court.

²⁵ Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

In addition, Bidco is not required to complete the Arrangement in circumstances where Cineplex Shareholders representing more than 5 per cent. of the issued and outstanding Cineplex Shares exercise their Dissent Rights in connection with the Arrangement.

Under the terms of the Acquisition Agreement, the Company and Cineplex are required to co-operate and use reasonable best efforts to complete the Acquisition as soon as reasonably practicable.

1.4 Representations, warranties and covenants

The Acquisition Agreement contains representations and warranties, covenants, undertakings and conditions that are customary for a Canadian acquisition of the size and nature of the Acquisition.

In particular, each of the Company and Cineplex is subject to covenants concerning their respective obligations to call and hold a general or special meeting for the purpose of obtaining the requisite shareholder approval for the Acquisition.

1.5 Go-shop and no solicitation

During the period commencing on the date of the Acquisition Agreement and ending one second before midnight (Toronto time) on 2 February 2020 (the “**Go-Shop Deadline**”), Cineplex and its representatives may solicit other inquiries, proposals or offers to enter into a plan of arrangement or merger or other transaction(s) to acquire 20 per cent. or more of the issued and outstanding Cineplex Shares or assets of the Cineplex Group (each an “**Alternative Acquisition Proposal**”). Although Cineplex’s right to solicit Alternative Acquisition Proposals terminates with effect from the Go-Shop Deadline, if at any time following the Go-Shop Deadline and prior to obtaining Cineplex Shareholder Approval, Cineplex receives an Alternative Acquisition Proposal, Cineplex is permitted to engage in or participate in discussions or negotiations regarding such Alternative Acquisition Proposal in accordance with the terms and conditions of the Acquisition Agreement. If the Cineplex Board determines in good faith and following consultation with its external advisers that any such Alternative Acquisition Proposal received prior to obtaining Cineplex Shareholder Approval constitutes a *bona fide* written proposal to acquire not less than all of the outstanding Cineplex Shares or all or substantially all of the assets of the Cineplex Group which is more favourable, from a financial point of view, to Cineplex Shareholders than the Arrangement (a “**Superior Proposal**”), the Cineplex Board shall be entitled to change its recommendation and approve, recommend or enter into a definitive agreement with respect to such Superior Proposal only if: (i) Cineplex remains in compliance with the non-solicitation provisions under the Acquisition Agreement; and (ii) Cineplex has notified Bidco in writing of the existence and terms of the Alternative Acquisition Proposal and, if Bidco so requests, entered into a period of good faith negotiations with Bidco with respect to Bidco’s proposed adjustments to the terms and conditions of the Acquisition Agreement so that such Alternative Acquisition Proposal would cease to constitute a Superior Proposal. Cineplex must otherwise cease any solicitation, encouragement, discussions or negotiations with any persons with respect to an Alternative Acquisition Proposal immediately following the Go-Shop Deadline.

During the period commencing on the date of the Acquisition Agreement and ending at the earlier of the Effective Time and the date on which the Acquisition Agreement is otherwise terminated in accordance with its terms, Cineworld may not solicit proposals, offers or indications of interest to merge or combine with the Cineworld Group, or otherwise acquire 20 per cent. or more of Ordinary Shares or of the assets of the Cineworld Group (a “**Cineworld Acquisition Proposal**”). If, however, at any time prior to receipt of Cineworld Shareholder Approval, Cineworld receives a Cineworld Acquisition Proposal which the Board determines in good faith and following consultation with its external advisers to constitute or to be reasonably expected to lead to a *bona fide* written proposal to acquire more than 50 per cent. of Ordinary Shares or of the assets of the Cineworld Group on terms which would be more favourable to Shareholders than the Acquisition Agreement and which would not be available without the prior termination of the Acquisition Agreement (a “**Cineworld Superior Proposal**”), Cineworld may enter into negotiations regarding such Cineworld Superior Proposal, provided such Cineworld Acquisition Proposal is not the result of a material breach of the relevant non-solicitation provisions contained in the Acquisition Agreement. Upon receipt of a Cineworld Superior Proposal, the Board shall be entitled to effect a Cineworld Change in Recommendation and/or terminate the Acquisition Agreement (in accordance with its terms) in order to enter

into a definitive agreement regarding such Cineworld Superior Proposal only if the Board determines in good faith (after consultation with its financial and legal advisers) that failure to do so would be inconsistent with its fiduciary duties.

1.6 Termination

The Acquisition Agreement may be terminated by the mutual written agreement of Cineworld, Bidco and Cineplex at any time prior to the Effective Time. In addition, the Acquisition Agreement contains reciprocal termination rights in certain circumstances for Cineworld and Bidco on the one hand and Cineplex on the other, including if: (i) Cineworld Shareholder Approval is not obtained; (ii) Cineplex Shareholder Approval is not obtained; (iii) any final and non-appealable law, decree, judgment or ruling is enacted, made, enforced or amended (as applicable) that makes consummation of the Arrangement illegal or otherwise prohibits or enjoins Cineplex or Bidco and/or its affiliates from consummating the Arrangement (subject to certain exceptions set out in the Acquisition Agreement); or (iv) the Acquisition has not completed on or before the Long Stop Date (subject to certain exceptions set out in the Acquisition Agreement).

In addition, Cineplex may terminate the Acquisition Agreement in certain other circumstances, including, but not limited to, where: (i) prior to Cineplex Shareholder Approval being obtained, the Cineplex Board makes a Cineplex Change in Recommendation; (ii) prior to Cineplex Shareholder Approval being obtained, the Cineplex Board authorises Cineplex or a subsidiary of Cineplex to enter into a written agreement with respect to a Superior Proposal as permitted under the Acquisition Agreement; (iii) prior to Cineworld Shareholder Approval being obtained, the Board makes a Cineworld Change in Recommendation; (iv) prior to Cineworld Shareholder Approval being obtained, the Board approves, recommends or authorises Cineworld to enter into a written agreement with respect to a Cineworld Superior Proposal as permitted under the Acquisition Agreement; (v) either of Cineworld or Bidco is in wilful breach of the applicable non-solicitation provisions contained in the Acquisition Agreement; or (vi) Cineworld or Bidco breaches any representation or warranty or fails to perform any covenant or agreement under the Acquisition Agreement that would cause any condition to Completion not to be satisfied and such breach or failure is incapable of being cured or is not cured by the Long Stop Date in accordance with the terms of the Acquisition Agreement.

Furthermore, Cineworld and Bidco may terminate the Acquisition Agreement in certain other circumstances, including, but not limited to, where: (i) prior to Cineworld Shareholder Approval being obtained, the Board makes a Cineworld Change in Recommendation; (ii) prior to Cineworld Shareholder Approval being obtained, the Board authorises Cineworld to enter into a written agreement with respect to a Cineworld Superior Proposal as permitted under the Acquisition Agreement; (iii) prior to Cineplex Shareholder Approval being obtained, the Cineplex Board makes a Cineplex Change in Recommendation; (iv) prior to Cineplex Shareholder Approval being obtained, the Cineplex Board approves, recommends or authorises Cineplex to enter into a written agreement concerning a Superior Proposal as permitted under the Acquisition Agreement; (v) Cineplex is in wilful breach of the applicable non-solicitation provisions contained in the Acquisition Agreement; (vi) a Cineplex Material Adverse Event has occurred which is incapable of being cured on or prior to the Long Stop Date; or (vii) Cineplex breaches any representation or warranty or fails to perform any covenant or agreement under the Acquisition Agreement that would cause any condition to Completion not to be satisfied and such breach or failure is incapable of being cured or is not cured by the Long Stop Date in accordance with the terms of the Acquisition Agreement.

1.7 Termination fees

Reverse termination fees payable to Cineplex

Cineworld and Bidco have agreed that Bidco will pay a reverse termination fee to Cineplex if the Acquisition Agreement is terminated because Cineworld Shareholder Approval is not obtained or if either Cineplex or Cineworld terminates the Acquisition Agreement because the Board makes a Cineworld Change in Recommendation or authorises Cineworld to enter into a written agreement with respect to a Cineworld Superior Proposal (each such circumstance being a “**Buyer Termination Event**”). Subject to certain limited exceptions as set out in the Acquisition Agreement, if the Acquisition Agreement is terminated in connection with a Buyer Termination Event before the Go-Shop Deadline, the termination fee payable by Bidco to

Cineplex will be approximately C\$41.5 million (US\$31.7 million²⁶); if the Acquisition Agreement is terminated in connection with a Buyer Termination Event after the Go-Shop Deadline, the termination fee payable by Bidco to Cineplex will be approximately £28.3 million (payable in Canadian dollars) (approximately C\$49.9 million²⁷).

In addition, the Major Shareholder has agreed to pay a separate termination fee if the Acquisition Agreement is terminated by Cineplex or Cineworld because the Board has made a Cineworld Change in Recommendation in connection with a Cineworld Acquisition Proposal made by the Major Shareholder and/or any of its affiliates, joint venture partners or concert parties (a “**Major Shareholder Termination Event**”). If the Acquisition Agreement is terminated in connection with a Major Shareholder Termination Event prior to the Go-Shop Deadline, the additional termination fee payable by the Major Shareholder to Cineplex will be approximately C\$41.5 million (US\$31.7 million²⁸); if the Acquisition Agreement is terminated in connection with a Major Shareholder Termination Event after the Go-Shop Deadline, the additional termination fee payable by the Major Shareholder to Cineplex will be approximately £28.3 million (payable in Canadian dollars) (approximately C\$49.9 million²⁹).

Termination fees payable to Bidco

Cineplex has agreed to pay a termination fee to Bidco if the Acquisition Agreement is terminated in certain circumstances, including where: (i) Cineworld or Bidco terminates the Acquisition Agreement following a Cineplex Change in Recommendation; (ii) Cineplex terminates the Acquisition Agreement because, prior to Cineplex Shareholder Approval being obtained, the Cineplex Board makes a Cineplex Change in Recommendation or Cineplex or a subsidiary of Cineplex enters into a written agreement with respect to a Superior Proposal as permitted under the Acquisition Agreement; or (iii) (A) Cineplex on the one hand or Cineworld or Bidco on the other hand, terminates the Acquisition Agreement because Cineplex Shareholder Approval is not obtained or because Completion has not occurred prior to the Long Stop Date or (B) Cineworld terminates the Acquisition Agreement because Cineplex is in material breach, in either case only if, prior to such termination, an Alternative Acquisition Proposal relating to 50 per cent. or more of the share capital of Cineplex or assets of the Cineplex Group is made or publicly announced and within 12 months of such termination an Alternative Acquisition Proposal relating to 50 per cent. or more of the share capital of Cineplex or assets of the Cineplex Group is completed by Cineplex or a binding contract is signed in respect of such Alternative Acquisition Proposal and such Alternative Acquisition Proposal is later completed (each such circumstance set out in (i) to (iii) above being a “**Target Termination Event**”). If the Acquisition Agreement is terminated following a Target Termination Event in connection with a Superior Proposal from an acquirer who is Canadian prior to 3 February 2020 and before Cineplex shareholders have voted to approve the Acquisition, the termination fee payable by Cineplex to Bidco will be approximately C\$27.7 million (US\$21.1 million³⁰); if the Acquisition Agreement is terminated following a Target Termination Event in any other circumstances, the termination fee payable by Cineplex to Bidco will be approximately C\$55.4 million (US\$42.2 million³¹).

1.8 Voting agreements

Major Shareholder voting support agreement

On 15 December 2019, the Major Shareholder entered into a voting support agreement with Cineplex, pursuant to which it agreed, among other things, to exercise all of the voting rights attaching to its Ordinary Shares in favour of the Resolution at the General Meeting.

Cineplex Directors voting support agreements

On 15 December 2019, each of the Cineplex Directors entered into a voting support agreement with Cineworld, pursuant to which each agreed, among other things, to vote his or her respective Cineplex Shares in favour of the Arrangement Resolution at the Cineplex Meeting.

26 Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

27 Based on the spot GBP/CAD foreign exchange rate published by Bloomberg at 11:30:00 p.m. (Toronto Time) on 15 December 2019 in accordance with the terms of the Acquisition Agreement.

28 Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

29 Based on the spot GBP/CAD foreign exchange rate published by Bloomberg at 11:30:00 p.m. (Toronto Time) on 15 December 2019 in accordance with the terms of the Acquisition Agreement.

30 Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

31 Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

PART IV

HISTORICAL FINANCIAL INFORMATION RELATING TO CINEPLEX

PART A: HISTORICAL FINANCIAL INFORMATION RELATING TO CINEPLEX

This Part A of Part IV (*Historical Financial Information Relating to Cineplex*) contains consolidated financial information for Cineplex for the three years ended 31 December 2018, 31 December 2017 and 31 December 2016.

The financial information contained in this Part A of Part IV (*Historical Financial Information Relating to Cineplex*) has been extracted without material adjustment from the consolidated audited financial statements of Cineplex as published in the Annual Reports for the years ended 31 December 2018 and 31 December 2017 (the Annual Reports for the years ended 31 December 2018 and 31 December 2017 both include consolidated audited financial statements for both the year of the reported financial information and the prior year comparative financial information). The Historical Information of Cineplex for the three years ended 31 December 2018, 31 December 2017 and 31 December 2016 includes the restated consolidated audited financial information for the year ended 31 December 2017 (as it appeared in the Annual Report of Cineplex in respect of the year ended 31 December 2018). This restatement was made to reflect the impact of the adoption of IFRS 9, “Financial Instruments” and IFRS 15, “Revenue from Contracts with Customers”.

This financial information does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 or, as the case may be, section 434(3) of the Companies Act 2006. The consolidated audited financial statements of Cineplex in respect of the years ended 31 December 2016, 31 December 2017 and 31 December 2018 have been filed on SEDAR.

Shareholders should read the whole of this document and not rely solely on the financial information contained in this Part IV (*Historical Financial Information Relating to Cineplex*).

Unless otherwise stated, the financial information relating to Cineplex in this document has been prepared in accordance with Canadian generally accepted accounting principles (“**Canadian GAAP**”), defined as International Financial Reporting Standards set out in the CPA Canada Handbook – Accounting.

In Part A of Part IV (*Historical Financial Information Relating to Cineplex*), the “**Company**” means Cineplex.

CONSOLIDATED BALANCE SHEETS

(expressed in thousands of Canadian Dollars)

		December 31 2018	December 31 2017 (restated)	December 31 2017	December 31 2016
	Notes		Note 31		Note 31
Assets					
Current assets					
Cash and cash equivalents	3	25,242	40,597	40,597	33,553
Trade and other receivables	4	165,586	160,938	160,938	115,903
Income taxes receivable		4,944	1,344	1,344	463
Inventories	5	30,592	28,966	28,966	21,412
Prepaid expenses and other current assets		13,862	13,013	13,013	10,856
Fair value of interest rate swap agreements	30	1,457	314	314	—
		<u>241,683</u>	<u>245,172</u>	<u>245,172</u>	<u>182,187</u>
Non-current assets					
Property, equipment and leaseholds	6	634,354	628,129	628,129	564,879
Deferred income taxes	7	13,444	7,134	7,134	5,891
Fair value of interest rate swap agreements	30	2,063	3,880	3,880	756
Interests in joint ventures and associates	8	38,912	35,353	35,353	35,487
Intangible assets	9	108,758	119,011	119,011	125,492
Goodwill	10	817,235	816,489	816,489	813,494
		<u>1,856,449</u>	<u>1,855,168</u>	<u>1,855,168</u>	<u>1,728,186</u>
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	11	186,407	189,929	189,929	204,725
Share-based compensation	12	4,862	4,732	4,732	8,958
Dividends payable	13	9,183	8,866	8,866	8,575
Income taxes payable		12,167	9,157	9,157	2,042
Deferred revenue	20	214,016	195,808	192,808	172,140
Finance lease obligations	15	3,058	3,420	3,420	3,180
Fair value of interest rate swap agreements	30	1,184	1,332	1,332	2,419
Convertible debentures	18	—	105,080	105,080	—
		<u>430,877</u>	<u>518,324</u>	<u>515,324</u>	<u>402,039</u>

CONSOLIDATED BALANCE SHEETS

(expressed in thousands of Canadian Dollars)

		December 31 2018	December 31 2017 (restated)	December 31 2017	December 31 2016
	Notes		Note 31		Note 31
Non-current liabilities					
Share-based compensation	12	8,210	13,816	13,816	18,346
Long-term debt	14	580,000	467,867	466,891	297,496
Fair value of interest rate swap agreements	30	7,674	—	—	2,020
Finance lease obligations		10,789	5,451	5,451	8,871
Post-employment benefit obligations		9,250	9,227	9,227	7,932
Other liabilities	17	119,110	117,589	117,589	125,560
Deferred income taxes	7	11,528	14,031	15,094	11,210
Convertible debentures	18	—	—	—	102,817
		<u>746,561</u>	<u>627,981</u>	<u>628,068</u>	<u>574,252</u>
Total liabilities		<u>1,177,438</u>	<u>1,146,305</u>	<u>1,143,392</u>	<u>976,291</u>
Equity					
Share capital	19	852,379	856,761	856,761	859,351
Deficit		(179,721)	(148,060)	(145,147)	(108,342)
Hedging reserves and other		(3,678)	1,332	1,332	(3,170)
Contributed surplus		7,815	1,647	1,647	81
Cumulative translation adjustment		2,301	(2,817)	(2,817)	1,175
Total equity attributable to owners of Cineplex		679,096	708,863	711,776	749,095
Non-controlling interest	2	(85)	—	—	2,800
		<u>679,011</u>	<u>708,863</u>	<u>711,776</u>	<u>751,895</u>
Total equity		<u>1,856,449</u>	<u>1,855,168</u>	<u>1,855,168</u>	<u>1,728,186</u>

Business acquisitions and formations (note 2)

Commitments, guarantees and contingencies (note 28)

CONSOLIDATED STATEMENTS OF OPERATIONS

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

		2018	2017	2016
	Notes			
Revenues	20			
Box office		724,244	715,605	734,193
Food service		475,501	441,876	423,920
Media		165,009	171,874	170,792
Amusement		205,793	185,341	111,348
Other		44,276	40,371	38,073
		<u>1,614,823</u>	<u>1,555,067</u>	<u>1,478,326</u>
Expenses				
Film Cost		379,325	376,759	389,602
Cost of food service		100,191	99,438	96,059
Depreciation and amortisation		131,852	119,916	105,941
Loss on disposal of assets		2,697	706	1,570
Other costs	21	878,735	843,219	759,930
Share of income of joint ventures and associates	8	(3,748)	(3,486)	(2,706)
Interest expense		30,690	22,734	18,936
Interest income		(274)	(222)	(204)
Foreign exchange		(2,191)	810	(120)
Change in fair value of financial instruments		—	(2,643)	—
		<u>1,517,277</u>	<u>1,457,231</u>	<u>1,369,008</u>
Income before income taxes		<u>97,546</u>	<u>97,836</u>	<u>109,318</u>
Provision for income taxes	7			
Current		27,573	26,626	26,231
Deferred		(6,983)	864	5,096
		<u>20,590</u>	<u>27,490</u>	<u>31,327</u>
Net income		<u>76,956</u>	<u>70,346</u>	<u>77,991</u>
Attributable to:				
Owners of Cineplex		77,053	70,763	79,713
Non-controlling interests		(97)	(417)	(1,722)
Net income		<u>76,956</u>	<u>70,346</u>	<u>77,991</u>
Basic net income per share attributable to owners of Cineplex	22	<u>1.22</u>	<u>1.11</u>	<u>1.26</u>
Diluted net income per share attributable to owners of Cineplex	22	<u>1.22</u>	<u>1.11</u>	<u>1.25</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(expressed in thousands of Canadian Dollars)

	2018	2017	2016
Net income	76,956	70,346	77,991
Other comprehensive income			
<i>Items that will be reclassified subsequently to net income:</i>			
Income on hedging instruments	(7,008)	6,147	2,458
Associated deferred income taxes expense	(1,998)	(1,645)	(649)
Foreign currency translation adjustment	5,118	(3,918)	75
<i>Items that will not be reclassified to net income:</i>			
Actuarial gains (losses) of post-employment benefit obligations	296	716	(307)
Associated deferred income taxes (expense) recovery	(79)	(191)	82
Other comprehensive income	325	1,109	1,659
Comprehensive income	<u>77,281</u>	<u>71,455</u>	<u>79,650</u>
Attributable to:			
Owners of Cineplex	77,378	71,861	81,538
Non-controlling interests	(97)	(406)	(1,888)
Comprehensive income	<u>77,281</u>	<u>71,455</u>	<u>79,650</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(expressed in thousands of Canadian Dollars)

	Share capital	Contributed surplus	Hedging reserves and other	Cumulative translation adjustment	Restated Deficit	Non- controlling interests	Total
January 1, 2018	856,761	1,647	1,332	(2,817)	(148,060)	–	708,863
Net income	–	–	–	–	77,053	(97)	76,956
Other comprehensive income	–	–	(5,010)	5,118	217	–	325
Total comprehensive income	–	–	(5,010)	5,118	77,270	(97)	77,281
Dividends declared	–	–	–	–	(108,931)	–	(108,931)
Transfer on repayment of convertible debentures	(4,471)	4,471	–	–	–	–	–
Share option expenses	–	1,718	–	–	–	–	1,718
Issuance of shares on exercise of options	89	(21)	–	–	–	–	68
TGLP non-controlling interests recognized on formation	–	–	–	–	–	12	12
December 31, 2018	<u>852,379</u>	<u>7,815</u>	<u>(3,678)</u>	<u>2,301</u>	<u>(179,721)</u>	<u>(85)</u>	<u>679,011</u>
January 1, 2017	859,315	81	(3,170)	1,175	(108,342)	2,800	751,895
Impact of change in accounting policy (note 32)	–	–	–	–	(2,913)	–	(2,913)
Restated balance at January 1, 2017	859,351	81	(3,170)	1,175	(111,255)	2,800	748,982
Net income	–	–	–	–	70,763	(417)	70,346
Other comprehensive income	–	–	4,502	(3,929)	525	11	1,109
Total comprehensive income	–	–	4,502	(3,929)	71,288	(406)	71,455
Dividends declared	–	–	–	–	(105,358)	–	(105,358)
Share option expense	–	1,822	–	–	–	–	1,822
Issuance of shares on exercise of options	256	(256)	–	–	–	–	–
Shares repurchased and cancelled	(2,846)	–	–	–	(5,192)	–	(8,038)
WGN non-controlling interests recognized on acquisition	–	–	–	(63)	2,457	(2,394)	–
December 31, 2017	<u>856,761</u>	<u>1,647</u>	<u>1,332</u>	<u>(2,817)</u>	<u>(148,060)</u>	<u>–</u>	<u>708,863</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(expressed in thousands of Canadian Dollars)

	Share capital	Contributed surplus	Hedging reserves and other	Cumulative translation adjustment	Restated Deficit	Non- controlling interests	Total
January 1, 2017	859,315	81	(3,170)	1,175	(108,342)	2,800	751,895
Net income	—	—	—	—	70,763	(417)	70,346
Other comprehensive income	—	—	4,502	(3,929)	525	11	1,109
Total comprehensive income	—	—	4,502	(3,929)	71,288	(406)	71,455
Dividends declared	—	—	—	—	(105,358)	—	(105,358)
Share option expense	—	1,822	—	—	—	—	1,822
Issuance of shares on exercise of options	256	(256)	—	—	—	—	—
Shares repurchased and cancelled	(2,846)	—	—	—	(5,192)	—	(8,038)
WGN non-controlling interests recognized on acquisition	—	—	—	(63)	2,457	(2,394)	—
December 31, 2017	<u>856,761</u>	<u>1,647</u>	<u>1,332</u>	<u>(2,817)</u>	<u>(145,147)</u>	<u>—</u>	<u>711,776</u>
January 1, 2016	858,305	(491)	(4,979)	934	(86,296)	5,024	772,497
Net income	—	—	—	—	79,713	(1,722)	77,991
Other comprehensive income	—	—	1,809	241	(225)	(166)	1,659
Total comprehensive income	—	—	1,809	241	79,488	(1,888)	79,650
Dividends declared	—	—	—	—	(101,534)	—	(101,534)
Share option expense	—	1,618	—	—	—	—	1,618
Issuance of shares on exercise of options	1,046	(1,046)	—	—	—	—	—
CSI non-controlling interests acquired	—	—	—	—	—	(336)	(336)
December 31, 2016	<u>859,351</u>	<u>81</u>	<u>(3,170)</u>	<u>1,175</u>	<u>(108,342)</u>	<u>2,800</u>	<u>751,895</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in thousands of Canadian Dollars)

		2018	2017	2016
Cash provided by (used in)	Note			
Operating activities				
Net Income		76,956	70,346	77,991
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization of property, equipment and leaseholds, and intangible assets		131,852	119,916	105,941
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities		(11,106)	(10,362)	(10,618)
Accretion of debt issuance costs and other non-cash interest, net		–	–	407
Unrealized foreign exchange		(1,423)	(32)	–
Interest rate swap agreements – non-cash interest		1,466	(200)	239
Accretion of convertible debentures		2,420	2,263	2,114
Other non-cash interest		1,194	638	–
Financing fees included in interest expense		1,718	–	–
Loss on disposal of assets		2,697	706	1,570
Deferred income taxes		(6,983)	864	5,096
Non-cash share-based compensation		1,718	1,822	1,618
Change in fair value of financial instruments		–	(2,643)	–
Net change in interests in joint ventures and associates		(3,139)	(4,031)	(3,254)
Tenant inducements		14,842	3,674	4,920
Changes in operating assets and liabilities	26	(3,557)	(28,609)	(20,010)
Net cash provided by operating activities		<u>208,655</u>	<u>154,352</u>	<u>166,014</u>
Investing activities				
Proceeds from disposal of assets, including asset-related insurance recoveries		1,930	2,976	108
Purchases of property, equipment and leaseholds		(110,120)	(170,511)	(104,189)
Acquisition of businesses, net of cash acquired	2	(4,685)	(30,422)	(32,082)
Intangible assets additions		(5,475)	(5,755)	(1,931)
Net cash received from CDCP		4,266	4,165	3,054
Net cash used in investing activities		<u>(114,084)</u>	<u>(199,547)</u>	<u>(135,040)</u>
Financing activities				
Dividends paid		(108,614)	(105,067)	(101,197)
Borrowings under credit facilities, net	14	111,000	169,000	72,634
Options exercised for cash		68	–	–
Payments under finance leases		(3,420)	(3,180)	(2,957)
Financing fees		(1,718)	(183)	(1,426)
Shares repurchased and cancelled	19	–	(8,038)	–
Repayment of convertible debentures at maturity	18	(107,500)	–	–
Net cash (used in) provided by financing activities		<u>(110,184)</u>	<u>52,532</u>	<u>(32,946)</u>
Effect of exchange rate differences on cash		258	(293)	(188)
(Decrease) increase in cash and cash equivalents		(15,355)	7,044	(2,160)
Cash and cash equivalents – Beginning of period		<u>40,597</u>	<u>33,553</u>	<u>35,713</u>
Cash and cash equivalents – End of period		<u>25,242</u>	<u>40,597</u>	<u>33,553</u>
Supplemental information				
Cash paid for interest		26,841	20,908	13,584
Cash paid for income taxes, net		29,048	20,132	54,842

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016
(expressed in thousands of Canadian dollars, except per share amounts)

1. General information

Cineplex Inc. (“Cineplex”) an Ontario, Canada corporation, is one of Canada’s largest entertainment organizations, with theatres in ten provinces. Cineplex operates primarily through its wholly owned subsidiaries, Cineplex Entertainment Limited Partnership (the “Partnership”), Famous Players Limited Partnership (“Famous Players”), Galaxy Entertainment Inc. (“GEI”), Cineplex Digital Media Inc. (“CDM”), Player One Amusement Group Inc. (“PIAG”), WorldGaming Network LP (“WGN”), and its majority-owned subsidiary TG-CPX Limited Partnership (“TGLP”). Cineplex is headquartered at 1303 Yonge Street, Toronto, Ontario, M4T 2Y9.

The Board of Directors approved the 2018 consolidated financial statements on February 14, 2019.

The Board of Directors approved the 2017 consolidated financial statements on February 21, 2018.

The Board of Directors approved the 2016 consolidated financial statements on February 14, 2017.

2. Business acquisitions and formations

a) *VRstudios Inc.*

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

b) *Topgolf*

On July 25, 2017, Cineplex formed TG-CPX Limited Partnership (“TGLP”), a joint venture with Topgolf Canada Holding (“Topgolf”). Cineplex contributed an immaterial amount of cash totaling \$38 for an initial 75% interest in TGLP and has 75% of the voting rights. Cineplex will recognize revenue from the joint venture in the Amusement and Leisure segment. Cineplex consolidates TGLP’s financial results from the inception date and recognizes a non-controlling interest for the portion of the joint venture it does not own. Topgolf has the right to require Cineplex to acquire the interest owned by Topgolf under certain circumstances at any time after July 25, 2022.

c) *Dandy Amusements International Inc.*

On April 1, 2017, Cineplex acquired all the operating assets of Dandy Amusement International Inc. (“Dandy”), for approximately \$13,713 in cash. Dandy is a leading amusement gaming machine operator based in California with operations in western United States. Immaterial transaction costs were expensed as incurred.

Recognized amounts of identifiable assets acquired are as follows:

Assets acquired	
Net working capital, including cash of 490	1,345
Customer relationships	1,996
Equipment	10,372
Net assets	13,713
Less: Cash from acquisition	(490)
	<u>13,223</u>
Consideration given – cash paid	13,713
Less: Cash from acquisition	(490)
	<u>13,223</u>

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016
(expressed in thousands of Canadian dollars, except per share amounts)

Dandy has arrangements with customers to operate Dandy's gaming equipment on a revenue share basis. The fair value of customer relationships recognized reflect historical annual renewal rates for existing customers and they will be amortized on a straight-line basis over five years.

The equipment will be amortized on a straight-line basis over seven years.

Cineplex's reported revenues and income would not have been materially different if the acquisition had occurred at January 1, 2017.

d) *WGN Put Option*

On April 13, 2017, Cineplex acquired the 20% of WGN that it did not already own for \$4,000 in cash. As a result of the acquisition, during the year ended December 31, 2017, Cineplex re-allocated the non-controlling interest of \$2,394 to other components of equity and recognized a gain of \$987, reflected in the change in fair value of financial instrument.

e) *EK3 Contingent Consideration*

The deferred consideration relating to the acquisition of EK3 Technologies Inc. ("EK3") was settled at \$10,000 during the year ended December 31, 2017. There was no impact on net income.

f) *SAW, LLC*

During the first quarter of 2017, the fair values were revised based on the post-acquisition review of the fair value of the customer relationships and equipment acquired, and liabilities assumed, resulting in the recognition of \$3,156 in customer relationships, and a \$3,156 reduction in the value of equipment, and a \$10 decrease in working capital.

g) *Tricorp Amusements Inc.*

During the second quarter, Cineplex paid \$3,093 of remaining consideration relating to the acquisition of Tricorp Amusements Inc. This amount was reflected in accounts payable and accrued liabilities in the first quarter of 2017.

h) *SAW, LLC*

On December 1, 2016, Cineplex acquired the operating assets of SAW, LLC ("SAW"), for \$8,291 cash. SAW is a distributor and operator of amusement and gaming equipment operating principally in the southeastern United States. Immaterial transaction costs were expensed as incurred.

Recognized amounts of identifiable assets acquired are as follows:

Assets acquired	
Net working capital, including cash of 431	1,510
Equipment	6,781
Net assets	8,291
Less: Cash from acquisition	(431)
	7,860
Consideration given – cash paid	8,291
Less: Cash from acquisition	(431)
	7,860

The equipment will be amortized on a straight-line basis over six years.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

As at December 31, 2016, the fair value assigned to the assets and liabilities have been determined on a provisional basis, pending finalization of the post-acquisition review of the fair value of the customer relationships and equipment acquired, and liabilities assumed. Any variations are not expected to be material.

From the date of acquisition through December 31, 2016, the acquired business did not have material revenues or income.

i) *Tricorp Amusements Inc.*

On October 1, 2016, Cineplex acquired 100% of the issued and outstanding equity of Tricorp Amusements Inc. ("Tricorp") for \$25,695 cash. Tricorp is a distributor and operator of amusement and gaming equipment operating principally in the eastern United States. Immaterial transaction costs were expensed as incurred.

Cineplex recognized \$5,401 of tax-deductible goodwill relating primarily to anticipated operational efficiencies.

Recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

Assets acquired and liabilities assumed	
Net working capital, including cash of 1,880	(91)
Equipment	16,066
Intangible assets – customer relationships	4,319
Goodwill	5,401
Net assets	25,695
Less: Cash from acquisition	(1,880)
	23,815
Consideration given – cash paid	25,695
Less: Cash from acquisition	(1,880)
	23,815

Tricorp has arrangements with customers to operate Tricorp's gaming equipment on a revenue share basis. The fair value of customer relationships recognized reflect annual renewal rates of approximately 90% for existing customers. They will be amortized on straight-line bases over ten years.

The equipment will be amortized on a straight-line basis over six years.

As at December 31, 2016, the fair value assigned to the assets and liabilities have been determined on a provisional basis, pending finalization of the post-acquisition review of the fair value of the customer relationships and equipment acquired, and liabilities assumed. Any variations may be material.

From the date of acquisition through December 31, 2016, the acquired business had total revenues of approximately \$5,900 and net income of \$800, including amortization of \$1,000 relating to the assets acquired.

If the fiscal year 2016 business combinations had occurred at the beginning of the year, consolidated revenues would have been approximately \$1,511,000 and consolidated net income would have been approximately \$80,000, including incremental depreciation and amortization of \$3,500.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

j) *Cineplex Starburst Inc.*

On October 1, 2015, Cineplex acquired the 50% of the issued and outstanding equity of Cineplex Starburst Inc. ("CSI") that Cineplex did not already own, for \$21,422 cash, resulting in Cineplex owning 100% of the issued and outstanding equity of CSI. Cineplex began consolidating CSI's financial results from the acquisition date. On March 1, 2016, Cineplex acquired the equity held by non-controlling interests in a subsidiary of CSI for \$407 cash, recognizing an immaterial loss included in loss on disposal of assets on the statements of operations. Immaterial transaction costs were expensed as incurred.

3. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2018	2017	2016
Cash at bank and on hand, net of outstanding cheques	25,242	40,597	33,553

4. Trade and other receivables

Trade and other receivables comprise the following:

	2018	2017	2016
Trade receivables	144,973	133,711	92,707
Other receivables	20,613	27,227	23,196
	<u>165,586</u>	<u>160,938</u>	<u>115,903</u>

5. Inventories

Inventories comprise the following:

	2018	2017	2016
Food service inventories	8,207	7,510	6,598
Gaming inventories	16,644	16,533	10,678
Other inventories, including work in progress	5,741	4,923	4,136
	<u>30,592</u>	<u>28,966</u>	<u>21,412</u>

In 2016, the cost of inventories recognized as an expense related to food services was \$94,392 and related to gaming was \$39,506, for the three months of consolidated results. The cost of gaming inventories is included in other inventories consumed (note 21).

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

(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, 2016						
Cost	19,262	595,090	26,102	564,652	21,152	1,226,258
Accumulated depreciation	—	(317,730)	(17,146)	(358,190)	—	(693,066)
Net book value	<u>19,262</u>	<u>277,360</u>	<u>8,956</u>	<u>206,462</u>	<u>21,152</u>	<u>533,192</u>
Year ended						
December 31, 2016						
Opening net book value	19,262	277,360	8,956	206,462	21,152	533,192
Additions, net of transfers	126	49,946	—	57,263	(5,481)	101,854
Business acquisitions	—	—	—	22,847	—	22,847
Disposals	—	(409)	—	(1,957)	(125)	(2,491)
Foreign exchange rate changes	—	—	—	540	—	540
Depreciation for the year	—	(37,746)	(2,037)	(51,550)	—	(91,063)
Closing net book value	<u>19,388</u>	<u>289,421</u>	<u>6,919</u>	<u>233,605</u>	<u>15,546</u>	<u>564,879</u>
At January 1, 2017						
Cost	19,388	644,014	26,102	638,508	15,546	1,343,558
Accumulated depreciation	—	(354,593)	(19,183)	(404,903)	—	(778,679)
Net book value	<u>19,388</u>	<u>289,421</u>	<u>6,919</u>	<u>233,605</u>	<u>15,546</u>	<u>564,879</u>

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

	Land	Buildings and leasehold improvements	Buildings and leasehold improvements under finance lease	Equipment	Construction- in-progress	Total
Year ended						
December 31, 2017						
Opening net book value	19,388	289,421	6,919	233,605	15,546	564,879
Additions, net of transfers	15	61,773	—	81,995	23,020	166,803
Business acquisitions	—	—	—	7,216	—	7,216
Disposals	(496)	(929)	—	(2,172)	(1,474)	(5,071)
Foreign exchange rate changes	—	9	—	(2,588)	—	(2,579)
Depreciation for the year	—	(41,461)	(2,038)	(59,620)	—	(103,119)
Closing net book value	<u>18,907</u>	<u>308,813</u>	<u>4,881</u>	<u>258,436</u>	<u>37,092</u>	<u>628,129</u>
At January 1, 2018						
Cost	18,907	704,403	26,102	720,691	37,092	1,507,195
Accumulated depreciation	—	(395,590)	(21,221)	(462,255)	—	(879,066)
Net book value	<u>18,907</u>	<u>308,813</u>	<u>4,881</u>	<u>258,436</u>	<u>37,092</u>	<u>628,129</u>
Year ended						
December 31, 2018						
Opening net book value	18,907	308,813	4,881	258,436	37,092	628,129
Additions, net of transfers	465	60,493	8,396	58,439	(5,983)	121,810
Disposals	—	(747)	—	(2,679)	(457)	(3,883)
Foreign exchange rate changes	—	154	—	3,546	—	3,700
Depreciation for the year	—	(45,205)	(2,038)	(68,159)	—	(115,402)
Closing net book value	<u>19,372</u>	<u>323,508</u>	<u>11,239</u>	<u>249,583</u>	<u>30,652</u>	<u>634,354</u>
At December 31, 2018						
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	<u>19,372</u>	<u>323,508</u>	<u>11,239</u>	<u>249,583</u>	<u>30,652</u>	<u>634,354</u>

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

7. 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:

	2018	2017 (restated)	2017	2016
Deferred income tax assets				
Property, equipment and leaseholds and deferred tenant inducements – differences between net carrying value and undepreciated capital cost	23,574	26,607	26,607	23,022
Accounting provisions not currently deductible	8,392	10,689	10,689	13,005
Rent averaging liabilities	9,690	9,728	9,728	9,944
Deferred revenue	5,290	1,191	391	508
Interest rate swap agreements	1,311	(875)	(875)	1,075
Income tax credits available	291	291	291	102
Operating losses available for carry-forward	18,154	9,513	9,513	9,497
Total gross deferred income tax assets	66,702	57,144	56,344	57,153
Future deferred tax liabilities				
Intangible assets	(14,307)	(19,239)	(19,239)	(20,304)
Goodwill	(51,411)	(43,892)	(43,892)	(40,402)
Other	932	(910)	(1,173)	(1,766)
Total gross deferred income tax liabilities	(64,786)	(64,041)	(64,304)	(62,472)
Net deferred income tax asset (liability)	1,916	(6,897)	(7,960)	(5,319)

With the exception of operating losses used to reduce taxable income, which cannot be estimated, the net deferred income taxes are expected to be recognized after 2019.

The provisions for income taxes included in the consolidated statements of operations differ from the statutory income tax rate for the years ended December 31 2018, 2017 and 2016 and are as follows:

	2018	2017	2016
Income before income taxes	97,546	97,836	109,318
Combined statutory income tax rates for the current year	26.89%	26.78%	26.81%
Income taxes payable at statutory rate	26,230	26,200	29,308
Recognition of previously unrecognized deferred income tax assets	(6,154)	–	–
Adjustments relating to prior periods	(206)	533	563
Other permanent differences	720	757	1,456
Provision for income taxes	20,590	27,490	31,327

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

At each of December 31, 2018, 2017 and 2016, subsidiaries of Cineplex had recognized deferred tax assets associated with operating (non-capital) losses available for carry-forward. Cineplex believes the circumstances under which the losses occurred are unlikely to recur given the existing business organization and projected operating results. Those losses expire as follows:

	2018	2017	2016
2023	–	297	297
2024	1,866	2,799	2,799
2026	3,929	3,929	3,929
2027	4,994	4,994	5,012
2028	8,822	8,822	8,822
2029	5,122	5,122	5,122
2030	2,184	2,184	2,184
2032	254	254	254
2034	1,947	1,947	1,947
2035	2,770	2,770	2,770
2036	2,749	2,749	2,693
2037	19,756	–	–
2038	2,684	–	–
Indefinite	13,279	–	–
	<u>70,356</u>	<u>35,867</u>	<u>35,829</u>

As of December 31, 2018, Cineplex has recognized deferred income tax assets of \$6,154 related to its joint venture SCENE. This conclusion and the resulting recognition of the deferred tax asset is based on management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized.

At December 31, 2017, Cineplex had not recognized deferred income tax assets associated with \$21,924 (2016 – \$18,529) of losses available for carry-forward from its joint venture SCENE, as under the current organizational structure the joint venture is not expected to generate sufficient taxable income to recover those losses in the foreseeable future.

In October 2018, the company received a proposal letter from the Canada Revenue Agency ("CRA") proposing to deny a portion of the losses of AMC Ventures Inc. ("AMC"), which was acquired by Cineplex in 2012. Subsequent to year end, the CRA issued a notice of reassessment ("NOR") denying the use of \$26,612 of losses by Cineplex, which offset taxable income generated in 2014, thereby increasing taxes and interest payable by approximately \$8,600, fifty percent of which is payable immediately. Cineplex disagrees with the CRA's position and will file 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 immediate payment of fifty percent of the amount assessed under the NOR is required, notwithstanding the filing of a notice of objection to dispute this matter and it will remain on account until the dispute is resolved. Should Cineplex be unsuccessful in defending its position the additional amount of tax and interest noted above will be payable. In addition, a portion of certain amounts paid in connection with the acquisition of AMC would be refunded by the seller and amounts still owing, included in deferred consideration – AMC (note 29), would be reversed. These amounts total \$2,660.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

8. 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 50% interest in a theatre operation (2016 – one theatre operation), a 50% interest in YoYo's, and 34.7% interest in VRstudios Inc.

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

The net interest in joint ventures is summarized as follows as at December 31 2018, 2017 and 2016:

2018	CDCP	Other	Total
Ownership percentage	78.2%	34.7%-50%	
Voting percentage	50%	34.7%-50%	
Interest at beginning of year	34,998	355	35,353
Investments	295	4,685	4,980
Dividends or distributions	(4,561)	–	(4,561)
Net change in receivable or payable	(522)	(141)	(663)
Share of net income	4,186	(438)	3,748
Share of OCI	55	–	55
Net interest in joint ventures	<u>34,451</u>	<u>4,461</u>	<u>38,912</u>
2017	CDCP	Other	Total
Ownership percentage	78.2%	50%	
Voting percentage	50%	50%	
Interest at beginning of year	34,868	619	35,487
Investments	134	–	134
Dividends or distributions	(4,299)	–	(4,299)
Net change in receivable or payable	814	(270)	544
Share of net income	3,480	6	3,486
Share of OCI	1	–	1
Net interest in joint ventures	<u>34,998</u>	<u>355</u>	<u>35,353</u>

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

2016	CDCP	Other	Total
Ownership percentage	78.2%	50%	
Voting percentage	50%	50%	
Interest at beginning of year	34,684	604	35,288
Investments	567	—	567
Dividends or distributions	(3,621)	—	(3,621)
Net change in receivable or payable	622	(149)	473
Share of net income	2,542	164	2,706
Share of OCI	74	—	74
Net interest in joint ventures	<u>34,868</u>	<u>619</u>	<u>35,487</u>

The summarized balance sheets including 100% of the assets, liabilities and equity of each of the joint ventures at December 31 2018, 2017 and 2016 are as follows:

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

2017	CDCP	Other	Total
Assets			
Cash and cash equivalents	2,357	189	2,546
Trade and other receivables	6,656	455	7,111
Inventories	—	84	84
Prepaid expenses and other current assets	22	6	28
Fair value of interest rate contracts	14	—	14
	<u>9,049</u>	<u>734</u>	<u>9,783</u>
Equipment	41,186	140	41,326
Total assets	<u>50,235</u>	<u>874</u>	<u>51,109</u>
Liabilities			
Accounts payable and accrued liabilities	1,952	—	1,952
Deferred revenue	157	—	157
Current portion of long-term debt	9,183	—	9,183
	<u>11,292</u>	<u>—</u>	<u>11,292</u>
Long-term debt	—	3,151	3,151
Total liabilities	<u>11,292</u>	<u>3,151</u>	<u>14,443</u>
Equity	38,943	(2,277)	36,666
Total liabilities and equity	<u>50,235</u>	<u>874</u>	<u>51,109</u>

Notes to Consolidated Financial Statements

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2016	CDCP	Other	Total
Assets			
Cash and cash equivalents	3,598	139	3,737
Trade and other receivables	6,349	567	6,916
Inventories	—	113	113
Prepaid expenses and other current assets	47	86	133
Fair value of interest rate contracts	5	—	5
	<u>9,999</u>	<u>905</u>	<u>10,904</u>
Equipment	53,482	433	53,915
	<u>4</u>	<u>—</u>	<u>4</u>
Total assets	<u>63,485</u>	<u>1,338</u>	<u>64,823</u>
Liabilities			
Accounts payable and accrued liabilities	1,962	—	1,962
Deferred revenue	158	—	158
Current portion of long-term debt	6,894	—	6,894
	<u>9,014</u>	<u>—</u>	<u>9,014</u>
Long-term debt	14,793	2,156	16,949
Total liabilities	<u>23,807</u>	<u>2,156</u>	<u>25,963</u>
Equity	<u>39,678</u>	<u>(818)</u>	<u>38,860</u>
Total liabilities and equity	<u>63,485</u>	<u>1,338</u>	<u>64,823</u>

Lease commitments of the joint ventures are disclosed in note 27.

The summarized statements of comprehensive income including 100% of the revenue, expenses and income of each of the joint ventures for the years ending December 31 2018, 2017 and 2016 are as follows:

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

2017	CDCP	Other	Total
Revenues	23,982	4,175	28,157
Depreciation and amortization	12,296	63	12,359
Interest expense (net)	515	102	617
Other expenses	6,720	3,996	10,716
Total expenses	19,531	4,161	23,692
Net income (loss)	4,451	14	4,465
Other comprehensive loss	1	–	1
Comprehensive income (loss)	4,452	14	4,466
2016	CDCP	Other	Total
Revenues	24,463	4,160	28,623
Depreciation and amortization	13,652	78	13,730
Interest expense (net)	1,030	81	1,111
Other expenses	6,555	3,673	10,228
Total expenses	21,237	3,832	25,069
Net income (loss)	3,226	328	3,554
Other comprehensive loss	150	–	150
Comprehensive income (loss)	3,376	328	3,704

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, SCENE. The summarized balance sheets of SCENE at December 31 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Assets			
Cash and cash equivalents	5,964	992	3,644
Trade and other receivables	23,971	19,156	13,661
Prepaid expenses	105	–	76
	30,040	20,148	17,381
Intangible Assets	823	907	318
Equipment	348	492	438
Total assets	31,211	21,547	18,137
Liabilities			
Accounts payable and accrued liabilities	39,514	22,342	19,027
Deferred revenue	49,857	45,024	37,656
Total liabilities	89,371	67,366	56,683
Deficiency	(58,160)	(45,819)	(38,546)
	31,211	21,547	18,137

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

The summarized results of operations of SCENE are as follows:

	2018	2017	2016
Revenues	89,340	69,891	65,897
Expenses	119,681	95,163	82,759
	<u>(30,341)</u>	<u>(25,272)</u>	<u>(16,862)</u>

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

9. Intangible assets

Intangible assets consist of the following:

	Customer relationships	Fair value of leases-assets	Other	Trademarks and trade names	Total
At January 1, 2016					
Cost	23,714	26,973	43,404	63,599	157,690
Accumulated amortization	(4,634)	(11,008)	(9,908)	—	(25,550)
Net book value	<u>19,080</u>	<u>15,965</u>	<u>33,496</u>	<u>63,599</u>	<u>132,140</u>
Year ended					
December 31, 2016					
Opening net book value	19,080	15,965	33,496	63,599	132,140
Additions	—	—	4,706	—	4,706
Business acquisitions	4,319	—	—	—	4,319
Foreign exchange rate changes	67	—	(844)	—	(777)
Amortization	(4,057)	(2,446)	(8,393)	—	(14,896)
Closing net book value	<u>19,409</u>	<u>13,519</u>	<u>28,965</u>	<u>63,599</u>	<u>125,492</u>
At January 1, 2017					
Cost	28,094	26,973	47,283	63,599	165,949
Accumulated amortization	(8,685)	(13,454)	(18,318)	—	(40,457)
Net book value	<u>19,409</u>	<u>13,519</u>	<u>28,965</u>	<u>63,599</u>	<u>125,492</u>
Year ended					
December 31, 2017					
Opening net book value	19,409	13,519	28,965	63,599	125,492
Additions	—	—	5,755	—	5,755
Business acquisitions	5,152	—	—	—	5,152
Foreign exchange rate changes	(493)	—	(98)	—	(591)
Amortization for the year	(5,341)	(2,086)	(9,370)	—	(16,797)
Closing net book value	<u>18,727</u>	<u>11,433</u>	<u>25,252</u>	<u>63,599</u>	<u>119,011</u>
At January 1, 2018					
Cost	32,585	21,911	52,927	63,599	171,022
Accumulated amortization	(13,858)	(10,478)	(27,675)	—	(52,011)
Net book value	<u>18,727</u>	<u>11,433</u>	<u>25,252</u>	<u>63,599</u>	<u>119,011</u>

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

	Customer relationships	Fair value of leases-assets	Other	Trademarks and trade names	Total
Year ended					
December 31, 2018					
Opening net book value	18,727	11,433	25,252	63,599	119,011
Additions	—	—	5,475	—	5,475
Foreign exchange rate changes	720	—	2	—	722
Amortization for the year	(5,456)	(1,744)	(9,250)	—	(16,450)
Closing net book value	<u>13,991</u>	<u>9,689</u>	<u>21,479</u>	<u>63,599</u>	<u>108,758</u>
At December 31, 2018					
Cost	33,583	21,911	58,473	63,599	177,566
Accumulated amortization	(19,592)	(12,222)	(36,994)	—	(68,808)
Net book value	<u>13,991</u>	<u>9,689</u>	<u>21,479</u>	<u>63,599</u>	<u>108,758</u>

10. Goodwill

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

	2018	2017	2016
Balance – Beginning of year	816,489	813,494	807,953
Goodwill acquired	—	3,504	5,401
Foreign exchange rate changes	746	(509)	140
Balance – End of year	<u>817,235</u>	<u>816,489</u>	<u>813,494</u>

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

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

	2018	2017	2016
Exhibition	594,950	594,950	594,950
Media	206,385	206,385	206,385
Amusement and leisure	15,900	15,154	12,159
	<u>817,235</u>	<u>816,489</u>	<u>813,494</u>

Revenue growth rates and operating margins are based on Cineplex’s internal budget. Cineplex projects revenue, operating margins and cash flows for a period of five years, and applies a perpetual long-term growth rate thereafter. In arriving at its forecasts, Cineplex considers past experience, economic trends such as inflation, as well as industry and market trends. The projections also take into account the expected impact of new product and service initiatives. Discount rates applied to the groups of CGUs represent Cineplex’s assessment of the risks specific to each group of CGUs regarding the time value of money and individual

Notes to Consolidated Financial Statements

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risks of the underlying assets. Cineplex used discount rates between 6.3% and 23.1% (2017: between 6.4% and 21.0%; 2016: between 7.0% and 12.7%), and perpetual growth rates between 1% and 3% (2017: between 1% and 3%; 2016: between 1% and 3%), which are consistent with the observed long-term average growth rates in the exhibition, amusement and leisure, and digital media industries.

Cineplex concluded that there were no impairments of its individual CGUs, and the reasonable range of recoverable amounts for the individual CGUs were greater than their carrying values. For one CGU in the Exhibition group of CGUs, if the discount rate were to increase by 1.0%-2.0%, or projected average cash flow growth was to decrease by 1%, the carrying amount of the CGU would exceed the reasonable range for the recoverable amounts, representing approximately 0%-1.2% of the Exhibition goodwill (2017: 0.2%-3.0%; 2016: 0.4%-2.5%). For one CGU in the Media group of CGUs, the recoverable amount of the CGU is dependent upon a cash flow growth in excess of an average of 10% per year over the next 5 years. If actual results do not meet these growth targets then there is a risk that the carrying amount of the CGUs would exceed the recoverable amounts.

For all other CGUs, no reasonably possible change in assumption would cause the recoverable amount to fall below the carrying value.

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

11. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of:

	2018	2017	2016
Accounts payable – trade	89,407	91,840	114,512
Film payables and accruals	40,447	41,327	32,567
Accrued salaries and benefits	23,668	20,997	18,678
Sales taxes payable	12,173	13,595	8,258
Accrued occupancy costs	2,882	2,914	3,061
Deferred consideration – EK3 business acquisition	–	–	10,000
WGN put option	–	–	5,035
Other payables and accrued liabilities	17,830	19,256	12,614
	<u>186,407</u>	<u>189,929</u>	<u>204,725</u>

12. Share-based compensation

Option plan

Cineplex has an incentive share option plan (the “Plan”) for certain employees. The aggregate number of shares that may be issued under the Plan is limited to 5,250,000. All of the options must be exercised over specified periods not to exceed ten years from the date granted. As at December 31, 2018, 1,742,609 options are available for grant under the plan (2017: 2,032,138; 2016: 2,510,452).

Notes to Consolidated Financial Statements

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Shares options have been granted as follows:

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

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

The options may only be equity-settled, and are considered equity, not liabilities. Upon cashless exercises, the options exercised in excess of shares issued are cancelled and returned to the pool available for future grants. The expense amount for options is determined at the time of their issuance, recognized over the vesting period of the options. Forfeitures are estimated at nil, based on historical forfeiture rates.

Cineplex recorded \$1,718 of employee benefits expense with respect to the options during the year ended December 31, 2018 (2017: \$1,822; 2016: \$1,618). At December 31, 2018, \$7,903 associated with the options is reflected in contributed surplus on the consolidated balance sheets (2017: \$6,586; 2016: \$5,020). The intrinsic value of vested share options at December 31, 2018 is \$30 (2017: \$1,413; 2016: \$9,267), based on the market price of \$25.44 per share (2017: \$37.33; 2016: \$51.22).

A summary of option activities in 2018, 2017 and 2016 is as follows:

			2018
	Weighted average remaining contractual life (years)	Number of underlying shares	Weighted average exercise price
Options outstanding, January 1	7.37	2,157,589	45.50
Granted		559,703	33.59
Forfeited		(276,661)	45.12
Exercised		(7,042)	31.30
Options outstanding, December 31	6.92	2,433,589	42.84

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				2017
	Weighted average remaining contractual life (years)	Number of underlying shares	Weighted average exercise price	
Options outstanding, January 1	7.72	1,705,338	43.21	
Granted		544,992	51.25	
Cancelled		(11,395)	49.71	
Exercised		(81,346)	35.38	
Options outstanding, December 31	7.37	2,157,589	45.50	
				2016
	Weighted average remaining contractual life (years)	Number of underlying shares	Weighted average exercise price	
Options outstanding, January 1	7.73	1,550,521	38.60	
Granted		501,270	47.86	
Cancelled		(17,117)	47.16	
Exercised		(329,336)	28.41	
Options outstanding, December 31	7.72	1,705,338	43.21	

At December 31, 2018, 2017 and 2016 options are vested and exercisable as follows:

	2018	2017	2016
Options vested and exercisable at \$51.25	117,733	—	—
Options vested and exercisable at \$47.86	202,791	116,729	—
Options vested and exercisable at \$49.14	280,603	207,386	106,330
Options vested and exercisable at \$40.45	432,577	421,671	276,419
Options vested and exercisable at \$39.12	—	20,000	20,000
Options vested and exercisable at \$33.49	169,977	175,267	188,273
Options vested and exercisable at \$27.33	53,351	55,851	88,755
Options vested and exercisable at \$23.12	12,746	12,746	13,117
	1,269,778	1,009,650	692,894

The fair values of options granted in 2018, 2017 and 2016 were determined using the Black-Scholes valuation model using the following significant inputs:

	2018	2017	2016
Number of options granted	559,703	544,992	501,270
Share price	33.59	51.25	47.86
Exercise price	33.59	51.25	47.86
Expected option life (years)	4.5	4.0	4.0
Volatility	17%	16%	15%
Dividend yield	5.00%	3.15%	3.26%
Annual risk-free rate	1.55%	0.98%	0.82%
Fair value of options granted	2.74	4.07	3.36

Notes to Consolidated Financial Statements

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Long-term incentive plan (“LTIP”)

Phantom share unit plan

For the 2018 grant, for the three-year service period ending on September 30, 2020, 79,089 share equivalents were awarded and subject to certain performance and market conditions, may decrease approximately to 0% or increase by 200%. The base share equivalents attract compounding notional dividends at the same rate as outstanding common shares, which are notionally reinvested as additional base share equivalents. The awards will be settled in cash at the end of service periods, within 30 days of the approval of the annual consolidated financial statements by the Board of Directors.

For the three-year service period ending on September 30, 2019, granted in 2017, 129,136 share equivalents were awarded and subject to certain performance and market conditions, which may decrease approximately 61% or increase by 83%. The base share equivalents attract compounding notional dividends at the same rate as outstanding common shares, which are notionally reinvested as additional base share equivalents. The awards will be settled in cash at the end of service periods, within 30 days of the approval of the annual consolidated financial statements by the Board of Directors.

The LTIP award for three-year service periods consists of a “phantom” stock plan, awarding 112,804 share equivalents in 2016, which, subject to certain performance and market conditions, may decrease approximately 67% or increase by 100% subject to certain performance and market conditions. The base share equivalents attract compounding notional dividends at the same rate as outstanding common shares, which are notionally reinvested as additional base share equivalents. The awards will be settled in cash at the end of service periods, within 30 days of the approval of the consolidated financial statements by the Board of Directors.

Restricted share unit plan

For the three-year service period ending on September 30, 2020, granted in 2018, 39,549 share equivalents were awarded and subject to certain market conditions. The base share equivalents attract compounding notional dividends at the same rate as outstanding common shares, which are notionally reinvested as additional base share equivalents. The awards will be settled in cash at the end of service periods, within 30 days of the approval of the annual consolidated financial statements by the Board of Directors.

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the year of change. Forfeitures are estimated at \$nil. For the year ended December 31, 2018, Cineplex recognized compensation costs of \$1,325 (2017: \$3,768; 2016: \$7,075) under the LTIP. At December 31, 2018, \$5,983 (2017: \$9,440; 2016: \$14,933) was included in share-based compensation liability.

Deferred equity units

Members of the Board of Directors and certain officers of Cineplex may elect to defer a portion of their compensation in the form of deferred equity units. For the year ended December 31, 2018, Cineplex recognized compensation recovery of \$2,672 (2017: \$2,932; 2016: \$1,277 expense) associated with the deferred equity units. At December 31, 2018, \$7,089 (2017: \$9,108; 2016: \$12,370) was included in share-based compensation liability.

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13. Dividends payable

Cineplex has declared the following dividends during the years:

Record date	2018		2017		2016	
	Amount	Amount per share	Amount	Amount per share	Amount	Amount per share
January	8,866	0.1400	8,575	0.1350	8,238	0.1300
February	8,866	0.1400	8,575	0.1350	8,240	0.1300
March	8,867	0.1400	8,575	0.1350	8,243	0.1300
April	8,868	0.1400	8,575	0.1350	8,243	0.1300
May	9,183	0.1450	8,892	0.1400	8,567	0.1350
June	9,183	0.1450	8,896	0.1400	8,571	0.1350
July	9,183	0.1450	8,896	0.1400	8,571	0.1350
August	9,183	0.1450	8,896	0.1400	8,571	0.1350
September	9,183	0.1450	8,874	0.1400	8,571	0.1350
October	9,183	0.1450	8,872	0.1400	8,571	0.1350
November	9,183	0.1450	8,866	0.1400	8,573	0.1350
December	9,183	0.1450	8,866	0.1400	8,575	0.1350

The dividends are paid on the last business day of the following month. Dividends are at the discretion of the Board of Directors of Cineplex.

In January 2019, Cineplex declared a dividend of \$9,183, or \$0.1450 per share, payable in February 2019.

In January 2018, Cineplex declared a dividend of \$8,866, or \$0.1400 per share, payable in February 2018.

In January 2017, Cineplex declared a dividend of \$8,575, or \$0.1350 per share, payable in February 2017.

14. Long-term debt

In the fourth quarter of 2018, Cineplex increased and extended its bank credit facilities (the "Credit Facilities"), primarily with the same syndicate of lenders to November 13, 2023 for the revolving credit facility (the "Revolving Facility") and to November 13, 2025 for the non-revolving credit facility (the "Term Facility"). The amendment to the Revolving Facility required no cash flow but was accounted for as an extinguishment under IFRS 9 as it includes a prepayment option at par with no significant penalty at the date of renegotiation. The Term Facility was accounted for as modification under IFRS 9 but there was no material adjustment to be recognized. In accordance with IFRS 9, \$1,718 of financing fees, \$227 of accrued legal fees and \$821 of unamortized deferred financing fees associated with previous amended credit facilities were expensed.

The Credit Facilities consist of the following:

- a) a five-year, \$650,000, senior, secured, Revolving Facility; and
- b) a seven-year, \$150,000, senior, secured, Term Facility.

The Revolving Facility increased \$175,000 and the Term Facility was unchanged. There are provisions to increase the Revolving Facility commitment amount by an additional \$150,000 with the consent of the lenders. The financial covenants and nominal variable interest rates of the Credit Facilities are substantially similar to the prior Credit Facilities.

The Credit Facilities mature and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity. The Credit Facilities bear interest at a floating rate, based on the Canadian dollar

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prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. Borrowings on the Revolving Facility and the Term Facility can be made in either Canadian or US dollars.

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

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

During the first quarter of 2014, Cineplex entered into three interest rate swap agreements which commenced in August 2016 for an aggregate notional principal amount of \$150,000 and matured on October 24, 2018, the maturity of the Credit Facilities at that time. Under these agreements, Cineplex paid a fixed rate of 2.62% per annum, plus an applicable margin and received a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the second quarter of 2016, Cineplex entered into four interest rate swap agreements which commenced April 26, 2016 for an aggregate notional principal amount of \$50,000, and matured on October 24, 2018. Under these agreements, Cineplex paid a fixed rate of 1.07% per annum, plus an applicable margin, and received a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the second quarter of 2016, Cineplex entered into four interest rate swap agreements which commenced on October 24, 2018 for an aggregate notional principal amount of \$200,000 and mature on April 26, 2021, the same date as the maturity of the Credit Facilities at that time. Under these agreements, Cineplex pays a fixed rate of 1.484% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the fourth quarter of 2018, Cineplex entered into five interest rate swap agreements which commence April 26, 2021 for an aggregate notional principal amount of \$200,000 and mature on November 14, 2023. Under these agreements, Cineplex pays a fixed rate of 2.945% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the fourth quarter of 2018, Cineplex entered into five interest rate swap agreements which commenced November 13, 2018 for an aggregate notional principal amount of \$100,000 and mature on November 14, 2023. Under these agreements, Cineplex pays a fixed rate of 2.83% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the fourth quarter of 2018, Cineplex entered into five interest rate swap agreements which commenced November 13, 2018 for an aggregate notional principal amount of \$150,000 and mature on November 14, 2025. Under these agreements, Cineplex pays a fixed rate of 2.898% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

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The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable on Cineplex's first \$450,000 of borrowings. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its first \$450,000 of borrowings qualify for hedge accounting in accordance with IFRS 9, Financial Instruments. Under the provisions of IFRS 9, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income.

Long-term debt consists of:

	2018	2017	2016
Term Facility	150,000	150,000	150,000
Revolving Facility	430,000	319,000	150,000
Deferred financing fees	—	(1,133)	(2,504)
	<u>580,000</u>	<u>467,867</u>	<u>297,496</u>
Letters of credit reserved against Revolving Facility	8,396	7,043	6,252
Revolving Facility available	211,604	148,957	243,748

In 2017, the increase in borrowings was used to fund new acquisitions, capital expenditures and the acquisition of shares for cancellation under the normal course issuer bid ("NCIB").

At December 31, 2018, Cineplex was subject to a margin of 0.55% (2017: 0.75%; 2016: 0.40%) on the prime rate and 1.55% (2017: 1.75%; 2016: 1.40%) on the bankers' acceptance rate, plus a 0.25% (2017: 0.25%; 2016: 0.25%) per annum fee for letters of credit issued on the Revolving Facility. The average interest rate on borrowings under the Credit Facilities was 3.53% for the year ended December 31, 2018 (2017: 3.15%; 2016: 2.85%). Cineplex pays a commitment fee on the daily unadvanced portion of the Revolving Facility, which will vary based on certain financial ratios and was 0.31% at December 31, 2018 (2017: 0.35%; 2016: 0.28%).

2017

In the second quarter of 2016, Cineplex increased and extended its bank credit facilities (the "Credit Facilities"), primarily with the same syndicate of lenders, to April 26, 2021. The amendment was considered a renegotiation of debt and as a result, financing fees of \$1,426 were added to the unamortized deferred financing fees of \$1,465 associated with the previous amended credit facilities, and are being amortized over the remaining term on a straight-line basis.

The Credit Facilities consist of the following:

- a) a five-year, \$475,000, senior, secured, revolving credit facility (the "Revolving Facility"); and
- b) a five-year, \$150,000, senior, secured, non-revolving credit facility (the "Term Facility").

During the third quarter of 2017, the Revolving Facility increased \$75,000 from \$400,000 to \$475,000, under the provisions of the existing terms. Financing fees of \$183 were added to the unamortized deferred financing fees of \$2,070 associated with the previous amended credit facilities, and are being amortized over the remaining term on a straight-line basis. There are provisions to increase the Revolving Facility commitment amount by an additional \$75,000 with the consent of the lenders.

The Credit Facilities mature on April 26, 2021 and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity. The Credit Facilities bear interest at a floating rate, based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to

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those rates. Borrowings on the Revolving Facility and the Term Facility can be made in either Canadian or US dollars.

The Credit Facilities contain numerous restrictive covenants that limit the discretion of Cineplex's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Cineplex to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

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

During the first quarter of 2014, Cineplex entered into three interest rate swap agreements which commenced in August 2016 for an aggregate notional principal amount of \$150,000, and mature on October 24, 2018, the maturity of the Credit Facilities at that time. Under these agreements, Cineplex pays a fixed rate of 2.62% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commenced on April 25, 2016 for an aggregate notional principal amount of \$50,000, and mature on October 24, 2018. Under these agreements, Cineplex pays a fixed rate of 1.07% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

Also during the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commence in October 24 2018 for an aggregate notional principal amount of \$200,000, and mature on April 26, 2021, the same date as the maturity date of the Credit Facilities. Under these agreements, Cineplex pays a fixed rate of 1.484% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable under the Term Facility. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance with IAS 39, Financial Instruments: Recognition and Measurement. Under the provisions of IAS 39, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income.

2016

In the second quarter of 2016, Cineplex increased and extended its bank credit facilities (the "Credit Facilities"), primarily with the same syndicate of lenders, to April 26, 2021. The amendment was considered a renegotiation of debt and as a result, financing fees of \$1,426 were added to the unamortized deferred financing fees of \$1,465 associated with the previous amended credit facilities, and are being amortized over the remaining term on a straight-line basis.

The Credit Facilities consist of the following:

- a) a five-year, \$400,000, senior, secured, revolving credit facility (the "Revolving Facility"); and
- b) a five-year, \$150,000, senior, secured, non-revolving credit facility (the "Term Facility").

The Revolving Facility increased \$150,000, and the Term Facility was unchanged. There are provisions to increase the Revolving Facility commitment amount by an additional \$150,000 with the consent of the lenders.

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The financial covenants and nominal variable interest rates of the Credit Facilities are substantially similar to the prior Credit Facilities.

The Credit Facilities mature on April 26, 2021 and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity. The Credit Facilities bear interest at a floating rate, based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. Borrowings on the Revolving Facility and the Term Facility can be made in either Canadian or US dollars.

The Credit Facilities contain numerous restrictive covenants that limit the discretion of Cineplex's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Cineplex to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

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

During the first quarter of 2014, Cineplex entered into three interest rate swap agreements which commenced in August 2016 for an aggregate notional principal amount of \$150,000, and mature on October 24, 2018, the maturity of the Credit Facilities at that time. Under these agreements, Cineplex pays a fixed rate of 2.62% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commenced on April 25, 2016 for an aggregate notional principal amount of \$50,000, and mature on October 24, 2018. Under these agreements, Cineplex pays a fixed rate of 1.07% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

Also during the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commence in October 24 2018 for an aggregate notional principal amount of \$200,000 and mature on April 26, 2021, the same date as the maturity date of the Credit Facilities. Under these agreements, Cineplex pays a fixed rate of 1.484% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable under the Term Facility. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance with IAS 39, Financial Instruments: Recognition and Measurement. Under the provisions of IAS 39, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income.

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15. Finance lease obligations

Cineplex has two non-cancellable finance leases for theatres and a number of small equipment leases for various periods, including renewal options. Future minimum payments, by year and in the aggregate, under non-cancellable finance leases are as follows:

	2018	2017	2016
2017			3,955
2018		3,955	3,955
2019	3,955	3,955	3,955
2020	3,983	1,838	1,838
2021	2,145	—	—
2022	2,145	—	—
2023	2,145	—	—
Thereafter	2,144	—	—
	<u>16,517</u>	<u>9,748</u>	<u>13,703</u>
Less: Amount representing interest (average rate of 7.3%)	<u>2,670</u>	<u>877</u>	<u>1,652</u>
	<u>13,847</u>	<u>8,871</u>	<u>12,051</u>
Less: Current portion	<u>3,058</u>	<u>3,420</u>	<u>3,180</u>
	<u>10,789</u>	<u>5,451</u>	<u>8,871</u>

In December 2018, Cineplex renewed one theatre lease, accounted for as a finance lease, resulting in the recognition of \$8,396 in additional buildings and leasehold improvements under finance lease and a related finance lease liability. Interest expense related to finance lease obligations was \$535 for the year ended December 31, 2018 (2017: \$775; 2016: \$998).

16. Post-employment benefit obligations

Cineplex sponsors a defined benefit supplementary executive retirement plan (“DB SERP”). On March 1, 2017, Cineplex revised the terms of the SERP to increase the defined benefit pension payable resulting in recognition of a \$1,615 pension expenses included in employee salaries and benefits.

The DB SERP has a defined benefit obligation of \$8,400 at December 31, 2018 (December 31, 2017 – \$8,098; December 31, 2016 – \$6,680), which is substantially unfunded. Annual benefits payable are between \$500 and \$650 (2017 – between \$500 and \$650; 2016 – between \$450 and \$500), 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.

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

	2018	2017	2016
DB SERP obligation, net of assets	7,647	7,507	6,199
Famous Players Plans obligations	1,603	1,720	1,733
Net post-retirement benefit obligation	<u>9,250</u>	<u>9,227</u>	<u>7,932</u>

Reconciliation of the net post-retirement benefit obligations:

	2018	2017	2016
Accrued benefit obligations			
Balance – Beginning of year	9,819	8,414	7,676
Current service cost	438	400	358
Past service cost – vested benefits	–	1,615	–
Interest cost	345	341	313
Benefits paid	(116)	(125)	(120)
Actuarial (gains) losses	(483)	(826)	187
Balance – End of year	<u>10,003</u>	<u>9,819</u>	<u>8,414</u>
Less: Fair value of plan assets	<u>753</u>	<u>592</u>	<u>482</u>
Net post-retirement benefit obligation	<u>9,250</u>	<u>9,227</u>	<u>7,932</u>

Significant assumptions

	2018	2017	2016
Accrued benefit obligations at December 31			
Discount rate – all plans	3.70% – 3.80%	3.30% – 3.40%	3.60% – 3.80%
Health care cost trend rates at December 31			
Initial rate	6.39%	6.62%	5.63%
Ultimate rate	4.46%	4.46%	3.94%
Year ultimate rate reached	2028	2028	2024

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:

	2018	2017	2016
Impact of 1% increase in the discount rate	(1,075)	(1,147)	(932)
Impact of 1% decrease in the discount rate	1,281	1,378	1,118

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17. Other liabilities

Other liabilities consist of the following:

	2018	2017	2016
Deferred tenant inducements	56,610	48,162	49,070
Excess of straight-line amortization over lease payments	36,490	36,374	36,391
Fair value of leases – liabilities	13,320	17,531	21,817
Asset retirement obligations	2,357	2,334	2,120
Deferred gain on sale of density rights	1,091	1,237	1,384
Licensing obligation – non-current	4,059	5,902	7,720
Deferred consideration – AMC business acquisition	3,134	3,134	3,134
Other, including provisions	2,049	2,915	3,924
	<u>119,110</u>	<u>117,589</u>	<u>125,560</u>

18. Convertible debentures

Convertible debentures consist of the following at December 31, 2018, 2017 and 2016:

	2018	2017	2016
Face value of debentures outstanding	–	107,500	107,500
Unaccreted deferred financing fees and discount	–	(2,420)	(4,683)
	<u>–</u>	<u>105,080</u>	<u>102,817</u>

The \$107,500 convertible unsecured subordinated debentures matured and were paid on December 31, 2018. They bore interest at a rate of 4.5% per annum which was paid semi-annually in arrears on June 30 and December 30.

On or after December 31, 2017, the convertible 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. Redemptions may be in cash or in the form of shares, at the option of Cineplex.

The debentures became redeemable by Cineplex on December 31, 2016. After that date, at the holder's option, the debentures may be converted into shares at any time prior to the close of business five days before the earlier of the Maturity Date, the date fixed for redemption by Cineplex, or if called for repurchase in the event of a change in control, the payment date, at a conversion price of \$56 per share.

Cineplex recorded accretion on convertible debentures of \$2,420 (2017 – \$2,263; 2016 – \$2,114). Accretion on convertible debentures is included as part of the interest expense on the consolidated statement of operations.

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19. Share capital

Cineplex is authorized to issue an unlimited number of common shares and 10,000,000 preferred shares of which none are outstanding. Share capital at December 31, 2018, 2017 and 2016 and transactions during the periods are as follows:

2018				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance – December 31, 2017	63,330,446	852,290	4,471	856,761
Issuance of shares on exercise of options	2,792	89	–	89
Transfer on repayment of convertible debentures to contributed surplus	–	–	(4,471)	(4,471)
Balance – December 31, 2018	<u>63,333,238</u>	<u>852,379</u>	<u>–</u>	<u>852,379</u>
2017				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance – December 31, 2016	63,515,875	854,880	4,471	859,351
Issuance of shares on exercise of options	26,063	256	–	256
Shares repurchased and cancelled under the normal course issuer bid	(211,492)	(2,846)	–	(2,846)
Balance – December 31, 2017	<u>63,330,446</u>	<u>852,290</u>	<u>4,471</u>	<u>856,761</u>
2016				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance – December 31, 2015	63,370,059	853,834	4,471	858,305
Issuance of shares on exercise of options	145,816	1,046	–	1,046
Balance – December 31, 2016	<u>63,515,875</u>	<u>854,880</u>	<u>4,471</u>	<u>859,351</u>

On September 5, 2017, Cineplex filed for a NCIB with the Toronto Stock Exchange (“TSX”). The Board had concluded that the market price of the shares, from time to time, may not reflect the inherent value of Cineplex and purchases of the shares pursuant to the bid may represent an appropriate and desirable use of funds. Pursuant to the NCIB, Cineplex may, in the 12-month period commencing September 7, 2017 and ending on September 6, 2018, acquire for cancellation up to 10% of its total public float of shares. Based on a total public float of 63,089,953 shares on August 28, 2017, Cineplex could acquire 6,308,995 shares under its NCIB. All shares purchased by Cineplex under the NCIB will be cancelled. Purchases will be made at market prices through the facilities of the TSX and/or alternative Canadian trading systems. Under the NCIB, Cineplex may purchase up to 36,798 shares on the TSX during any trading day, which is 25% of

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147,192 (the average daily trading volume for Cineplex's shares on the TSX for the six months ended August 31, 2017). This limitation does not apply to purchases made pursuant to block purchase exemptions. Cineplex has adopted an automatic securities purchase plan in connection with its NCIB that contains parameters regarding how its shares may be repurchased during times when it would ordinarily not be permitted to purchase shares due to regulatory restrictions or self-imposed blackout periods. During 2017, 211,492 shares were purchased and cancelled by Cineplex for an aggregate of \$8,038.

20. Revenue

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

	December 31, 2017 (restated)	Additions	Revenue Recognized	December 31, 2018
Gift cards	157,169	176,718	161,586	172,301
SCENE loyalty program	22,465	47,029	44,601	24,893
Advances and deposits	16,174	55,374	54,726	16,822
	<u>195,808</u>	<u>279,121</u>	<u>260,913</u>	<u>214,016</u>

Revenue allocated to remaining performance obligations represents contracted revenue that has not been recognized ("contracted not recognized"), which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Contracted not recognized revenue was \$319,573 as of December 31, 2018, of which Cineplex expects to recognize approximately 81% of the revenue over the next 24 months, 4% in the following 12 months and the remainder thereafter.

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

	2018	2017
Box revenues		
Box office revenues	<u>724,244</u>	<u>715,605</u>
Food service revenues		
Food service – theatres	440,733	422,312
Food service – location-based entertainment	<u>34,768</u>	<u>19,564</u>
Total food service revenues	<u>475,501</u>	<u>441,876</u>
Media revenues		
Cinema media	109,023	116,397
Digital place-based media	<u>55,986</u>	<u>55,477</u>
Total media revenues	<u>165,009</u>	<u>171,874</u>
Amusement revenues		
Amusement solutions excluding exhibition	165,486	159,974
Amusement solutions – exhibition	10,664	10,649
Amusement solutions – location based entertainment	<u>29,643</u>	<u>14,718</u>
Total amusement revenues	<u>205,793</u>	<u>185,341</u>
Other revenues	<u>44,276</u>	<u>40,371</u>

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21. Other costs

	2018	2017	2016
Employee salaries and benefits	301,608	282,009	256,694
Rent	155,906	153,283	144,236
Realty and occupancy taxes and maintenance fees	72,665	69,952	67,016
Utilities	32,914	31,185	31,550
Purchased services	64,208	61,907	58,481
Other inventories consumed, including amusement and digital place-based media	74,731	70,402	60,689
Venue revenue share	46,722	40,986	16,521
Repairs and maintenance	33,222	32,298	28,365
Advertising and promotion	27,408	29,641	32,145
Office and operating supplies	14,148	16,166	15,101
Licenses and franchise fees	17,339	14,358	13,328
Insurance	5,196	4,239	3,510
Professional and consulting fees	6,725	7,184	7,491
Telecommunications and data	7,306	7,122	5,843
Bad debts	2,522	409	510
Equipment rental	3,383	3,250	2,934
Business interruption insurance proceeds	(5,449)	—	—
Other costs	18,181	18,828	15,516
	<u>878,735</u>	<u>843,219</u>	<u>759,930</u>

22. Net income per share

Basic

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

	2018	2017	2016
Net income attributable to owners of Cineplex	77,053	70,763	79,713
Weighted average number of shares outstanding	63,332,159	63,473,583	63,451,257
Basic EPS	<u>1.22</u>	<u>1.11</u>	<u>1.26</u>

Diluted

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

	2018	2017	2016
Net income attributable to owners of Cineplex	77,053	70,763	79,713
Weighted average number of shares outstanding	63,332,159	63,473,583	63,451,257
Adjustments for stock options	9,269	135,467	241,259
Weighted average number of shares for diluted EPS	<u>63,341,428</u>	<u>63,609,050</u>	<u>63,692,516</u>
Basic EPS	<u>1.22</u>	<u>1.11</u>	<u>1.25</u>

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23. Operating segments

2018 and 2017

As at January 1, 2017, Cineplex has three reportable segments; Film Entertainment and Content, Media and Amusement and Leisure. The reportable segments are business units offering differing products and services and managed separately due to their distinct natures. These three reportable segments have been determined by Cineplex's chief operating decision makers. The Film Entertainment and Content reporting segment does not charge an access fee to the Media reporting segment. All other inter-segment transactions are eliminated in the Corporate and other category, which includes all corporate general and administrative costs not directly associated with a segment.

Film Entertainment and Content

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

Media

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

Amusement and Leisure

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

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

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

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Year ended December 31, 2018	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Major product and service lines					
Box office	724,244	—	—	—	724,244
Food service	440,733	—	34,768	—	475,501
Media	—	162,072	2,937	—	165,009
Amusement	10,664	—	195,129	—	205,793
Other	42,751	—	1,525	—	44,276
Total revenues	1,218,392	162,072	234,359	—	1,614,823
Primary geographical markets					
Canada	1,218,392	149,304	119,171	—	1,486,867
United States and other countries	—	12,768	115,188	—	127,956
Total revenues	1,218,392	162,072	234,359	—	1,614,823
Timing of revenue recognition					
Transferred at a point in time	1,218,392	27,969	234,359	—	1,480,720
Transferred over time	—	134,103	—	—	134,103
Total revenues	1,218,392	162,072	234,359	—	1,614,823
EBITDA (i)	214,561	95,845	16,191	(66,783)	259,814
Depreciation and amortization	88,005	11,291	32,556	—	131,852
Interest expense					30,690
Interest income					(274)
Income taxes expense					20,590
Net income					76,956

- (i) The Film Entertainment and Content reporting segment does not charge an access fee to the Media reporting segment for in-theatre advertising.
- (ii) Corporate and other represents the cost of centralized corporate overhead that is not allocated to the other operating segments and includes the change in fair value of financial instruments.

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

Year ended December 31, 2017	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Major product and service lines					
Box office	715,605	—	—	—	715,605
Food service	422,311	—	19,565	—	441,876
Media	—	166,490	5,384	—	171,874
Amusement	10,649	—	174,692	—	185,341
Other	39,738	—	633	—	40,371
Total revenues	1,188,303	166,490	200,274	—	1,555,067
Primary geographical markets					
Canada	1,188,303	157,875	95,791	—	1,441,969
United States and other countries	—	8,615	104,483	—	113,098
Total revenues	1,188,303	166,490	200,274	—	1,555,067
Timing of revenue recognition					
Transferred at a point in time	1,188,303	28,378	200,274	—	1,416,955
Transferred over time	—	138,112	—	—	138,112
Total revenues	1,188,303	166,490	200,274	—	1,555,067
EBITDA (i)	202,197	94,217	7,998	(64,148)	240,264
Depreciation and amortization	85,858	10,079	23,979	—	119,916
Interest expense					22,734
Interest income					(222)
Income taxes expense					27,490
Net income					70,346

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

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

Though Cineplex's Media and Amusement and Leisure segments have sales and operations in the United States, total revenues outside Canada are not significant to disclose as a geographic segment.

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Cineplex's cash management and other treasury functions are centralized; interest expense and income are not allocated to segments. Income taxes are accounted for by entity, and cannot be attributable to individual segments.

Cineplex does not report balance sheet information by segment because that information is not used to evaluate performance or allocate resources between segments.

2016

As at January 1, 2016, Cineplex has two reportable segments, Exhibition and Media. The reportable segments are business units offering differing products and services, and managed separately due to their distinct natures. These two reportable segments have been determined by Cineplex's chief operating decision makers.

Exhibition

The Exhibition 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, including substantially all head office costs. Also included in the Exhibition segment are amusement gaming and leisure, 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, Cineplex Media and Cineplex Digital Media. Cineplex Media consists of all in-theatre advertising revenues and costs, including pre-show, showtime, magazine and lobby advertising. Cineplex Digital 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. There are substantially no inter-segment transactions. The Exhibition reporting segment does not charge an access fee to the Media reporting segment, and no corporate overhead is allocated to the Media reporting segment.

In accordance with IFRS 8, Operating Segments, Cineplex discloses information about its reportable segments based upon the measures used by management in assessing the performance of those reportable segments. Cineplex uses EBITDA to measure the performance of its reportable segments. Management defines EBITDA as earnings before interest income and expense, income taxes and amortization expense. EBITDA is a non- GAAP measure generally used as an indicator of financial performance and should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with Canadian GAAP. Cineplex's EBITDA may differ from similar calculations as reported by other entities and accordingly may not be comparable to EBITDA as reported by other entities.

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Year ended December 31, 2016	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Major product and service lines					
Box office	734,193	—	—	—	734,193
Food service	421,226	—	2,694	—	423,920
Media	—	166,703	4,089	—	170,792
Amusement	10,384	—	100,964	—	111,348
Other	37,360	—	713	—	38,073
Total revenues	1,203,163	166,703	108,460	—	1,478,326
EBITDA (i)	199,691	98,510	3,979	(68,189)	233,991
Depreciation and amortization	84,012	9,118	12,811	—	105,941
Interest expense					18,936
Interest income					(204)
Income taxes expense					31,327
Net income					77,991

- (i) The Exhibition reporting segment does not charge an access fee to the Media reporting segment for in-theatre advertising and no corporate overhead is allocated to the Media reporting segment.
- (ii) 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 and income are not allocated to segments. Income taxes are accounted for by entity, and cannot be attributable to individual segments.

Cineplex does not report balance sheet information by segment because that information is not used to evaluate the performance or allocate resources between segments.

Although Cineplex's Media and Amusement and Leisure segments have sales and operations in the United States, total revenues outside Canada are not significant enough to disclose as a geographic segment.

24. Barter transactions

Cineplex occasionally enters into barter arrangements with other parties to exchange goods or services. During the year ended December 31, 2018, Cineplex provided advertising and media services to third parties and recognized advertising revenues of \$2,389 (2017 – \$3,297; 2016 – \$3,338). Cineplex received sponsorship and advertising services in exchange, recording marketing expenses of \$2,219 (2017 – \$3,289; 2016 – \$3,430). 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.

25. Related party transactions

Cineplex may have transactions in the ordinary 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.

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Joint ventures

Cineplex leased digital projection systems from CDCP in the amount of \$1,791 for the year ended December 31, 2018 (2017 – \$1,655; 2016 – \$1,617).

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, 2018, Cineplex earned revenue of \$682 for these services (2017 – \$505; 2016 – \$427).

Compensation of key management

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

	2018	2017	2016
Salaries and short-term employee benefits	4,632	4,460	4,331
Post-employment benefits	811	2,399	701
Share-based payments	626	1,855	5,720
	<u>6,069</u>	<u>8,714</u>	<u>10,752</u>

26. Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	2018	2017	2016
Trade and other receivables	(5,677)	(42,228)	5,842
Inventories	(665)	(4,701)	253
Prepaid expenses and other current assets	(957)	(1,839)	(526)
Accounts payable and accrued liabilities	(4,286)	4,121	(6,949)
Income taxes payable	(591)	6,234	(28,885)
Deferred revenue	18,209	20,668	12,571
Post-employment benefit obligations	23	2,010	329
Share-based compensation	(6,866)	(10,102)	(1,999)
Other liabilities	(2,747)	(2,772)	(646)
	<u>(3,557)</u>	<u>(28,609)</u>	<u>(20,010)</u>

Property, equipment and leasehold purchases that are included in accounts payable and accrued liabilities as at December 31, 2018, are \$17,793 (2017 – \$14,499; 2016 – \$18,295).

27. Leases

Cineplex conducts a significant part of its operations in leased premises. Leases generally provide for minimum rentals and, in certain situations, percentage rentals based on sales volume or other identifiable targets; may include escalation clauses and certain other restrictions; and may require the tenant to pay a portion of realty taxes and other property operating expenses. Lease terms generally range from 15 to 20 years and contain various renewal options, generally, in intervals of five to ten years. Certain theatre assets are pledged as security to landlords for rental commitments, subordinated to the Credit Facilities.

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Cineplex's minimum rental commitments at December 31, 2018 under the above-mentioned operating leases are set forth as follows:

	2018	2017	2016
2017	—	—	156,814
2018	—	159,452	153,073
2019	165,157	152,384	141,489
2020	156,217	133,904	124,150
2021	138,523	117,323	106,378
2022	130,543	112,349	—
2023	117,333	—	—
Thereafter	492,300	525,049	604,319
	<u>1,200,073</u>	<u>1,200,461</u>	<u>1,286,223</u>

Minimum rent expense relating to operating leases on a straight-line basis in 2018 was \$163,591 (2017 – \$161,215; 2016 – \$155,967). In addition to the minimum rent expense, in 2018 Cineplex incurred percentage rent charges of \$1,054 (2017 – \$1,292; 2016 – \$1,200).

Gross minimum rental commitments of Cineplex's joint ventures are as follows:

	2018	2017	2016
2017	—	—	361
2018	—	151	388
2019	86	155	380
2020	86	156	332
2021	21	92	209
2022	—	17	—
2023	—	—	—
Thereafter	—	—	134
	<u>193</u>	<u>571</u>	<u>1,804</u>

28. Commitments, guarantees and contingencies

Commitments

As of December 31, 2018, Cineplex has aggregate capital commitments as follows:

	2018	2017	2016
	2019 - 2022	2018 - 2021	2017 - 2021
Capital commitments for operating locations to be completed or renovated	222,946	150,462	102,533
Letters of credit	8,396	7,043	6,252

See note 30 for the contingent obligation to acquire the equity of WGN that Cineplex does not own, and note 27 for lease commitments.

Guarantees

During 2005 and 2006, Cineplex entered into agreements with third parties to divest a total of 36 theatres, 30 of which were leased properties. Cineplex is guarantor under the leases for the remainder of the lease terms in the event that the purchaser of the theatres does not fulfil its obligations under the respective lease;

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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 also guaranteed certain advertising revenues based on attendance levels. Cineplex reacquired the leases for two theatres in 2010.

Also during 2006, Cineplex entered into an agreement with a related party to divest its 49% share in its three remaining Alliance Atlantis branded theatres. Cineplex is guarantor for its 49% share of the lease for the remainder of the lease term in the event that the purchaser of Cineplex's share in the theatres does not fulfill its obligations under the one remaining lease.

Cineplex has assessed the fair value of the lease guarantees and determined that the fair values of these guarantees at each of December 31, 2018, 2017 and 2016 are 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.

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 statement presentation

In 2017, Cineplex reclassified box office, amusement and other revenues to reflect the growth of its Amusement and Leisure business and to enhance comparability with exhibition peers in the United States. Certain revenues from Cineplex's enhanced guest experience initiatives were previously included in other revenues and are now included with box office revenues. This presentation is consistent with other exhibitors and better reflects how Cineplex management measures and operates the business.

Other revenues also previously contained all amusement revenue. Due to the growth of Cineplex's amusement solutions and location-based entertainment businesses, these revenues are now separately reported as amusement revenues.

Interest expense previously included foreign exchange gains and losses, which are now reported separately.

Prior period financial statement figures have been reclassified to conform to current period presentation. The following tables present revised figures for the year ended December 31, 2016:

	2016
Box office – previous presentation	712,446
Reclassification from other revenues	21,747
Box office – new presentation	734,193
Other revenues – previous presentation	171,168
Reclassification to box office revenue	(21,747)
Reclassification to amusement revenues	(111,348)
Other revenues – new presentation	38,073
Interest expense – previous presentation	18,816
Reclassification to foreign exchange	120
Interest expense – new presentation	18,936

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30. Financial instruments

Fair value of financial instruments

The carrying value and fair value of Cineplex's financial instruments at December 31, 2018, 2017 and 2016 are as follows:

		2018		2017 (restated)		2017		2016	
	Input level	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	2	580,000	580,000	467,867	469,000	466,891	469,000	297,496	300,000
Convertible debentures	1	—	—	—	—	105,080	108,575	102,817	112,993
Other liabilities – equipment liabilities	2	5,972	5,972	7,816	7,816	7,816	7,816	9,561	9,561
Interest rate swap agreements, net	2	5,338	5,338	(2,862)	(2,862)	(2,862)	(2,862)	3,683	3,683
Deferred consideration – AMC	2	3,134	3,134	3,134	3,134	3,134	3,134	3,134	3,134
Deferred consideration – EK3	3	—	—	—	—	—	—	10,000	10,000
Obligation to acquire WGN	3	—	—	—	—	—	—	5,035	5,035

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

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

The convertible debentures were publicly traded on the TSX, and were recorded at amortized cost.

The equipment liabilities are recorded at amortized cost, as derived from expected cash outflows and Cineplex's estimated incremental borrowing rate, 2.7%. The equipment liabilities are included in accounts payable and accrued liabilities (current portion) and in other liabilities on the balance sheet.

During the first quarter of 2014, Cineplex entered into three interest rate swap agreements which commenced in August 2016 for an aggregate notional principal amount of \$150,000, and mature on October 24, 2018, the maturity of the Credit Facilities at that time. Under these agreements, Cineplex pays a fixed rate of 2.62% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commenced on April 25, 2016 for an aggregate notional principal amount of \$50,000, and mature on October 24, 2018. Under these agreements, Cineplex pays a fixed rate of 1.07% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

Also during the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commence in October 24, 2018 for an aggregate notional principal amount of \$200,000, and mature on April 26, 2021, the same date as the maturity date of the Credit Facilities. Under these agreements, Cineplex pays a fixed rate of 1.484% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable on Cineplex's first \$450,000 of borrowings. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its first \$450,000 of borrowings qualify for hedge

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accounting in accordance with IFRS 9, Financial Instruments. Under the provisions of IFRS 9, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income. See note 14 (Long-term debt) for Cineplex's current swap agreements.

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 17).

The deferred consideration for EK3, which as of December 31, 2016 was recorded at \$10,000 was settled in the third quarter of 2017.

The change in fair value during the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018		2017		2016	
	AMC	EK3	AMC	EK3	AMC	EK3
Fair value at beginning of year	3,134	—	3,134	10,000	3,134	10,000
Change in fair value	—	—	—	—	—	—
Payments	—	—	—	(10,000)	—	—
Accretion	—	—	—	—	—	—
Fair value at end of year	3,134	—	3,314	—	3,134	10,000

For the thirty-six month period beginning one year after the acquisition, Intertaintech Corporation has the right, but not the obligation to require Cineplex to acquire their entire 20% interest in WGN at fair value. Cineplex recognized an initial liability of US\$3,750 (\$4,939 based on the exchange rate on the transaction date), equivalent to the initial fair value of the non-controlling interests. Fluctuations in value due to exchange rates or changes in the underlying value of the option are presented in the statement of operations. The \$5,035 balance is based on the exchange rate as at December 31, 2016 is included in accounts payable and accrued liabilities.

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.

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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, 2018, 2017 and 2016:

	2018	2017	2016
Trade receivables carrying value	144,973	133,711	92,707
Percentage past due	27%	24%	13%
Percentage outstanding more than 120 days	5%	3%	2%

The following schedule reflects the changes in the allowance for trade receivables during the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Allowance for trade receivables – Beginning of year	221	141	117
Additional allowance recorded	2,552	409	176
Amounts written off	(2,145)	(329)	(152)
Allowance for trade receivables – End of year	628	221	141

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.

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

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

Contractual obligations	2017				
	Payments due by period				
	Total	Within 1 year	2 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	189,927	189,927	–	–	–
Dividends payable	8,866	8,866	–	–	–
Interest rate swap agreements	(3,063)	1,052	(3,288)	(887)	–
Long-term debt	469,000	–	–	469,000	–
Convertible debentures	107,500	107,500	–	–	–
Equipment obligations	8,268	2,102	4,004	1,987	175
Finance lease obligations	9,748	3,955	5,793	–	–
Deferred consideration – AMC	3,134	–	3,134	–	–
Minimum commitments in Media	15,866	2,364	5,091	5,322	3,089
Total contractual obligations	<u>809,246</u>	<u>315,766</u>	<u>14,794</u>	<u>475,422</u>	<u>3,264</u>

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Contractual obligations	2016				
	Payments due by period				
	Total	Within 1 year	2 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	194,725	194,725	–	–	–
Dividends payable	8,575	8,575	–	–	–
Interest rate swap agreements	4,143	2,775	2,122	(754)	–
Long-term debt	300,000	–	–	300,000	–
Convertible debentures	107,500	–	107,500	–	–
Equipment obligations	10,246	2,077	4,077	3,842	250
Finance lease obligations	13,703	3,955	7,910	1,838	–
Deferred consideration – AMC	3,134	–	3,134	–	–
Minimum commitments in Media	10,000	10,000	–	–	–
Total contractual obligations	<u>652,026</u>	<u>222,107</u>	<u>124,743</u>	<u>304,926</u>	<u>250</u>

Cineplex also has significant contractual obligations in the form of operating leases (note 27) and new theatre and other capital commitments (note 28), as well as contingent obligations in the form of letters of credit, guarantees and long-term incentive and option plans.

Cineplex expects to fund lease commitments through cash flows from operations. New theatre capital commitments not funded through cash flows from operations will be funded through Cineplex's committed Revolving Facility (note 14).

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

Currency risk

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

The majority of Cineplex's revenues and expenses are in Canadian dollars, with the remainder denominated in US dollars. Approximately 7.9% 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, 2018 would have increased other comprehensive income by \$6,662. An assumed decrease of 10% in exchange rates at December 31, 2018 would have decreased other comprehensive income by \$7,139. There would not have been a material impact on net income for a 10% increase or decrease in foreign exchange rates for the year.

Interest rate risk

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

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

Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swap agreements. The interest rate swap agreements are recognized in the consolidated balance

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sheets at their estimated fair value. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI until the hedged interest payment is recorded, while the ineffective portion is recognized in the consolidated statements of operations as interest expense when incurred. During the year ended December 31, 2018, Cineplex recorded non-cash interest expense of \$1,466 (2017 – interest income of \$200; 2016 – interest expense of \$239) relating to the cash flow hedge.

Cineplex expects to reclassify \$1,484 from hedging reserves and other to the consolidated statement of operations in 2019 (2018 – \$1,382), excluding the impact of income taxes.

Cineplex expected to reclassify \$1,382 from hedging reserves and other to the consolidated statement of operations in 2018 (2017 – \$2,174), excluding the impact of income taxes.

Cineplex expected to reclassify \$2,174 from hedging reserves and other to the consolidated statement of operations in 2017 (2016 – \$2,568), excluding the impact of income taxes.

The following table shows Cineplex's exposure to interest rate risk and the pre-tax effects on net income and OCI for the years ended December 31, 2018, 2017 and 2016 of a 1% change in interest rates management believes is reasonably possible:

		2018			
		Pre-tax effects on net income and OCI – increase (decrease)			
		1% decrease in interest rates		1% increase in interest rates	
	Carrying value of financial liability	Net income	OCI	Net income	OCI
Long-term debt	580,000	4,978	–	(4,978)	–
Interest rate swap agreements – net	5,338	(4,500)	(15,507)	4,500	15,966
		<u>478</u>	<u>(15,507)</u>	<u>(478)</u>	<u>15,966</u>
		2017 (restated)			
		Pre-tax effects on net income and OCI – increase (decrease)			
		1% decrease in interest rates		1% increase in interest rates	
	Carrying value of financial liability	Net income	OCI	Net income	OCI
Long-term debt	467,867	4,387	–	(4,387)	–
Interest rate swap agreements – net	(2,862)	(2,000)	(4,713)	2,000	4,752
		<u>2,387</u>	<u>(4,713)</u>	<u>(2,387)</u>	<u>4,752</u>

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The carrying value of the interest rate swaps asset was \$5,338 at December 31, 2018. If interest rates changed plus or minus 1% from existing estimates throughout the contract period, the carrying value would change to an asset of \$15,129 or a liability of \$25,346, primarily affecting OCI.

The carrying value of the interest rate swaps asset was \$2,862 at December 31, 2017. If interest rates changed plus or minus 1% from existing estimates throughout the contract period, the carrying value would change to an asset of \$9,615 or a liability of \$3,850, primarily affecting OCI.

Cineplex's objectives when managing capital are to:

- 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

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d) cash and cash equivalents.

It is Cineplex's policy to distribute annually to shareholders available cash from operations after cash required for maintenance capital expenditures, working capital and other reserves at the discretion of the Board of Directors.

Cineplex is subject to certain covenants on its credit facilities agreement, which defines certain non-GAAP terms and measures. The total leverage ratio may not exceed 3.75 to 1 (2017: 3.5 to 1; 2016: 3.5 to 1) unless an acquisition is undertaken, in which case, the ratio allowance increases to 4.25 to 1 (2017: 4.0 to 1; 2016: 4.0 to 1) for a 12-month period before reverting automatically to 3.75 to 1 (2017: 3.5 to 1; 2016: 3.5 to 1). The total leverage ratio is determined by dividing total debt at the period-end (as defined in the credit facilities agreement) by the adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") (as defined in the credit facilities agreement) for the past four quarters. Cineplex also must maintain a fixed charge coverage ratio of greater than 1.25 to 1. The fixed charge coverage ratio (as defined in the credit facilities agreement) is computed by dividing the sum of adjusted EBITDA (as defined in the credit facilities agreement) and rent expense for the past four quarters by fixed charges for the same period. Fixed charges include interest expense, scheduled debt repayments, maintenance capital expenditures, rent expense and income taxes paid in the year. Management reviews the covenants on a quarterly basis in conjunction with filing requirements under its credit facilities agreement but also maintains a rolling projection to assess future growth capital commitments. Cineplex has complied with all covenant requirements during the years ended December 31, 2018, 2017 and 2016. Management also monitors the annualized payout ratio, calculated as dividends declared divided by adjusted free cash flow. All of these ratios are managed with certain target ranges determined by management to allow for flexibility in considering growth opportunities.

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

Objectives and strategies are reviewed periodically by management. During 2017 and 2016, there was no material change to Cineplex's capital composition, objectives or strategies. In 2018, Cineplex increased and extended its Credit Facilities, and repaid convertible debentures outstanding.

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 GAAP, defined as 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.

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Reportable operating segments

2018 and 2017

Cineplex is comprised of three reportable operating segments, Film Entertainment and Content, Media and Amusement and Leisure. The reportable segments are business units offering differing products and services. Details of Cineplex's three reportable operating segments are provided in note 23.

2016

Cineplex is comprised of two reportable operating segments, Exhibition and Media. The reportable segments are business units offering differing products and services. Details of Cineplex's two reportable operating segments are provided in note 23.

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 (2017: IAS 39; 2016: IAS 39) 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

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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

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(formerly SCENE LP until November 1, 2018), a joint operation whereby the joint operation participants are bound by contractual agreements establishing joint control. Joint control exists when unanimous consent of the joint operation participants is required regarding strategic, financial and operating policies of the joint operation. Cineplex's share of results from SCENE has been recognized in Cineplex's consolidated financial statements. Inter-company transactions between Cineplex and SCENE are eliminated to the extent of Cineplex's interest.

Foreign currency translation

Functional and presentation currency

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

The consolidated financial statements are presented in Canadian dollars.

Transactions and balances

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

Subsidiaries

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

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

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

Cash and cash equivalents

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

Financial instruments

2018

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

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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, cancelled 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"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

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

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

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

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

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

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

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

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- iii. Financial instruments at FVOCI: Cineplex uses derivatives in the form of interest rate swap agreements, which are designated as cash flow hedges to manage risks related to its variable rate debt. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI or OCL until the hedged interest payment is recorded, while the ineffective portion is recognized as interest expense when incurred.

2017 and 2016

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, cancelled 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.

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

- i. Financial assets and financial liabilities at fair value through profit or loss: 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 fair value through profit or loss are presented within changes in operating asset and liabilities in the consolidated statements of cash flows.

- ii. Available-for-sale investments: Cineplex has no available-for-sale investments.
- iii. Loans and receivables: 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.
- iv. Financial liabilities at amortized cost: 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

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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.

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

Impairment of financial assets

2018

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 replaces IAS 39 with a forward-looking Expected Credit Loss (“ECL”). The new impairment model will apply 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.

2017 and 2016

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, as follows:

- i. Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the financial instrument’s original effective interest rate. The carrying value of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- ii. Available-for-sale financial assets: The impairment loss is the difference between the cost of the financial asset and its fair value at the measurement date.

Impairment losses on financial assets carried at amortized cost 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

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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 flows relating to the relevant intangible asset ("cash-generating units" or "CGUs"). Cineplex considers each theatre a CGU. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

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

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

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

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

Property, equipment and leaseholds

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

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

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

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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 9). 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:

	2018	2017	2016
Internally generated software	3 – 5 years	3 – 5 years	5 years
Customer relationships	5 – 10 years	5 – 10 years	5 – 7 years
Trade names	not amortized	not amortized	not amortized

Leases

Leases are classified as either finance or operating. Leases that transfer substantially all of the risks and benefits of ownership to Cineplex and meet the criteria for finance leases are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. Related buildings, leasehold improvements and equipment are amortized on a straight-line basis over the term of the lease but not in excess of their useful lives. All other leases are accounted for as operating leases wherein rental payments are recorded in rent expense on a straight-line basis over the term of the related lease. Tenant inducements received are amortized into rent expense over the term of the related lease agreement. The unamortized portion of tenant inducements and the difference between the straight-line rent expense and the payments, as stipulated under the lease agreement, are included in other liabilities.

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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. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is based on the number of awards expected to vest and is recognized over the tranche's vesting period, included as employee benefits expense in other costs. 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.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

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 were 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.

Taxes on income in interim periods are accrued using the income tax rate that would be applicable to expected total annual income.

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.

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.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

Revenue

2018

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.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

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.

2017 and 2016

Box office and food service sales are recognized, net of applicable taxes, when sales are recorded at the theatres. Media revenues including media and digital media sales are recognized when services are provided or goods are shipped or installed. Amusement revenues are from route operations and the sale of amusement, gaming and vending equipment. Revenue 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. Revenues from the sale of equipment are recognized on the passing of title. Other revenues include online sales, rentals and theatre rentals and are recognized when services are provided or goods are shipped. Amounts collected on advance ticket sales and screen advertising agreements are deferred and recognized in the year earned or redeemed.

Gift cards and vouchers

Cineplex sells gift cards and vouchers (collectively the "gift cards") to its customers. The proceeds from the sales of gift cards are deferred and recognized as revenue either on redemption of the gift card 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 that is not expected to be redeemed by customers. It is estimated based on the terms of the gift cards and historical redemption patterns, including available industry data.

Multiple component arrangements

Cineplex routinely sells combinations of box office, concession and online products for a single price. In the ordinary course of operations, Cineplex offers equipment sales, design and support services for media installations, and sales of advertising services across multiple media (theatre lobby and exhibition, magazine and digital online and out-of-home) for a single price. In addition, Cineplex receives payments from certain vendors for advertising contracts, auditorium rentals and ticket purchases. Revenue from the sale of advertising services, software licenses, network services, maintenance and equipment is generally recognized on delivery to the customer as these criteria are generally met. These multiple-element arrangements are assessed to determine whether they should be treated as more than one unit of accounting or element for the purposes of revenue recognition. Consideration from the arrangement is allocated in multiple-element arrangements to the separate units of accounting, or elements, on a relative fair value basis as determined by an internal analysis of prices. Where an arrangement is accounted for as a single unit of accounting, or evidence of fair value is only available for the delivered components but not the undelivered components, the arrangement is considered a single element arrangement and revenue is deferred and recognized over the term of the arrangement.

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016
(expressed in thousands of Canadian dollars, except per share amounts)

costs payable are adjusted to the final film settlement in the year Cineplex settles with the distributors. Actual settlement of these film costs could differ from those estimates.

Consideration received from vendors

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

Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgments

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

a) ***Goodwill***

Recoverable amount

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

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.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

(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 (note 2).

f) ***Share-based compensation***

Management is required to make certain assumptions and to estimate future financial performance to estimate the fair value of share-based awards at each consolidated balance sheet date. Significant estimates and assumptions relating to the option plan are disclosed in note 12. The LTIP requires management to estimate future non-GAAP earnings measures, future revenue growth relative to specified industry peers, and total shareholder return, both absolutely and relative to specified industry peers. Future non-GAAP earnings are estimated based on current projections, updated at least annually, taking into account actual performance since the grant of the award. Future revenue growth relative to peers is based on historical performance and current projections, updated at least annually for actual performance since the grant of the award by Cineplex and its peers. Total shareholder return for Cineplex and its peers is updated at each consolidated balance sheet date based on financial models, taking into account financial market observable inputs.

g) ***Contingent consideration for EK3***

Cineplex recognized the fair value of contingent consideration relating to its acquisition of EK3 at the date the transaction closed (note 29), and Cineplex is required to revalue the contingent consideration at each subsequent reporting date until its settlement. The sale and purchase agreement sets out a process by which the final consideration will be determined. Cineplex has measured the liability as at December 31, 2016 and 2015 based on a weighted average probability of reasonably possible outcomes. Cineplex has adjusted the deferred consideration to the best estimate of the expected value, being \$10,000. The sale and purchase agreement includes a maximum contingent consideration payment of \$39,500. Final settlement of the consideration payable to the vendors may be materially different from the amount accrued.

Accounting standards adopted in 2018

IFRS 9 Financial Instruments

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

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

Following the adoption, Cineplex will no longer defer and amortize the deferred financing fees associated with the previous amended bank credit facilities. Under IAS 39, when Cineplex extended its bank credit facilities in 2016, it was considered a renegotiation of debt and the financing fees related to the transaction were added to the previous unamortized deferred financing fees and amortized over the remaining term on a straight-line basis. The adjustments below were made to the amounts recognized in the balance sheet and statement of changes in equity. The impact on the statement of operations is not material.

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

IFRS 15 Revenue from Contracts with Customers

Cineplex has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 which replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customer, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. Following the adoption of IFRS 15, Cineplex defers unused cash balances on rechargeable game cards. The adoption of the new revenue standard did not have a material impact on Cineplex's statement of operations.

The following table shows the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub totals and totals disclosed cannot be recalculated from the numbers provided.

Consolidated Statement of Changes in Equity:

	January 1, 2017 as originally presented	Adjustment	January 1, 2017 (Restated)
Equity			
Deficit	(108,342)	(2,913)	(111,255)
Total Equity	751,895	(2,913)	748,982

Consolidated Balance Sheet:

	January 1, 2017 as originally presented	Adjustment	January 1, 2017 (Restated)
Current liabilities			
Deferred revenue	172,140	3,000	175,140
Non-current liabilities			
Long-term debt	297,496	976	298,472
Deferred income taxes	11,210	(1,063)	10,147
Total Liabilities	976,291	2,913	979,204

Consolidated Statement of Changes in Equity:

	December 31, 2017 as originally presented	Adjustment	December 31, 2017 (Restated)
Equity			
Deficit	(145,147)	(2,913)	(148,060)
Total Equity	711,776	(2,913)	708,863

Consolidated Balance Sheet:

	December 31, 2017 as originally presented	Adjustment	January 1, 2017 (Restated)
Current liabilities			
Deferred revenue	192,808	3,000	195,808
Non-current liabilities			
Long-term debt	466,891	976	467,867
Deferred income taxes	15,094	(1,063)	14,031
Total Liabilities	1,143,392	2,913	1,146,305

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016
(expressed in thousands of Canadian dollars, except per share amounts)

Accounting standards adopted in 2017

IAS 12 was amended to clarify the requirements for recognizing deferred income tax assets on unrealized losses, deferred income taxes where an asset is measured at fair value below the asset's tax base, and certain other aspects of accounting for deferred income tax assets. The amendments were effective on or after January 1, 2017 and did not have any impact on Cineplex's balance sheet and statement of operations.

Accounting standards adopted in 2016

IAS 1, Presentation of Financial Statements, was amended in December 2014 to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Amendment was adopted on January 1, 2016, without significant impact on Cineplex's balance sheet and statement of operations.

Accounting standards issued but not yet applied – 2018

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

IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. The new standard is mandatorily effective for fiscal years beginning on or after January 1, 2019. Under the new standard, all leases will be reported on lessees' balance sheets, except those that meet limited exception criteria. Cineplex is reviewing its analysis of the new standard and has made policy decisions to determine its impact on Cineplex's balance sheet and statement of operations. Cineplex will apply IFRS 16 using the modified retrospective approach and as a result comparative information will not be restated and will continue to be reported under IAS 17 and IFRIC 4. Additional disclosure will include a reconciliation between operating lease commitments at December 31, 2018 under IAS 17 and the opening lease liabilities at January 1, 2019 under IFRS 16. Cineplex has also identified and reviewed all contracts from all lines of its business to assess if they fall within the scope of IFRS 16, in whole or in part and to quantify lease and non-lease components.

As Cineplex has significant contractual obligations classified as operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard, and material changes to the timing of recognition and presentation of expenses associated with the lease arrangements. Current disclosure with respect to lease commitments in note 27 includes undiscounted minimum lease commitments not factoring in any assumptions with respect to renewals or extensions that will be included in determining the IFRS 16 lease liability. At the date of adoption of IFRS 16, Cineplex will recognize a lease liability and right-of-use asset. The lease liability will be measured at the present value of the future lease payments during the lease term which is estimated to be an average of 20 years at the date of adoption, discounted using incremental borrowing rates which, in most instances, will be similar to Cineplex's average interest rate on borrowings under the Credit Facility (note 14). The right-of-use asset will be initially calculated at an amount equal to the initial value of the lease liability adjusted as required under the standard for specific items.

In general, the right-of-use asset will be depreciated using the straight-line method from the date of adoption to the end of the lease term. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the liability. As a result of these changes, there will be a material increase in 2019 to interest expense and depreciation, as well as a material reduction in Other Costs on the Statement of Operations due to the decrease in rent expense and all lease expense related non-cash components being removed. Cineplex is currently in the final phases of upgrading its existing accounting systems, processes and internal controls to account for IFRS 16. Cineplex will be ready to report under IFRS 16 in its first quarter financial statements in 2019.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016
(expressed in thousands of Canadian dollars, except per share amounts)

Accounting standards issued but not yet applied – 2017

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

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments (“IFRS 9”) was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”) for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (“OCI”). Where equity instruments are measured at fair value through OCI, dividends are recognized in profit or loss to the extent not clearly representing a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to Cineplex’s own credit risk in liabilities designed at fair value through profit and loss would generally be recorded in OCI or other comprehensive loss (“OCL”).

Deliberations by the IASB have clarified upon the modification of debt, any previously incurred deferred financing fees will be expensed in the statement of operations. Previously with IAS 39, additional financing fees would be added to the unamortized financing fees and deferred over the term of the modified debt.

The final version of IFRS 9 was issued in July 2014, and includes a third measurement category for financial assets, “fair value through other comprehensive income”; a single, forward-looking “expected loss impairment model”; and a mandatory effective date for annual periods beginning on or after January 1, 2018. Cineplex has completed analyzing the new standard to determine the impact on Cineplex’s balance sheet and statement of operations upon adoption of the standard including working on a model for calculating expected credit losses on accounts receivables. The changes are not material.

IFRS 15, Revenue from Contracts with Customers

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15, Revenue from Contracts with Customers, which will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Earlier application is permitted.

Cineplex has identified all significant revenues from its various lines of business, and has analysed the specific contracts with customers underlying those revenues. Cineplex has completed its analysis on the impact of IFRS 15 on the consolidated financial statements and has determined that there will be no change on the balance sheet, statement of operations or cash flows. No change in controls or financial accounting systems will be required and no changes in underlying contractual arrangements are expected. Disclosures will be expanded as required under the new standard.

IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted. Cineplex is analysing the new standard to determine its impact on Cineplex’s balance sheet and

Notes to Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

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

statement of operations. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. As Cineplex has significant contractual obligations classified as operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard, and material changes to the timing of recognition and presentation of expenses associated with the lease arrangements. Cineplex expects to change its existing accounting systems to account for IFRS 16.

Accounting standards issued but not yet applied – 2016

IFRS 9, Financial Instruments (“IFRS 9”), was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in International Accounting Standard (“IAS”) 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through OCI. Where equity instruments are measured at fair value through OCI, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in AOCI indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instrument: Recognition and Measurement (“IAS 39”), except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss are generally recorded in OCI.

The final version of IFRS 9 was issued in July 2014, and includes a third measurement category for financial assets, “fair value through other comprehensive income”; a single, forward-looking “expected loss impairment model”; and a mandatory effective date for annual periods beginning on or after January 1, 2018. Cineplex is analysing the new standard to determine its impact on Cineplex’s balance sheet and statement of operations.

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15 Revenue from Contracts with Customers, which will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Earlier application is permitted. Cineplex is analyzing the new standard to determine its impact on Cineplex’s balance sheet and statement of operations.

On January 13, 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. As Cineplex has significant contractual obligations in the form of operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard, and potentially material changes to the timing of recognition and classification of expenses associated with the lease arrangements. Cineplex is analysing the new standard to determine its impact on Cineplex’s balance sheet and statement of operations.

IAS 12 was amended to clarify the requirements for recognizing deferred income tax assets on unrealized losses, deferred income taxes where an asset is measured at fair value below the asset’s tax base, and certain other aspects of accounting for deferred income tax assets. The amendments are effective on or after January 1, 2017 and are not expected to have any impact on Cineplex’s balance sheet and statement of operations.

33. Comparative figures

Certain 2017 and 2016 consolidated financial statement comparative figures have been reclassified to conform to the current year’s presentation.

PART IV

HISTORICAL FINANCIAL INFORMATION RELATING TO CINEPLEX

PART B: HISTORICAL FINANCIAL INFORMATION RELATING TO CINEPLEX

This Part B of Part IV (*Historical Financial Information Relating to Cineplex*) contains the unaudited interim condensed consolidated balance sheets for the nine-month period ended 30 September 2019.

The financial information contained in this Part A of Part IV (*Historical Financial Information Relating to Cineplex*) has been extracted without material adjustment from the unaudited interim condensed consolidated balance sheets for the nine-month period ended 30 September 2019.

This financial information does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 or, as the case may be, section 434(3) of the Companies Act 2006.

Shareholders should read the whole of this document and not rely solely on the financial information contained in this Part IV (*Historical Financial Information Relating to Cineplex*).

Unless otherwise stated, the financial information relating to Cineplex in this document has been prepared in accordance with Canadian GAAP.

In Part B of Part IV (*Historical Financial Information Relating to Cineplex*), the “**Company**” means Cineplex.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(expressed in thousands of Canadian dollars)

	September 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	30,074	25,242
Trade and other receivables	97,299	165,586
Income taxes receivable	8,462	4,944
Inventories	35,725	30,592
Prepaid expenses and other current assets	19,334	13,862
Fair value of interest rate swap agreements	944	1,457
Assets held for sale (note 2)	5,858	—
	<u>197,696</u>	<u>241,683</u>
Non-current assets		
Property, equipment and leaseholds (note 12)	628,374	634,354
Right-of-use assets (notes 3 and 12)	1,257,068	—
Deferred income taxes	14,178	13,444
Fair value of interest rate swap agreements	471	2,063
Interests in joint ventures and associates	29,638	38,912
Intangible assets (note 12)	88,147	108,758
Goodwill	816,964	817,235
	<u>3,032,536</u>	<u>1,856,449</u>
	September 30, 2019	December 31, 2018
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	154,758	186,407
Share-based compensation (note 4)	2,250	4,862
Dividends payable	9,500	9,183
Income taxes payable	1,870	12,167
Deferred revenue (note 5)	170,553	214,016
Lease obligations (notes 6 and 12)	112,152	3,058
Fair value of interest rate swap agreements	1,868	1,184
Liabilities related to assets held for sale (note 2)	2,584	—
	<u>455,535</u>	<u>430,877</u>
Non-current liabilities		
Share-based compensation (note 4)	11,612	8,210
Long-term debt	649,000	580,000
Fair value of interest rate swap agreements	15,878	7,674
Lease obligations (notes 6 and 12)	1,269,982	10,789
Post-employment benefit obligations	9,484	9,250
Other liabilities	10,443	119,110
Deferred income taxes	219	11,528
	<u>1,966,618</u>	<u>746,561</u>
Total liabilities	<u>2,422,153</u>	<u>1,177,438</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(expressed in thousands of Canadian dollars)

	September 30, 2019	December 31, 2018
Equity		
Share capital (note 7)	852,379	852,379
Deficit	(238,516)	(179,721)
Hedging reserves and other	(12,577)	(3,678)
Contributed surplus	9,016	7,815
Cumulative translation adjustment	186	2,301
Total equity attributable to owners of Cineplex	610,488	679,096
Non-controlling interests	(105)	(85)
Total equity	610,383	679,011
	<u>3,032,536</u>	<u>1,856,449</u>

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated (note 2)	2019	2018 Restated (note 2)
Revenues (note 5)				
Box office	177,865	173,278	523,732	541,892
Food service	125,550	115,557	358,171	354,775
Media	43,308	33,162	127,210	104,913
Amusement	58,143	53,838	174,760	152,320
Other	13,582	10,554	38,053	30,695
	<u>418,448</u>	<u>386,389</u>	<u>1,221,926</u>	<u>1,184,595</u>
Expenses				
Film cost	93,735	90,213	275,461	287,763
Cost of food service	27,439	24,257	79,122	74,053
Depreciation – right-of-use assets	36,456	–	109,475	–
Depreciation and amortization – other assets	31,712	32,483	95,748	93,743
Loss on disposal of assets	303	783	896	1,617
Other costs (note 8)	190,955	217,003	567,771	643,847
Share of income of joint ventures and associates	(560)	(1,118)	(2,572)	(2,850)
Interest expense – lease obligations	12,091	126	36,780	425
Interest expense – other	6,244	6,766	17,453	19,536
Interest income	(75)	(60)	(208)	(205)
Foreign exchange	(449)	391	569	(438)
	<u>397,851</u>	<u>370,844</u>	<u>1,180,495</u>	<u>1,117,491</u>
Income from continuing operations before income taxes	<u>20,597</u>	<u>15,545</u>	<u>41,431</u>	<u>67,104</u>
Provision for income taxes				
Current	7,932	6,182	16,345	19,008
Deferred	(2,435)	(2,979)	(6,762)	(8,101)
	<u>5,497</u>	<u>3,203</u>	<u>9,583</u>	<u>10,907</u>
Net income from continuing operations	<u>15,100</u>	<u>12,342</u>	<u>31,848</u>	<u>56,197</u>
Net loss from discontinued operations, net of taxes (note 2)	<u>(1,718)</u>	<u>(2,133)</u>	<u>(6,429)</u>	<u>(6,395)</u>
Net income	<u>13,382</u>	<u>10,209</u>	<u>25,419</u>	<u>49,802</u>
Net income from continuing operations attributable to:				
Owners of Cineplex	15,102	12,414	31,868	56,269
Non-controlling interests	(2)	(72)	(20)	(72)
Net income from continuing operations	<u>15,100</u>	<u>12,342</u>	<u>31,848</u>	<u>56,197</u>

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated (note 2)	2019	2018 Restated (note 2)
Net income attributable to:				
Owners of Cineplex	13,384	10,281	25,439	49,874
Non-controlling interests	(2)	(72)	(20)	(72)
Net income	<u>13,382</u>	<u>10,209</u>	<u>25,419</u>	<u>49,802</u>
Net income per share attributable to owners of Cineplex – basic and diluted:				
Continuing operations (note 9)	0.24	0.19	0.50	0.89
Discontinued operations (notes 2 and 9)	(0.03)	(0.03)	(0.10)	(0.10)
Total operations	<u>0.21</u>	<u>0.16</u>	<u>0.40</u>	<u>0.79</u>

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated	2019	2018 Restated
Net income from continuing operations	<u>15,100</u>	<u>12,342</u>	<u>31,848</u>	<u>56,197</u>
Other comprehensive income (loss) from continuing operations				
<i>Items that will be reclassified subsequently to net income:</i>				
(Loss) income on hedging instruments	(527)	1,418	(12,148)	2,585
Associated deferred income taxes recovery (expense)	128	(332)	3,249	(650)
Foreign currency translation adjustment	<u>727</u>	<u>(1,230)</u>	<u>(2,209)</u>	<u>2,242</u>
Other comprehensive income (loss)	<u>328</u>	<u>(144)</u>	<u>(11,108)</u>	<u>4,177</u>
Comprehensive income from continuing operations	15,428	12,198	20,740	60,374
Net loss from discontinued operations, net of taxes (note 2)	(1,718)	(2,133)	(6,429)	(6,395)
Foreign currency translation adjustment from discontinued operations	<u>(65)</u>	<u>37</u>	<u>94</u>	<u>(92)</u>
Comprehensive income	<u>13,645</u>	<u>10,102</u>	<u>14,405</u>	<u>53,887</u>
Comprehensive income from continuing operations attributable to:				
Owners of Cineplex	15,430	12,270	20,760	60,446
Non-controlling interests	<u>(2)</u>	<u>(72)</u>	<u>(20)</u>	<u>(72)</u>
	<u>15,428</u>	<u>12,198</u>	<u>20,740</u>	<u>60,374</u>
Comprehensive income attributable to:				
Owners of Cineplex	13,647	10,174	14,425	53,959
Non-controlling interests	<u>(2)</u>	<u>(72)</u>	<u>(20)</u>	<u>(72)</u>
	<u>13,645</u>	<u>10,102</u>	<u>14,405</u>	<u>53,887</u>

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Hedging reserves and other	Cumulative translation adjustment	Deficit	Non- controlling interests	Total
January 1, 2019	852,379	7,815	(3,678)	2,301	(179,721)	(85)	679,011
Net income	—	—	—	—	25,439	(20)	25,419
Other comprehensive loss	—	—	(8,899)	(2,115)	—	—	(11,014)
Total comprehensive income	—	—	(8,899)	(2,115)	25,439	(20)	14,405
Dividends declared	—	—	—	—	(84,234)	—	(84,234)
Share option expense	—	1,201	—	—	—	—	1,201
September 30, 2019	852,379	9,016	(12,577)	186	(238,516)	(105)	610,383
January 1, 2018	856,761	1,647	1,332	(2,817)	(148,060)	—	708,863
Net income	—	—	—	—	49,874	(72)	49,802
Other comprehensive loss	—	—	1,935	2,150	—	—	4,085
Total comprehensive income	—	—	1,935	2,150	49,874	(72)	53,887
Dividends declared	—	—	—	—	(81,381)	—	(81,381)
Share option expense	—	1,323	—	—	—	—	1,323
Issuance of shares on exercise of options	74	(6)	—	—	—	—	68
TGLP non-controlling interests recognized on formation	—	—	—	—	—	12	12
September 30, 2018	856,835	2,964	3,267	(667)	(179,567)	(60)	682,772

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated (note 2)	2019	2018 Restated (note 2)
Cash provided by (used in)				
Operating activities				
Net income from continuing operations	15,100	12,342	31,848	56,197
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	31,712	32,483	95,748	93,743
Depreciation of right-of-use assets	36,456	—	109,475	—
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	—	(2,584)	—	(8,783)
Unrealized foreign exchange	(169)	175	389	(119)
Interest rate swap agreements – non-cash interest	(287)	185	(1,419)	393
Accretion of convertible debentures	—	606	—	1,815
Other non-cash interest	487	100	1,337	301
Loss on disposal of assets	303	783	896	1,617
Deferred income taxes	(2,435)	(2,979)	(6,762)	(8,101)
Non-cash share-based compensation	408	405	1,201	1,323
Net change in interests in joint ventures and associates	(149)	(2,130)	(3,238)	(3,759)
Changes in operating assets and liabilities (note 10)	(3,666)	(239)	(31,943)	(19,191)
Net cash provided by operating activities	<u>77,760</u>	<u>39,147</u>	<u>197,532</u>	<u>115,436</u>
Investing activities				
Proceeds from disposal of assets, including asset-related insurance recoveries	—	44	—	1,830
Purchases of property, equipment and leaseholds	(34,905)	(30,582)	(94,919)	(85,546)
Acquisition of businesses, net of cash acquired	—	(4,685)	—	(4,685)
Intangible assets additions	(2,600)	(992)	(5,156)	(3,082)
Tenant inducements (note 13)	7,804	3,481	9,153	11,729
Net cash received from CDCP	<u>3,910</u>	<u>2,606</u>	<u>12,512</u>	<u>3,582</u>
Net cash used in investing activities	<u>(25,791)</u>	<u>(30,128)</u>	<u>(78,410)</u>	<u>(76,172)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated (note 2)	2019	2018 Restated (note 2)
Financing activities				
Dividends paid	(28,500)	(27,549)	(83,917)	(81,064)
Borrowings under credit facilities, net	8,000	19,000	69,000	40,000
Options exercised for cash	—	—	—	68
Repayments of lease obligations – principal	(31,836)	(863)	(95,900)	(2,542)
Financing fees	—	—	(243)	—
Net cash used in by financing activities	<u>(52,336)</u>	<u>(9,412)</u>	<u>(111,060)</u>	<u>(43,538)</u>
Effect of exchange rate differences on cash (Decrease) increase in cash and cash equivalents from continuing operations	(158)	(204)	138	463
Cash flows used in discontinued operations (note 2)	(525)	(597)	8,200	(3,811)
	(1,441)	(965)	(3,368)	(4,224)
Cash and cash equivalents – Beginning of period	<u>32,040</u>	<u>34,124</u>	<u>25,242</u>	<u>40,597</u>
Cash and cash equivalents – End of period	<u>30,074</u>	<u>32,562</u>	<u>30,074</u>	<u>32,562</u>
Supplemental information				
Cash paid for interest – lease obligation	11,684	126	35,575	425
Cash paid for interest – other	6,406	7,276	18,668	18,383
Cash paid for income taxes, net	2,999	4,225	29,087	22,267

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

1. General information

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

The Board of Directors approved these consolidated financial statements on November 13, 2019.

2. Assets held for sale and discontinued operations

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

Cineplex applied IFRS 5, *Non-current assets held for sale and discontinued operations* (“IFRS 5”) to measure, present and disclose the financial information for WGN. Under this standard, Cineplex has met the criteria to record WGN as a discontinued operation, therefore effective with the quarter ended September 30, 2019, WGN’s financial performance and cash flows are presented in these unaudited interim condensed 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 at September 30, 2019 classified as held for sale are as follows:

Trade and other receivables	257
Prepaid expenses and other current assets	7
Property, equipment and leaseholds	722
Intangible assets	4,872
Assets held for sale	<u>5,858</u>
Accounts payable and accrued liabilities	1,189
Deferred revenue	178
Deferred income taxes	1,217
Liabilities related to assets held for sale	<u>2,584</u>
Net assets held for sale	<u>3,274</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

The following table discloses revenues and expenses for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues				
Media revenues	138	325	827	1,878
Other revenues	—	1	16	167
	<u>138</u>	<u>326</u>	<u>843</u>	<u>2,045</u>
Expenses				
Depreciation and amortization – other assets	1,215	1,116	3,623	3,310
Loss on disposal of assets	—	—	—	16
Other costs	1,391	1,941	5,530	6,323
Foreign exchange	(12)	—	186	(3)
	<u>2,594</u>	<u>3,057</u>	<u>9,339</u>	<u>9,646</u>
Loss before income taxes	(2,456)	(2,731)	(8,496)	(7,601)
Provision of income taxes				
Current	(524)	(361)	(1,284)	(1,007)
Deferred	(214)	(237)	(783)	(199)
	<u>(738)</u>	<u>(598)</u>	<u>(2,067)</u>	<u>(1,206)</u>
Net loss from discontinued operations	<u>(1,718)</u>	<u>(2,133)</u>	<u>(6,429)</u>	<u>(6,395)</u>
Foreign currency translation adjustment from discontinued operations	<u>(65)</u>	<u>37</u>	<u>94</u>	<u>(92)</u>
Other comprehensive loss from discontinued operations	<u>(1,783)</u>	<u>(2,096)</u>	<u>(6,335)</u>	<u>(6,487)</u>

The following table discloses cash flows for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net cash used in operating activities	(951)	(781)	(2,649)	(3,603)
Net cash used in investing activities	(492)	(215)	(868)	(520)
Effect of exchange rate differences on cash	<u>2</u>	<u>31</u>	<u>149</u>	<u>(101)</u>
Net cash outflow from discontinued operations	<u>(1,441)</u>	<u>(965)</u>	<u>(3,368)</u>	<u>(4,224)</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

3. Right-of-use assets

The following table presents right-of-use assets for Cineplex for the nine months ended September 30, 2019:

Right-of-use assets consist of:

	Property	Equipment	Total
At September 30, 2019			
Cost	1,347,060	19,474	1,366,534
Accumulated depreciation	(105,692)	(3,774)	(109,466)
Net book value	<u>1,241,368</u>	<u>15,700</u>	<u>1,257,068</u>
Nine months ended September 30, 2019			
Opening net book value upon adoption of IFRS 16	1,323,187	19,406	1,342,593
Additions, net of modifications	24,255	70	24,325
Foreign exchange rate changes	(373)	(2)	(375)
Depreciation for the period	(105,701)	(3,774)	(109,475)
Closing net book value	<u>1,241,368</u>	<u>15,700</u>	<u>1,257,068</u>

4. Share-based compensation

Option plan

Cineplex recorded \$408 and \$1,201 in employee benefits expense with respect to share options during the three and nine months ended September 30, 2019 (2018 – \$405 and \$1,323, respectively).

Upon cashless exercises, the options exercised in excess of shares issued are canceled and returned to the pool available for future grants. At September 30, 2019, 1,057,704 options are available for grant.

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

		2019		2018	
	Weighted average remaining contractual life (years)	Number of underlying shares	Weighted average exercise price	Number of underlying shares	Weighted average exercise price
Options outstanding, January 1	6.92	2,433,589	42.84	2,157,589	45.50
Granted		757,639	25.05	559,703	33.59
Forfeited		(67,707)	38.51	(233,847)	45.17
Exercised		<u>—</u>	<u>—</u>	<u>(2,500)</u>	<u>27.33</u>
Options outstanding, September 30	7.60	<u>3,123,521</u>	38.62	<u>2,480,945</u>	42.86
Options vested and exercisable, September 30		<u>1,695,456</u>		<u>1,300,065</u>	

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

Long-term incentive plan (“LTIP”)

Officers and key employees are eligible to participate in the LTIP. Each annual LTIP grant is for a three-year service period beginning October 1. The LTIP award consists of a restricted stock unit (“RSU”) plan awarding base Share equivalents which may decrease or increase subject to certain market conditions and a phantom share unit (“PSU”) plan awarding Share equivalents which may decrease or increase subject to certain performance and market conditions. The base Share equivalents attract compounding notional dividends at the same rate as outstanding Shares, which are notionally re-invested as additional base Share equivalents. The awards will be settled in cash at the end of the service period, within 30 days of the approval of the annual consolidated financial statements by the Board.

The grants of Share equivalents were as follows:

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

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the period of change. Forfeitures are estimated at \$nil. Cineplex recognized compensation costs of \$857 and \$2,387 under the LTIP for the three and nine months ended September 30, 2019 (2018 – \$340 and \$884, respectively). At September 30, 2019, \$5,605 (2018 – \$5,630) was included in share-based compensation liability.

Deferred equity units

Members of the Board of Directors and certain officers of Cineplex may elect to defer a portion of their compensation in the form of deferred equity units. For the three and nine months ended September 30, 2019, Cineplex recognized compensation expense recoveries of \$741 and \$220 associated with the deferred equity units (2018 – costs (recoveries) of \$1,680 and \$(155), respectively). At September 30, 2019, \$8,256 (2018 – \$9,570) was included in share-based compensation liability.

5. Revenue

The following tables disclose the changes in deferred revenue for the nine months ended September 30, 2019 and 2018:

	December 31, 2018	Additions	Revenue Recognized	September 30, 2019
Gift cards	172,301	73,326	117,132	128,495
SCENE loyalty program	24,893	34,232	37,560	21,565
Advances and deposits	16,822	52,378	48,707	20,493
	<u>214,016</u>	<u>159,936</u>	<u>203,399</u>	<u>170,553</u>
	December 31, 2017	Additions	Revenue Recognized	September 30, 2018
Gift cards	157,169	81,320	123,367	115,122
SCENE loyalty program	22,465	34,634	32,379	24,720
Advances and deposits	16,174	39,504	39,799	15,879
	<u>195,808</u>	<u>155,458</u>	<u>195,545</u>	<u>155,721</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

The following tables provide the disaggregation of revenue into categories by nature for the three and nine months ended September 30, 2019 and 2018:

Box revenues	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Box office revenues	177,865	173,278	523,732	541,892
Food service revenues	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Food service – theatres	117,048	107,519	331,961	329,718
Food service – location-based entertainment	8,502	8,038	26,210	25,057
Total food service revenues	125,550	115,557	358,171	354,775
Media revenues	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated (note 2)	2019	2018 Restated (note 2)
Cinema media	22,572	19,967	73,244	66,667
Digital place-based media	20,736	13,195	53,966	38,246
Total media revenues	43,308	33,162	127,210	104,913
Amusement revenues	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Amusement solutions excluding exhibition	44,788	42,820	138,278	122,179
Amusement solutions – exhibition	2,847	2,880	8,239	7,967
Amusement solutions – location based entertainment	10,508	8,138	28,243	22,174
Total amusement revenues	58,143	53,838	174,760	152,320
Other revenues	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated (note 2)	2019	2018 Restated (note 2)
Other revenues	13,582	10,554	38,053	30,695

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

6. Lease obligations

The following table presents lease obligations for Cineplex for the nine months ended September 30, 2019:

	Property	Equipment	Total
Nine months ended September 30,			
Opening balance	1,422,579	19,277	1,441,856
Additions, net of modifications	24,179	70	24,249
Tenant inducement	11,047	–	11,047
Lease payment	(127,508)	(3,914)	(131,422)
Interest expense	36,336	443	36,779
Foreign exchange rate changes	(374)	(1)	(375)
Closing lease obligations	1,366,259	15,875	1,382,134
Less: current portion	107,348	4,804	112,152
Non-current portion of lease obligations	1,258,911	11,071	1,269,982

7. 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 September 30, 2019 and 2018 and transactions during the periods are as follows:

2019				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance – December 31, 2018 and September 30, 2019	63,333,238	852,379	–	852,379
2018				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance – December 31, 2017	63,330,446	852,290	4,471	856,761
Issuance of shares on exercise of options	2,500	74	–	74
Balance – September 30, 2018	63,332,946	852,364	4,471	856,835

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

8. Other costs

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated (note 2)	2019	2018 Restated (note 2)
Employee salaries and benefits	77,996	74,062	231,655	227,143
Rent	1,159	39,062	2,833	115,842
Realty and occupancy taxes and maintenance fees	18,923	18,643	55,568	54,891
Utilities	8,751	8,930	24,965	25,124
Purchased services	17,594	15,544	50,921	44,276
Other inventories consumed, including amusement and digital place-based media	22,316	16,477	67,492	50,556
Venue revenue share	12,883	13,249	38,424	34,925
Repairs and maintenance	8,656	8,057	25,487	23,895
Advertising and promotion	5,913	6,716	16,158	17,901
Office and operating supplies	3,638	2,802	11,055	10,653
Licences and franchise fees	4,739	4,007	14,797	12,473
Insurance	1,247	1,404	3,683	3,944
Professional and consulting fees	1,749	1,713	5,795	4,836
Telecommunications and data	1,929	1,742	5,555	5,586
Bad debts	49	326	865	809
Equipment rental	320	786	949	2,398
Business interruption insurance proceeds	—	—	—	(3,700)
Other costs	3,093	3,483	11,569	12,295
	<u>190,955</u>	<u>217,003</u>	<u>567,771</u>	<u>643,847</u>

9. Net income per share

Basic

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated (note 2)	2019	2018 Restated (note 2)
Net income attributable to owners of Cineplex – continuing operations	<u>15,102</u>	<u>12,414</u>	<u>31,868</u>	<u>56,269</u>
Net income attributable to owners of Cineplex	13,384	10,281	25,439	49,874
Weighted average number of shares outstanding	<u>63,333,238</u>	<u>63,332,946</u>	<u>63,333,238</u>	<u>63,331,829</u>
Basic EPS from continuing operations	0.24	0.19	0.50	0.89
Basic EPS from discontinued operations	<u>(0.03)</u>	<u>(0.03)</u>	<u>(0.10)</u>	<u>(0.10)</u>
Basic EPS	<u>0.21</u>	<u>0.16</u>	<u>0.40</u>	<u>0.79</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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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.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated (note 2)	2019	2018 Restated (note 2)
Net income attributable to owners of Cineplex – continuing operations	15,102	12,414	31,868	56,269
Net income attributable to owners of Cineplex	13,384	10,281	25,439	49,874
Weighted average number of shares outstanding	63,333,238	63,332,946	63,333,238	63,331,829
Adjustments for stock options	751	10,069	951	9,794
Weighted average number of shares for diluted EPS	63,333,989	63,343,015	63,334,189	63,341,623
Basic EPS from continuing operations	0.24	0.19	0.50	0.89
Basic EPS from discontinued operations	(0.03)	(0.03)	(0.10)	(0.10)
Basic EPS	0.21	0.16	0.40	0.79

10. Changes in operating assets and liabilities

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 Restated (note 2)	2019	2018 Restated (note 2)
Trade and other receivables	16,595	12,763	66,897	72,089
Inventories	1,301	604	(4,877)	(1,807)
Prepaid expenses and other current assets	(355)	1,924	(5,141)	(4,939)
Accounts payable and accrued liabilities	(19,194)	(12,783)	(30,448)	(35,797)
Income taxes payable	4,935	1,932	(12,603)	(2,369)
Deferred revenue	(7,992)	(5,530)	(43,781)	(39,887)
Post-employment benefit obligations	183	163	235	159
Share-based compensation	1,583	1,491	(158)	(4,490)
Other liabilities	(722)	(803)	(2,067)	(2,150)
	(3,666)	(239)	(31,943)	(19,191)

Property, equipment and leasehold purchases are included in accounts payable and accrued liabilities as at September 30, 2019, in the amount of \$18,394 (2018 – \$11,775).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

11. Operating segments

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

Film Entertainment and Content

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

Media

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

Amusement and Leisure

The Amusement and Leisure reporting segment is comprised of the aggregation of three operating segments, amusement solutions, location-based entertainment and eSports. Amusement solutions is comprised of revenues and costs associated with operating and distributing amusement, gaming and vending equipment. Location-based entertainment is comprised of the social entertainment destinations featuring gaming, entertainment and dining. ESports is comprised of the revenues and costs related to facilitating tournaments, leagues and gaming ladders for the competitive gaming community. Previously reported periods included results for eSports in the Amusement and Leisure segment. These financial statements present eSports in net loss from discontinued operations. Prior periods have been restated to reflect this presentation.

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

Management defines EBITDA as earnings before interest income and expense, income taxes and depreciation and amortization expense. Adjusted EBITDA excludes the change in fair value of financial instrument, loss on disposal of assets, foreign exchange gain, the equity income of CDCP, the non-controlling interests' share of adjusted EBITDA of TG-CPX Limited Partnership, and depreciation, amortization, interest and taxes of Cineplex's other joint ventures and associates. Adjusted EBITDAaL modifies adjusted EBITDA to deduct current period cash rent related to lease obligations. Prior year adjusted EBITDAaL deducts rent previously recognized as a reduction in finance lease obligations, and non-cash rent previously presented as amortization of tenant inducements, rent averaging liabilities, density rights and fair-value lease contract liabilities.

Cineplex's management believes that adjusted EBITDAaL is an important supplemental measure of Cineplex's profitability at an operational level and provides analysts and investors with comparability in

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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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 and Amusement and Leisure segments for the three and nine months ended September 30, 2019 and 2018:

Three months ended September 30, 2019	Film Entertainment and Content (i)	Media (i)	Amusement and Leisure	Corporate and other (iii)	Consolidated
Major product and service lines					
Box office	177,865	—	—	—	177,865
Food service	117,048	—	8,502	—	125,550
Media	—	43,064	244	—	43,308
Amusement	2,847	—	55,296	—	58,143
Other	13,257	—	325	—	13,582
Total revenues	311,017	43,064	64,367	—	418,448
Primary geographical markets					
Canada	311,017	39,235	34,660	—	384,912
United States and other countries	—	3,829	29,707	—	33,536
Total revenues	311,017	43,064	64,367	—	418,448
Timing of revenue recognition					
Transferred at a point in time	311,017	13,761	64,367	—	389,145
Transferred over time	—	29,303	—	—	29,303
Total revenues	311,017	43,064	64,367	—	418,448
Adjusted EBITDAaL	49,926	20,171	8,382	(16,167)	62,312
Difference between the sum of depreciation of right-of-use assets and interest expense related to the lease obligations as compared to the cash rent related to lease obligations paid with respect to the current period					4,726
Other adjustments (ii)					(892)
Depreciation and amortization – other assets					31,712
Interest expense – other					6,244
Interest income					(75)
Income taxes expense					5,497
Net income from continuing operations					15,100
Net loss from discontinued operations (note 2)					(1,718)
Net income					13,382
Other operating segment disclosures					
Depreciation – right-of-use assets	32,572	815	2,907	162	36,456
Depreciation and amortization – other assets	14,671	3,353	13,688	—	31,712
Interest expense – lease obligations	11,012	127	943	9	12,091

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

Three months ended September 30, 2019	Film Entertainment and Content (i)	Media (i)	Amusement and Leisure	Corporate and other (iii)	Consolidated
Major product and service lines					
Box office	173,278	—	—	—	173,278
Food service	107,519	—	8,038	—	115,557
Media	—	32,970	192	—	33,162
Amusement	2,880	—	50,958	—	53,838
Other	10,130	—	424	—	10,554
Total revenues	293,807	32,970	59,612	—	386,389
Primary geographical markets					
Canada	293,807	30,204	30,843	—	354,854
United States and other countries	—	2,766	28,769	—	31,535
Total revenues	293,807	32,970	59,612	—	386,389
Timing of revenue recognition					
Transferred at a point in time	293,807	6,038	59,612	—	359,457
Transferred over time	—	26,932	—	—	26,932
Total revenues	293,807	32,970	59,612	—	386,389
Adjusted EBITDAaL	44,040	18,735	6,657	(18,033)	51,399
Non-cash rent – included in rent expense (iv)					(2,584)
Cash rent previously recognized as a finance lease (v)					(989)
Other adjustments (ii)					112
Depreciation and amortization – other assets					32,483
Interest expense – lease obligations					126
Interest expense – other					6,766
Interest income					(60)
Income taxes expense					3,203
Net income from continuing operations					12,342
Net loss from discontinued operations (note 2)					(2,133)
Net income					10,209
Other operating segment disclosures					
Depreciation and amortization – other assets	22,333	2,819	7,332	—	32,483
Interest expense – lease obligations	126	—	—	—	126

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

Nine months ended September 30, 2019	Film Entertainment and Content (i)	Media (i)	Amusement and Leisure	Corporate and other (iii)	Consolidated
Major product and service lines					
Box office	523,732	—	—	—	523,732
Food service	331,961	—	26,210	—	358,171
Media	—	126,370	840	—	127,210
Amusement	8,239	—	166,521	—	174,760
Other	36,413	—	1,640	—	38,053
Total revenues	900,345	126,370	195,211	—	1,221,926
Primary geographical markets					
Canada	900,345	110,114	97,530	—	1,107,989
United States and other countries	—	16,256	97,681	—	113,937
Total revenues	900,345	126,370	195,211	—	1,221,926
Timing of revenue recognition					
Transferred at a point in time	900,345	33,949	195,211	—	1,129,505
Transferred over time	—	92,421	—	—	92,421
Total revenues	900,345	126,370	195,211	—	1,221,926
Adjusted EBITDAaL	133,055	64,932	22,634	(52,402)	168,219
Difference between the sum of depreciation of right-of-use assets and interest expense related to the lease obligations as compared to the cash rent related to lease obligations paid with respect to the current period.					15,216
Other adjustments (ii)					(1,421)
Depreciation and amortization – other assets					95,748
Interest expense – other					17,453
Interest income					(208)
Income taxes expense					9,583
Net income from continuing operations					31,848
Net loss from discontinued operations (note 2)					(6,429)
Net income					25,419
Other operating segment disclosures					
Depreciation – right-of-use assets	97,815	2,621	8,562	477	109,475
Depreciation and amortization – other assets	52,401	10,590	32,757	—	95,748
Interest expense – lease obligations	33,695	383	2,671	31	36,780

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For the nine months ended September 30, 2019

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

Nine months ended September 30, 2019	Film Entertainment and Content (i)	Media (i)	Amusement and Leisure	Corporate and other (iii)	Consolidated
Major product and service lines					
Box office	541,892	—	—	—	541,892
Food service	329,718	—	25,057	—	354,775
Media	—	104,366	547	—	104,913
Amusement	7,967	—	144,353	—	152,320
Other	29,856	—	839	—	30,695
Total revenues	909,433	104,366	170,796	—	1,184,595
Primary geographical markets					
Canada	909,433	95,789	86,995	—	1,092,217
United States and other countries	—	8,577	83,801	—	92,378
Total revenues	909,433	104,366	170,796	—	1,184,595
Timing of revenue recognition					
Transferred at a point in time	909,433	19,240	170,796	—	1,099,469
Transferred over time	—	85,126	—	—	85,126
Total revenues	909,433	104,366	170,796	—	1,184,595
Adjusted EBITDAaL	149,043	56,421	15,796	(54,004)	167,256
Non-cash rent – included in rent expense (iv)					(8,783)
Cash rent previously recognized as a finance lease (v)					(2,967)
Other adjustments (ii)					(1,597)
Depreciation and amortization – other assets					93,743
Interest expense – lease obligations					425
Interest expense – other					19,536
Interest income					(205)
Income taxes expense					10,907

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For the nine months ended September 30, 2019

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

Nine months ended September 30, 2019	Film Entertainment and Content (i)	Media (i)	Amusement and Leisure	Corporate and other (iii)	Consolidated
Net income from continuing operations					56,197
Net loss from discontinued operations (note 2)					(6,395)
Net income					49,802
Other operating segment disclosures					
Depreciation and amortization					
– other assets	64,717	8,461	20,565	–	93,743
Interest expense – lease obligations	425	–	–	–	425

Notes:

- (i) The Film Entertainment and Content reporting segment does not charge an access fee to the Media reporting segment for in-theatre advertising.
- (ii) Other adjustments include loss on disposal of assets, CDCP equity income, foreign exchange, non-controlling interest adjusted EBITDA, depreciation and amortization for joint ventures and taxes and interest – joint ventures.
- (iii) Corporate and other represents the cost of centralized corporate overhead that is not allocated to the other operating segments and includes the change in fair value of financial instruments.
- (iv) Calculated as the total amortization of tenant inducements, rent averaging liabilities and fair-value lease contract liabilities. This accounting treatment was applicable under IAS 17 Leases in 2018 but not applicable under IFRS 16 Leases in 2019.
- (v) Rent payments that were charged to the finance lease obligations in the previous reporting period.

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.

12. Basis of presentation and accounting standards changes

Basis of preparation and measurement

Cineplex prepares its unaudited interim condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), defined as International Financial Reporting Standards ("IFRS") as set out in the CPA Canada Handbook. The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires that management exercise judgment in applying Cineplex's accounting policies. These unaudited interim condensed consolidated financial statements are presented in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The disclosures contained in these unaudited interim condensed consolidated financial statements do not contain all requirements of Canadian GAAP for annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018. These unaudited interim condensed consolidated financial statements follow the same accounting policies and methods of application as the audited financial statements for the year ended December 31, 2018, with the exception of the accounting standards adopted in the current year.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Accounting standards applied or adopted in the current year

IFRS 5, Non-current assets held for sale and discontinued operations (“IFRS 5”)

Cineplex has met the criteria of recording WGN as a discontinued operation under the accounting standard IFRS 5. Therefore, effective with the quarter ended September 30, 2019, WGN’s financial performance and cash flows are presented in these unaudited interim condensed consolidated financial statements as discontinued operations on a retroactive basis. Additional disclosures regarding presentation of financials for the three and nine months ended September 30, 2019 and 2018 are provided in note 2.

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

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

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

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

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

IFRS 16, Leases (“IFRS 16”)

Effective January 1, 2019, Cineplex adopted IFRS16, replacing IAS 17, Leases (“IAS 17”) and related interpretations. IFRS 16 specifies how to recognize, measure, present and disclose leases and provides a single lessee accounting model requiring lessees to recognize assets and lease obligations for all major leases. The accounting policies for IFRS 16 applied in these unaudited interim condensed consolidated financial statements for the third quarter of 2019 are the same as those applied for the first quarter of 2019.

In general, under IFRS 16, substantially all of Cineplex’s leases are recorded on the balance sheet as right-of-use assets and corresponding lease obligations. Depreciation related to the right-of-use asset and interest expense related to lease obligations are deducted in computing net income. The principal component for these leases is reported as the repayment of lease obligations within cash flows from financing activities and the interest component is included in cash flows from operating activities.

On adoption, Cineplex implemented IFRS 16 using a modified retrospective approach whereby the financial statements of prior periods presented had not been restated and continue to be reported under IAS 17. The following table shows the impact on each individual line item on the balance sheet as of December 31, 2018 resulting from the adoption of IFRS 16 on January 1, 2019. Line items that were not affected by the changes have not been included. As a result, the sub totals and totals disclosed cannot be recalculated from the numbers provided.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2019

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

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

- (i) Property, equipment and leaseholds associated with finance lease assets were reallocated to right-of-use assets, and finance lease liabilities were reallocated to lease obligations upon adoption of IFRS 16.
- (ii) Asset retirement obligation (“ARO”) assets were reallocated to right-of-use assets, and ARO liabilities were re-valued based on the lease term and incremental borrowing rate upon adoption of IFRS 16.
- (iii) Fair-value rent assets and liabilities were reallocated to right-of-use assets upon adoption of IFRS 16.
- (iv) Deferred tenant inducements were reallocated to right-of-use assets upon adoption of IFRS 16.
- (v) Straight-line rent averaging liabilities were reallocated to right-of-use assets upon adoption of IFRS 16.
- (vi) Density right deferred gains were reallocated to right-of-use assets upon adoption of IFRS 16.
- (vii) Cineplex recognized right-of-use assets and lease obligations equal to the present value of future lease payments (“PVLP”) upon adoption of IFRS 16 using the modified retrospective method.

Critical Judgments in Determining 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.

IFRIC 23, Uncertainty over Income Tax Treatments (“IFRIC 23”)

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

13. Comparative figures

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

PART IV

HISTORICAL FINANCIAL INFORMATION RELATING TO CINEPLEX

PART C: RECONCILIATIONS OF THE CINEPLEX GROUP'S HISTORICAL FINANCIAL INFORMATION TO THE CINEWORLD GROUP'S ACCOUNTING POLICIES

The following unaudited reconciliations summarise the material adjustments which reconcile the Cineplex Group's consolidated net income (profit for the period) for each of the three years ended 31 December 2018, 31 December 2017 and 31 December 2016, as well as the total equity (net assets) as at 31 December 2018, 31 December 2017 and 31 December 2016, as previously reported by the Cineplex Group, to estimate those that would have been reported had the Cineplex Group applied the accounting policies used by the Cineworld Group in the preparation of its consolidated financial statements for year ended 31 December 2018.

The following unaudited reconciliations also summarise the material adjustments which reconcile the Cineplex Group's consolidated net income (profit for the period) for the nine months ended 30 September 2019, as well as the total equity (net assets) as at 30 September 2019 as previously reported by the Cineplex Group, to estimate those that would have been reported had the Cineplex Group applied the accounting policies used by the Cineworld Group in the preparation of its Interim Results for the 6 month period ended 30 June 2019.

These differences relate to methods for recognition and measurement of the amounts shown in the consolidated financial statements. The reconciliation does not seek to reflect any changes to the judgments made by the Cineplex Group in preparing the underlying Cineplex Group financial information and does not reflect any fair value adjustments which the Board will need to make as a result of the Acquisition or would have made had the Acquisition happened at any other date during the historical period shown.

The following unaudited reconciliations present the effect of the material differences between the Cineplex Group's accounting policies using Canadian GAAP and the Cineworld Group's accounting policies (using IFRS as adopted by the European Union ("IFRS EU")). The adjustment to the balance sheet (net assets) at each period end is a cumulative adjustment whereas the net income/(loss) adjustment represents the effect for the accounting period only and therefore does not correspond with the net assets adjustment amount for the corresponding accounting period.

1. Unaudited reconciliation of the Cineplex's net income for the nine months ended 30 September 2019 and for the years ended 31 December 2018, 31 December 2017 and 31 December 2016

(CAD\$ millions)	Note	For the 9 months ended	For the year ended		
		30 September 2019	31 December 2018	31 December 2017	31 December 2016
Net income of Cineplex as reported under Canadian GAAP		25.4	77.0	70.3	78.0
Accounting Policy Adjustments:					
Deferred financing fees	1	—	—	—	(1.0)
Tax impact of above items	3	—	—	—	0.3
Net income of Cineplex under Cineworld Group Plc's IFRS EU Accounting Policies		25.4	77.0	70.3	77.3
Net Income of Cineplex under Cineworld Group Plc's IFRS EU Accounting Policies Translated to US\$ (millions)		19.1	59.4	54.2	58.3

2. Unaudited reconciliation of Cineplex's total equity as at 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016

(CAD\$ millions)	Note	As at			
		30 September 2019	31 December 2018	31 December 2017	31 December 2016
Total Equity of Cineplex as reported under Canadian GAAP		610.4	679.0	711.8	751.9
Accounting Policy Adjustments:					
Deferred financing fees	1	—	—	(1.0)	(1.0)
Rechargeable game card deferred revenue	2	—	—	(3.0)	(3.0)
Deferred tax impact of above items	3	—	—	1.1	1.1
Total Equity of Cineplex under Cineworld Group Plc's IFRS EU Accounting Policies		610.4	679.0	708.9	749.0
Total Equity of Cineplex under Cineworld Group Plc's IFRS EU Accounting Policies Translated to US\$ (millions)		461.2	497.9	563.4	557.3

Notes:

- (1) Cineplex adopted IFRS 9 “*Financial Instruments*” from 1 January 2018. Following the adoption, Cineplex no longer defers and amortizes the deferred financing fees associated with the previous amended bank credit facilities. Under IAS 39, when Cineplex extended its bank credit facilities in 2016, it was considered a renegotiation of debt and C\$1.0 million of financing fees related to the transaction were added to the previous unamortized deferred financing fees and amortized over the remaining term on a straight-line basis.
- (2) Cineplex adopted IFRS 15 “*Revenue from Contracts with Customers*” from 1 January 2018. Following the adoption of IFRS 15, Cineplex deferred C\$3.0 million of unused cash balances on rechargeable game cards. The adoption of the new revenue standard did not have a material impact on Cineplex statement of operations.
- (3) This adjustment reflects the tax impact of the above items.



PART IV

HISTORICAL FINANCIAL INFORMATION RELATING TO CINEPLEX

PART D: ACCOUNTANT'S REPORT ON THE UNAUDITED RECONCILIATION OF THE CONSOLIDATED FINANCIAL INFORMATION OF THE CINEPLEX GROUP

The Directors
Cineworld Group plc
8th Floor, Vantage London,
Great West Road,
Brentford
TW8 9AG

Goldman Sachs International
Plumtree Court
25 Shoe Lane
London
EC4A 4AU

24 January 2020

Dear Ladies and Gentlemen

Cineworld Group plc (the “Company”): Proposed acquisition of Cineplex Inc. (the “Target”)

We report on the unaudited reconciliations (the “**Reconciliations**”) of the consolidated net income for each of the years in the three-year period ended 31 December 2018, and of the consolidated total equity as at 31 December 2018, 2017 and 2016 (together the “**Financial Information**”), as previously reported in the financial statements of the **Target** prepared under Canadian generally accepted accounting principles (“**Canadian GAAP**”), defined as International Financial Reporting Standards as set out in the CPA Canada Handbook - Accounting, showing the adjustments necessary to restate it on the basis of the Company’s accounting policies used in preparing the Company’s last set of annual consolidated financial statements, set out in Part IV of the Company’s circular dated 24 January 2020 (the “**Circular**”). This report is required by Listing Rule 13.5.27R(2)(a) of the United Kingdom Listing Authority and is given for the purpose of complying with that Listing Rule and for no other purpose.

We express no opinion on the unaudited reconciliations of the **Target** Group financial information to the Group’s accounting policies of the consolidated net income for the nine months ended 30 September 2019 and of the total equity as at 30 September 2019.

Responsibilities

It is the responsibility of the directors of the Company (the “**Directors**”) to prepare the Reconciliations in accordance with Listing Rule 13.5.27R(2)(a).

It is our responsibility to form an opinion, as required by Listing Rule 13.5.27R(2)(a), as to whether:

- a) the Reconciliations have been properly compiled on the basis stated; and
- b) the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies,

and to report that opinion to you.

The Reconciliations are based on the audited consolidated balance sheets as at 31 December 2018, 2017 and 2016 and consolidated income statements for each of the years then ended which were the responsibility of the directors of the Target and the audited consolidated balance sheets and consolidated income statements were audited by PricewaterhouseCoopers LLP (Canada). We do not accept any responsibility for any of the historical financial statements of the Target, nor do we express any opinion on those financial statements.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of checking whether the unadjusted Financial Information of the Target has been accurately extracted from an appropriate source, assessing whether all adjustments necessary for the purpose of presenting the Financial Information on a basis consistent in all material respects with the Company's accounting policies have been made, examination of evidence supporting the adjustments in the Reconciliations and checking the arithmetical accuracy of the calculations within the Reconciliations.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Reconciliations have been properly compiled on the basis stated and that the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Opinion

In our opinion:

- a) the Reconciliations have been properly compiled on the basis stated; and



- b) the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

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PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

PART V

UNAUDITED PRO FORMA FINANCIAL INFORMATION

RELATING TO THE ENLARGED GROUP

PART A: UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma net assets statement of the Enlarged Group (the “**Unaudited Pro Forma Financial Information**”) set out in Part A in this Part V (*Unaudited Pro Forma Financial Information Relating to the Enlarged Group*) has been prepared on the basis of the notes below, and in accordance with Listing Rule 13.3.3R.

The Unaudited Pro Forma Financial Information has been prepared based on the unaudited consolidated balance sheet of the Cineworld Group as at 30 June 2019 and the unaudited consolidated balance sheet of the Cineplex Group as at 30 September 2019, to illustrate the effect on the net assets of the Cineworld Group as if the Acquisition and related financing had taken place as at 30 June 2019.

The Unaudited Pro Forma Financial Information has been prepared on a basis consistent with the accounting policies and presentation adopted by Cineworld Group in relation to its Interim Results for the 6-month period ended 30 June 2019.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, by its nature, addresses a hypothetical situation and does not, therefore, represent the Enlarged Group’s actual financial position or results. The Unaudited Pro Forma Financial Information does not purport to represent what the Enlarged Group’s financial position would have been if the Acquisition had been completed on the date indicated, nor does it purport to represent the financial position at any future date. The Unaudited Pro Forma Financial Information does not constitute financial statements within the meaning of section 434 of the Companies Act 2006. Shareholders should read the whole of this Circular and not rely solely on the summarised financial information contained in this Part V (*Unaudited Pro Forma Financial Information Relating to the Enlarged Group*).

1. Unaudited pro forma statement of net assets relating to the Enlarged Group

		Adjustments			
	Cineworld 30 June 2019 (note 1)	Debt Raising (note 2)	Cineplex 30 September 2019 (note 3)	Acquisition adjustment (note 4)	Pro forma enlarged Group
	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m
Non-current assets					
Property, plant and equipment	1,914.2		474.8		2,389.0
Right-of-use assets	3,335.4		949.7		4,285.1
Goodwill	5,481.5		617.3	1,223.7	7,322.5
Other intangible assets	529.5		66.6		596.1
Investment in equity-accounted investee	301.9		22.4		324.3
Financial assets at FVOCI	18.0		0.4	(0.4)	18.0
Deferred tax asset	230.2		10.7		240.9
Other receivables	63.9		–		63.9
Total non-current assets	11,874.6	–	2,141.9	1,223.3	15,239.8
Current assets					
Assets classified as held for sale	2.2		4.5		6.7
Inventories	34.0		27.0		61.0
Trade and other receivables	224.1		94.5		318.6
Cash and cash equivalents	308.1	2,229.8	22.7	(2,227.1)	333.5
Financial assets at FVOCI	–		0.7	(0.7)	–
Total current assets	568.4	2,229.8	149.4	(2,227.8)	719.8
Total assets	12,443.0	2,229.8	2,291.3	(1,004.5)	15,959.6
Current liabilities					
Interest bearing loans, borrowings and other financial liabilities	(43.1)	(343.1)	–		(386.2)
Lease liabilities	(352.0)		(84.8)		(436.8)
Trade and other payables	(792.6)		(245.7)		(1,038.3)
Dividends payable	(139.3)		(7.2)		(146.5)
Current taxes payable	(102.9)		(1.4)		(104.3)
Provisions	(15.5)		–		(15.5)
Financial liabilities at FVOCI	–		(1.4)	1.4	–
Share based compensation	–		(1.7)		(1.7)
Liabilities related to assets held for sale	–		(1.9)		(1.9)
Total current liabilities	(1,445.4)	(343.1)	(344.1)	1.4	(2,131.2)

	Adjustments				
	Cineworld 30 June 2019 (note 1)	Debt Raising (note 2)	Cineplex 30 September 2019 (note 3)	Acquisition adjustment (note 4)	Pro forma enlarged Group
	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m
Non current liabilities					
Interest bearing loans, borrowings and other financial liabilities	(3,315.6)	(1,886.7)	(490.3)	490.3	(5,202.3)
Lease liabilities	(3,608.7)		(959.5)		(4,568.2)
Other payables and deferred income	(733.1)		(7.9)		(741.0)
Financial liabilities at FVOCI	–		(12.0)	12.0	–
Employee benefits	(3.5)		(7.2)		(10.7)
Provisions	(0.6)		–		(0.6)
Share based compensation	–		(8.8)		(8.8)
Deferred tax liabilities	(9.0)		(0.2)		(9.2)
Total non-current liabilities	(7,670.5)	(1,886.7)	(1,485.9)	502.3	(10,540.8)
Total liabilities	(9,115.9)	(2,229.8)	(1,830.0)	503.7	(12,672.0)
Net assets	3,327.1	–	461.3	(500.8)	3,287.6

Notes:

- (1) The Cineworld Group financial information as at 30 June 2019 has been extracted, without material adjustment, from the Cineworld Group published financial statements for the period ended 30 June 2019, which are prepared in accordance with IFRS and are incorporated by reference in paragraph 14 of Part VI (*Additional Information*) of this document.
- (2) The Cineworld Group has entered in to an agreement for syndicated bank facilities, in order to finance the Acquisition (the “Facilities Agreement”). The adjustment represents US\$1,932.2 million for a new term loan and US\$343.1 million for an unsecured bridge loan, net of US\$45.5 million of related fees.
- (3) Cineplex’s net assets are based on the consolidated balance sheet of the Cineplex Group as at 30 September 2019 extracted without material adjustment from Cineplex consolidated financial statements included in Part IV (*Historical Financial Information Relating to Cineplex*) of this document, as adjusted to Cineworld Group’s accounting policies and presentation. A reconciliation of the Cineplex’s consolidated balance sheet to Cineworld Group’s accounting policies and presentation is presented below:

	Cineplex Balance Sheet line items		Cineplex Balance Sheet line items under Cineworld's presentation	Translated into Cineworld's Reporting Currency US\$m (Note C)
Cineplex Balance sheet line items	as at 30 September 2019 CAD\$m (Note A)	Cineworld Balance sheet line items	as at 30 September 2019 CAD\$m (Note B)	
Non-current assets		Non-current assets		
Property, equipment and leaseholds	628.4	Property, plant and equipment	628.4	474.8
Right-of-use assets	1,257.0	Right-of-use assets	1,257.0	949.7
Goodwill	817.0	Goodwill	817.0	617.3
Intangible assets	88.1	Other intangible assets	88.1	66.6
Interests in joint ventures and associates	29.6	Investment in equity-accounted investee	29.6	22.4
Fair value of interest rate swap agreements	0.5	Financial assets at FVOCI	0.5	0.4
Deferred income taxes	14.2	Deferred tax asset	14.2	10.7
		Other receivables	—	—
	2,834.8	Total non-current assets	2,834.8	2,141.9
Current assets		Current assets		
Assets held for sale	5.9	Assets classified as held for sale	5.9	4.5
Inventories	35.7	Inventories	35.7	27.0
Income taxes receivable	8.5			
Prepaid expenses and other current assets	19.3			
Trade and other receivables	97.3	Trade and other receivables	125.1	94.5
Cash and cash equivalents	30.1	Cash and cash equivalents	30.1	22.7
Fair value of interest rate swap agreements	0.9	Financial assets at FVOCI	0.9	0.7
	197.7	Total current assets	197.7	149.4
		Total assets	3,032.5	2,291.3
Current liabilities		Current liabilities		
		Interest bearing loans, borrowings and other financial liabilities	—	—
Accounts payable and accrued liabilities	154.7			
Deferred revenue	170.5	Trade and other payables	(325.2)	(245.7)
Share-based compensation	2.3	Share-based compensation	(2.3)	(1.7)
Lease obligations	112.2	Lease liabilities	(112.2)	(84.8)
Dividends payable	9.5	Dividends payable	(9.5)	(7.2)
Income taxes payable	1.9	Current taxes payable	(1.9)	(1.4)
		Provisions	—	—
Fair value of interest rate swap agreements	1.9	Financial liabilities at FVOCI	(1.9)	(1.4)
Liabilities related to assets held for sale	2.5	Liabilities related to assets held for sale	(2.5)	(1.9)
	455.5	Total current liabilities	(455.5)	(344.1)
Non-current liabilities		Non current liabilities		
Share-based compensation	11.6	Share based compensation	(11.6)	(8.8)
Long-term debt	649.0	Interest bearing loans, borrowings and other financial liabilities	(649.0)	(490.3)
		Financial liabilities at FVOCI	(15.9)	(12.0)
Fair value of interest rate swap agreements	15.9	Lease liabilities	(1,270.0)	(959.5)
Lease obligations	1,270.0	Employee benefits	(9.5)	(7.2)
Post-employment benefit obligations	9.5	Other payables and deferred income	(10.4)	(7.9)
Other liabilities	10.4	Deferred tax liabilities	(0.2)	(0.2)
Deferred income taxes	0.2	Provisions	—	—
	1,966.6	Total non-current liabilities	(1,966.6)	(1,485.9)
Total liabilities	2,422.1	Total liabilities	(2,422.1)	(1,830.0)

The Cineplex Group's balance sheet line items are directly extracted without adjustment from the Cineplex Group's consolidated balance sheet at 30 September 2019, included in this document in Part IV (*Historical Financial Information Relating to Cineplex*).

- A. This reflects the Cineplex Group's consolidated balance sheet as at 30 September 2019 re-presented to conform to the Group's line item presentation.
 - B. The Cineplex Group financial information has been converted from CAD\$ to US\$ using the closing exchange rate of US\$1: CAD\$ 1.324 at 30 September 2019.
 - C. With regards to the statement of net assets, as at 30 September 2019, we have not identified any material differences in accounting policy and presentation under the Company's IFRS accounting policies, as opposed to Cineplex Group's Canadian GAAP accounting policies.
- (4) a) The Unaudited Pro Forma Financial Information has been prepared on the basis that the Group will apply acquisition accounting. The unaudited pro forma statement of net assets does not reflect the fair value adjustments to the acquired assets and liabilities as the purchase price allocation exercise will not be finalised until after Completion. Upon completion of the purchase price allocation exercise, the Group expects that fair value adjustments will be recognised in respect of certain assets and liabilities. For the purposes of the unaudited pro forma statement of net assets, the excess purchase consideration over the carrying amount of the net liabilities acquired has been attributed to the line item goodwill and other intangible assets. The fair value adjustments, when finalised following Completion, may be material. The pro-forma goodwill arising has been calculated as follows:

	Note	US\$m
Cash Consideration	(i)	1,647.5
Cash consideration for share options	(ii)	21.4
Total cash consideration		1,668.9
Less carrying amount of net assets	(iii)	(461.3)
Cash consideration for change of control clauses	(ii)	16.1
Pro forma goodwill adjustment		1,223.7
Goodwill arising on acquisition	(iv)	1,841.0

- i. Cash consideration is calculated as CAD\$34.0 per share on the 63,333,238 Cineplex Shares outstanding as at the Latest Practicable Date. The final number of Cineplex Shares to be used for calculating the consideration will be determined at Completion and will reflect certain additional Cineplex Shares which will be issued as a result of share awards vesting in the period up to and on Completion. On 16 December 2019, Crown UK Holdco Limited entered into a series of hedging transactions with a major financial institution in connection with the Acquisition, consisting of a deal-contingent forward trade with a notional value equal to c. CAD\$1.9 billion (the "Forward") and a deal-contingent cross-currency swap with notional value equal to CAD\$1 billion (the "Swap"). Accordingly, \$1.9 billion of the cash consideration has been translated at the implicit rate of the Forward (US\$1:CAD\$1.306) and the remainder at the rate available at the implicit rate of the Swap (US\$1:CAD\$1.315).
 - ii. Share option and change of control payments reflect the cash cost of settling share options under the deferred share units, RSUs, PSUs and option plan schemes of US\$21.4 million and the cash cost of certain executive change of control clauses of US\$16.1 million.
 - iii. Includes US\$617.3 million of existing goodwill.
 - iv. Total goodwill arising on acquisition is calculated as the pro forma goodwill adjustment of US\$1,223.7 million plus the existing goodwill of US\$617.3 million.
- b) The adjustment of US\$2,227.1 million to Cash and cash equivalents reflects the US\$1,668.9 million of cash consideration, US\$490.3 million of debt repayment, US\$16.1 million of change of control payments, US\$12.3 million in settlement of interest rate swaps and US\$39.5 million of transaction costs.
 - c) While the Cineworld Group and the Cineplex Group had certain balances payable to and receivable from each other at 30 September 2019, no adjustment has been made as the impact of eliminating inter-group payable/receivable balances is not considered material.
 - d) No adjustment has been made to reflect any synergies that may arise subsequent to the transaction as these are dependent upon the future actions of management. Similarly no adjustment has been made to reflect the impact of any trading activities subsequent to the date of the information presented.



PART V

UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE ENLARGED GROUP

PART B: ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Directors
Cineworld Group plc
8th Floor, Vantage London,
Great West Road,
Brentford
TW8 9AG

Goldman Sachs International
Plumtree Court
25 Shoe Lane
London
EC4A 4AU

24 January 2020

Dear Ladies and Gentlemen

Cineworld Group plc (the "Company")

We report on the pro forma financial information (the "**Pro Forma Financial Information**") set out in Part V (*Unaudited Pro Forma Financial Information Relating to the Enlarged Group*) of the Company's circular dated 24 January 2020 (the "**Circular**") which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the proposed acquisition of Cineplex Inc. (the "**Target**") might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 30 June 2019. This report is required by item 13.3.3R of the Listing Rules of the UK Listing Authority (the "**Listing Rules**") and is given for the purpose of complying with that Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and



will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

- a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
- b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

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PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

PART VI

ADDITIONAL INFORMATION

1. Responsibility

Cineworld Group plc and the Directors, whose names appear in paragraph 3 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of Cineworld and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Cineworld

Cineworld Group plc was incorporated and registered in England and Wales as a public limited company on 23 August 2004 under the Companies Act 1985 with registered number 05212407 and the name Augustus 2 Limited. Its name was changed on 24 August 2004 to JAD 1 Limited, and on 6 October 2004 to Cineworld UK Limited. On 17 May 2006, the Company re-registered as a public limited company and changed its name to Cineworld Group plc. The Company was admitted with a premium listing to the Main Market of the London Stock Exchange in May 2007 and its shares are traded under the stock symbol “CINE”. The principal legislation under which Cineworld operates is the Companies Acts and the regulations made thereunder.

Cineworld is headquartered in the United Kingdom with its registered office at 8th Floor Vantage London, Great West Road, Brentford, England, TW8 9AG.

3. The Directors and Executive Committee

The Directors of Cineworld are:

Name	Position
Anthony Bloom	Non-Executive Chairman
Alicja Kornasiewicz	Deputy Chair and Non-Executive Director
Moshe (Mooky) Greidinger	Chief Executive Officer
Israel Greidinger	Deputy Chief Executive Officer
Nisan Cohen	Chief Financial Officer
Renana Teperberg	Chief Commercial Officer
Arni Samuelsson	Non-Executive Director
Camela Galano	Non-Executive Director
Dean Moore	Non-Executive Director
Eric (Rick) Senat	Non-Executive Director
Helen Weir	Non-Executive Director
Scott S. Rosenblum	Non-Executive Director

The Executive Committee of Cineworld comprises:

Name	Position
Moshe (Mooky) Greidinger	Chief Executive Officer
Israel Greidinger	Deputy Chief Executive Officer
Nisan Cohen	Chief Financial Officer
Renana Teperberg	Chief Commercial Officer

The business address of each Director and Executive Committee member is Cineworld's registered office.

4. Directors' interests in Ordinary Shares

4.1 Holdings in Ordinary Shares

As at the Latest Practicable Date, the interests of the Directors, their immediate families and (so far as is known to them or could with reasonable diligence be ascertained by them) the persons closely associated with them (within the meaning of MAR) in Ordinary Shares, including those arising pursuant to transactions notified to Cineworld pursuant to the Market Abuse Regulation are as follows:

Name of Director	Number of Ordinary Shares held	Ordinary Shares held by companies in which the Director has a beneficial interest or to which they are connected	Share options subject to performance conditions
Anthony Bloom	—	5,208,006 ¹	—
Alicja Kornasiewicz	135,000	—	—
Israel Greidinger	696,754	384,131,720 ²	931,766
Moshe Greidinger	1,015,168	384,131,720 ²	1,206,929
Nisan Cohen	38,230	—	488,730
Renana Teperberg	82,495	—	488,730
Arni Samuelsson	9,500	—	—
Camela Galano	—	—	—
Dean Moore	15,000	—	—
Eric Senat	276,452	—	—
Helen Weir	4,127	—	—
Scott Rosenblum	100,000	—	—

Taken together, the combined percentage interest of the Directors in the issued share capital of Cineworld as at the Latest Practicable Date was approximately 28.78 per cent.

Notes:

- (1) Shares are held by a nominee for trusts of which Anthony Bloom is one of the potential discretionary beneficiaries.
- (2) Includes 383,131,720 Ordinary Shares held by the Major Shareholder and 1,000,000 Ordinary Shares held by GCH.

4.2 Interests of Directors in Ordinary Shares pursuant to the Employee Share Schemes

During FY 2019, the Directors acquired or exercised options in respect of Ordinary Shares, and were granted awards of Ordinary Shares, under the terms of the Employee Share Schemes as set out below:

Cineworld Group Performance Share Plan

On 21 May 2019, nil-cost options to acquire Ordinary Shares were exercised under the terms of the Cineworld Group 2007 Performance Share Plan (the “PSP”) by Moshe Greidinger, Israel Greidinger, Nisan Cohen and Renana Teperberg. The options had been granted in 2016.

In the case of Moshe Greidinger, Israel Greidinger and Nisan Cohen, following the exercise, a portion of the Ordinary Shares issued were sold to meet taxation liabilities and statutory deductions. The remaining Ordinary Shares were issued directly to the award-holder.

Director	Cost of Ordinary Shares under the Award granted pursuant to the PSP	Number of Ordinary Shares under the Award granted pursuant to the PSP	Number of Ordinary Shares sold to meet taxation liabilities and statutory deductions	Price per share at which Ordinary Shares sold (pence)
Moshe Greidinger	Nil	355,994	178,888	302.1559
Israel Greidinger	Nil	242,722	121,968	302.1559
Nisan Cohen	Nil	17,735	3,208	302.1559
Renana Teperberg	Nil	18,641	–	–

Cineworld Group Company Share Option Plan

No Director holds any interest in respect of Ordinary Shares under the Cineworld Group Company Share Option Plan as at the Latest Practicable Date.

Cineworld Group Long Term Incentive Plan

On 21 May 2019, the following awards (“**Awards**”) over Ordinary Shares were made under the Cineworld Group plc 2017 Long Term Incentive Plan (“**LTIP**”) to the following individuals:

Director	Number of Shares under the Award Granted pursuant to the LTIP
Moshe Greidinger	421,686
Israel Greidinger	338,018
Nisan Cohen	198,293
Renana Teperberg	198,293

No consideration was paid for the grant of an Award.

The Awards granted to the Executive Directors pursuant to the LTIP were structured as nil cost options.

The vesting of an Award is ordinarily subject to continued employment of the participant, satisfactory performance of the participant over the performance period and the satisfaction of performance conditions over a three year performance period set by the Remuneration Committee of the Company.

5. Details of the service contracts and letters of appointment of the Directors

	Contract Date	Notice Period
Executive Directors		
Moshe (Mooky) Greidinger	27 February 2014	12 months
Israel Greidinger	27 February 2014	12 months
Nisan Cohen	11 January 2017	12 months
Renana Teperberg	19 July 2018	12 months
Non Executive Directors		
Anthony Bloom	7 October 2004	1 month
Alicja Kornasiewicz	26 May 2015	1 month
Arni Samuelsson	27 February 2014	1 month
Camela Galano	19 July 2018	1 month
Dean Moore	11 January 2017	1 month
Eric (Rick) Senat	2 July 2010	1 month
Helen Weir	1 November 2019	1 month
Scott S. Rosenblum	27 February 2014	1 month

As a FTSE 250 company, Cineworld follows best practice for larger companies under the UK Corporate Governance Code with regards to the annual re-election of directors. At the 2019 AGM, all the current Directors stood for election or re-election.

The Company may, in lieu of giving notice, terminate an Executive Director's service contract by making a payment equivalent to 100 per cent. of base salary and contractual benefits for the notice period. In this event, the Executive Director would not be entitled to any bonus for the unworked portion of his or her notice period, but would be eligible for a *pro rata* bonus for the period up to the date of the termination of his or her contract. The Company's policy is to endeavour to minimise any payment on early termination by insisting on mitigation of any loss where possible.

The Non-Executive Directors, including the Chairman, are appointed pursuant to letters of appointment. The appointment of each Non-Executive Director is terminable on notice unless their appointment is terminated by a resolution of the Shareholders at a general meeting or if they fail to be re-elected by Shareholders at a general meeting.

6. Major interests in shares

As at the Latest Practicable Date, Cineworld had received notification in accordance with chapter 5 of the Disclosure and Transparency Rules of the following notifiable interests in the voting rights of Cineworld Ordinary Shares:

Name of Shareholder	Date notified	Notified number of voting rights	Notified percentage of voting rights (%)
Global City Holdings B.V.	15.08.2019	384,131,720	27.99
Norges Bank	20.01.2020	61,009,975	4.45
Aviva plc and its subsidiaries	06.11.2019	89,292,753	6.5
Polaris Capital Management LLC	21.02.2019	54,923,544	4.0056
Standard life plc (aggregate / affiliated investment management entities)	10.07.2018	77,922,792	5.69

7. Material contracts

7.1 Cineworld Group

The following contracts (not being contracts entered into in the ordinary course of business) have either: (i) been entered into by Cineworld or another member of the Cineworld Group within the period of two years immediately preceding the date of this document and are or may be material; or (ii) been entered into by Cineworld or another member of the Cineworld Group which contain any provisions under which any member of the Cineworld Group has any obligation or entitlement which is, or may be, material as at the date of this document:

(a) Non-disclosure agreement

On 26 August 2019, Cineworld and Cineplex entered into reciprocal confidentiality agreements in customary forms in relation to the Acquisition, pursuant to which they undertook, among other things, to keep information relating to one another confidential and not to disclose it to third parties (other than certain permitted persons) unless required by applicable law or regulation. Unless terminated earlier, the confidentiality obligations will remain in force for a period of two years from the date of the agreement.

(b) Acquisition Agreement

A description of the principal terms of the Acquisition Agreement is set out in Part III (*Principal Terms of the Acquisition*) of this document.

(c) Cineplex Directors voting support agreements

A description of the principal terms of the voting support agreements entered into between the Cineplex Directors and Cineworld is set out in Part III (*Principal Terms of the Acquisition*) of this document.

(d) Credit Agreement

On 28 February 2018, Crown Finance US, Inc. and Crown UK Holdco Limited entered into a credit agreement, governed by the laws of the State of New York, between, among others, Barclays Bank PLC, as administrative agent, and the various lenders and issuers party thereto, which agreement was subsequently amended by a first amendment, dated 12 April 2019, and a second amendment, dated 30 September 2019 (as so amended, the “**Credit Agreement**”).

The Credit Agreement comprises:

1. certain term facilities under which the following term loans have been made available and drawn:
 - (a) a US\$3,325 million initial US dollar term loan, with termination date 28 February 2025 (the “**Initial US Dollar Term Loan**”);
 - (b) a c. EUR607 million initial euro term loan, with termination date 28 February 2025 (the “**Initial Euro Term Loan**”); and
 - (c) a US\$650 million incremental US dollar term loan, with termination date 28 February 2026, which was made available and drawn pursuant to the incremental facility provisions of the Credit Agreement (the “**Incremental US Dollar Term Loan**” and, together with the Initial US Dollar Term Loan and the Initial Euro Term Loan, the “**Term Loans**”); and
2. a US\$462.5 million committed multicurrency revolving credit facility, incorporating a letter of credit facility and a swingline facility, with termination date 28 February 2023 (the “**Revolving Credit Facility**”).

Borrowers and guarantors

Crown Finance US, Inc. is party to the Credit Agreement as term borrower and as a revolving credit borrower. Crown UK Holdco Limited is party to the Credit Agreement as a revolving credit borrower (in such capacity, together with Crown Finance US, Inc. the “**Borrowers**”).

All obligations under the Credit Agreement, and certain related agreements, are absolutely, unconditionally and irrevocably guaranteed on a joint and several basis by various members of the Cineworld Group organised or incorporated in the United States, the United Kingdom and Hungary.

Security

The secured parties under the Credit Agreement, and certain related agreements, have the benefit of comprehensive asset and share security granted by various members of the Cineworld Group organised or incorporated in the United States, the United Kingdom and Hungary, subject to certain agreed security principles. In addition, the secured parties have the benefit of limited recourse security granted by Cineworld Group plc in respect of certain intra-group receivables and its interest in the entire issued share capital of Crown UK Holdco Limited.

Availability

The Term Loans have been drawn in full. Any amounts repaid or prepaid, in whole or in part, are not available to be redrawn.

The Revolving Credit Facility is available to be drawn for working capital and general corporate purposes until 28 February 2023 (or such earlier date as either all revolving credit commitments are cancelled in full or the obligations under the Credit Agreement become due and payable).

Amortisation, prepayment and cancellation

The Term Loans each amortise in equal quarterly instalments in an aggregate amount equal to one per cent. per annum of their respective initial principal amounts.

The Credit Agreement includes customary voluntary prepayment provisions, permitting the Borrowers voluntarily to prepay the Term Loans and/or drawings under the Revolving Credit Facility and/or cancel the revolving credit commitments, in each case in whole or in part. In addition, the Credit Agreement contains customary provisions requiring mandatory partial or full prepayments of the Term Loans following certain events, such as certain asset disposals or the receipt of insurance proceeds, in each case subject to *de minimis* thresholds and other qualifications. The Credit Agreement also imposes an excess cash flow sweep on the Cineworld Group, requiring partial or full prepayments of the Term Loans out of excess cash flow, subject to *de minimis* thresholds and other qualifications.

The Credit Agreement includes customary provisions permitting the Borrowers specifically to terminate the revolving credit commitments of a defaulting lender, including where an insolvency event has occurred with respect to such lender or where such lender is unable to fulfil its funding obligations under the Credit Agreement.

Interest

All loans under the Credit Agreement bear interest on the unpaid principal amount thereof from the date such loans are advanced until paid in full, subject only to certain exceptions. At the Borrowers' option, loans may be maintained as base rate loans (where the relevant loan is denominated in US dollars) ("**Base Rate Loans**") or as eurocurrency rate loans ("**Eurocurrency Rate Loans**"). The rate of interest on a Base Rate Loan is calculated as the aggregate of a rate per annum equal to the base rate (being the higher of the prime rate in the United States and certain alternative measures) in effect from time to time and the applicable margin. The rate of interest on a Eurocurrency Rate Loan is calculated as the aggregate of a rate per annum equal to the relevant eurocurrency base rate (for example, the London interbank offered rate for US dollars or sterling for loans denominated in US dollars or sterling, as applicable, or the euro interbank offered rate for loans denominated in euro) in effect from time to time, subject to a zero floor, and the applicable margin.

The margin applicable to each tranche of Term Loans and to drawings under the Revolving Credit Facility is calculated according to the first lien net leverage ratio of Crown UK Holdco Limited and its subsidiaries. The applicable margin on Eurocurrency Rate Loans is as follows:

1. Initial US Dollar Term Loan – 2.50 per cent. per annum where the first lien net leverage ratio is greater than or equal to 3.50:1.00 and otherwise 2.25 per cent. per annum;
2. Initial Euro Term Loan – 2.625 per cent. per annum where the first lien net leverage ratio is greater than or equal to 3.50:1.00 and otherwise 2.375 per cent. per annum;
3. Incremental US Dollar Term Loan – 2.75 per cent. per annum where the first lien net leverage ratio is greater than or equal to 3.50:1.00, 2.25 per cent. per annum where the first lien net leverage ratio is less than or equal to 3.00:1.00 and otherwise 2.50 per cent. per annum; and
4. Revolving Credit Facility drawings – 3.00 per cent. per annum where the first lien net leverage ratio is greater than or equal to 3.50:1.00, 2.50 per cent. per annum where the first lien net leverage ratio is less than or equal to 3.00:1.00 and otherwise 2.75 per cent. per annum.

The applicable margin for Base Rate Loans is, in each case, one per cent. lower than the applicable margin for Eurocurrency Rate Loans.

Financial covenant

No financial covenant applies in respect of the Term Loan.

In respect of the Revolving Credit Facility, a single financial maintenance covenant applies which is effective only if drawings under the Revolving Credit Facility exceed 35 per cent. of the total revolving credit commitments in effect on the relevant testing date. This financial maintenance covenant, where

applicable, requires that the total net leverage ratio of Crown UK Holdco Limited and its subsidiaries is equal to or less than 5.50:1.00 (reducing to 5.00:1.00 for reporting periods ending on or after 30 June 2021). No other financial covenants apply under the terms of the Credit Agreement.

Covenants and events of default

The Credit Agreement requires Crown UK Holdco Limited and its subsidiaries to comply with restrictive covenants relating to customary matters, including with respect to incurring indebtedness and liens, making investments and acquisitions, effecting mergers and asset sales and changes to business, prepaying indebtedness and paying dividends. The Credit Agreement also requires Crown UK Holdco and its subsidiaries to comply with affirmative covenants relating to customary matters, including with respect to compliance with laws, conduct of business, access and maintenance of insurance and properties. The Credit Agreement also requires Crown UK Holdco Limited and its subsidiaries to comply with customary reporting obligations, including semi-annual financial and compliance reporting.

The guarantor coverage test applicable under the Credit Agreement requires that, as of the last day of each financial year, (i) the aggregate consolidated EBITDA (as defined in the Credit Agreement) attributable to the loan parties is not less than 80 per cent. of the aggregate consolidated EBITDA (as defined in the Credit Agreement) of Crown UK Holdco Limited and its subsidiaries and (ii) the consolidated total assets attributable to the loan parties is not less than 80 per cent. of the consolidated total assets of Crown UK Holdco Limited and its subsidiaries. In the event that either limb is not satisfied, Crown UK Holdco is obliged to accede as guarantors such of its subsidiaries as are necessary to ensure that both limbs of the guarantor coverage test are satisfied.

The Credit Agreement includes events of default relating to customary matters, including with respect to non-payment of amounts, material misrepresentation (with the Credit Agreement containing customary representations on the part of Crown UK Holdco Limited and its subsidiaries), failure to comply with the financial maintenance covenant (where applicable), material non-compliance with other obligations, cross default and cross acceleration, bankruptcy, actual or asserted invalidity of guarantees or security documents and change of control. The events of default are subject, in certain cases, to agreed *de minimis* thresholds, grace periods and other qualifications.

(e) Commitment Letter

On 15 December 2019, Crown Finance US, Inc. and Crown UK Holdco Limited entered into a commitment letter, governed by the laws of the State of New York, with Bank of America, (“BANA”), HSBC Bank plc (“HSBC”) and Goldman Sachs Bank USA (“GS”) (together, the “**Commitment Parties**”) (the “**Commitment Letter**”). Pursuant to the Commitment Letter, the Commitment Parties have committed to make the Debt Facilities available to one or more members of the Cineworld Group on or around Completion according to definitive credit documentation which is expected to be executed on or around Completion.

Appointments and syndication

Each of BANA and HSBC has agreed to act as a joint global coordinator and joint bookrunner in connection with the proposed arrangement and subsequent syndication of the Debt Facilities, and GS has agreed to act as a joint bookrunner in connection with the same, with certain additional titles being awarded in connection with different aspects of the Debt Facilities and syndication thereof. In connection with their roles as such, each Commitment Party will be paid certain fees, documented in a separate confidential fee letter and engagement letters entered into between Crown Finance US, Inc., Crown UK Holdco Limited and the Commitment Parties on 15 December 2019. Syndication is expected to occur prior to the execution of the definitive documentation for the Debt Facilities, which will be drafted to reflect the terms and conditions set out in detail within the Commitment Letter. The Company has undertaken to provide certain assistance in relation to such syndication efforts, including by the provision of customary “clear market” undertakings as well as an undertaking to provide certain information to be used by the Commitment Parties in marketing materials related to the Debt Facilities.

Termination

The commitments and agreements of the Commitment Parties to perform the services prescribed under the Commitment Letter will automatically terminate on the first to occur of:

1. the consummation of the Acquisition without the use of the Debt Facilities;
2. the termination of the Acquisition Agreement in accordance with its terms; and
3. 11:59 p.m. (New York City time) on 8 July 2020, unless the closing of the Debt Facilities and the initial funding of the Debt Facilities has been consummated on or before such date.

Conditions precedent

The obligations of the Commitment Parties to make available and fund the Debt Facilities are subject to only limited conditions, detailed in the Commitment Letter, including:

1. the execution and delivery of the definitive documentation for the Debt Facilities, as well as customary ancillary documentation;
2. consummation of the Acquisition, in all material respects in accordance with the terms and conditions of the Acquisition Agreement, substantially concurrently with the initial funding of the Debt Facilities;
3. the delivery to the Commitment Parties of certain actual and pro forma financial statements in respect of both the Group and the Cineplex Group;
4. the accuracy of a limited set of representations and warranties made by Cineplex under the Acquisition Agreement, such as are material to the interests of the lenders under the Debt Facilities;
5. the accuracy of a limited set of representations made by the Group in the definitive documentation for the Debt Facilities; and
6. the absence of a Company Material Adverse Effect (as defined in the Acquisition Agreement).

Principal terms of the Debt Facilities

As at the date of publication of this document, the Debt Facilities remain subject to definitive documentation. The terms set out below reflect the Company's expectation, although such terms may be subject to change.

The Debt Facilities will, subject to the operation of certain flex provisions, be constituted by:

1. a c. US\$1.9 billion senior secured incremental term facility, with termination date seven years from the date on which Completion occurs (the "**Incremental Term Facility**"); and
2. a c. US\$340m senior unsecured bridge facility, with termination date 18 months (extendable by Crown Finance US, Inc. in its sole discretion to 24 months, subject to payment of an extension fee) from the date on which Completion occurs (the "**Bridge Facility**"),

in each case, available for borrowing by Crown Finance US, Inc.

The proceeds of the Debt Facilities will be used to finance the Acquisition and the Refinancing, to pay certain fees, premiums, original issue discount, expenses incurred by the Group in connection with the Acquisition and to pay other transaction costs. The Refinancing will consist of the repayment in full of all outstanding amounts under the Cineplex Credit Agreement (as defined and further described below), together with accrued interest and any applicable break fees or other applicable fees, and the cancellation in full of the commitments thereunder. It is anticipated that the Refinancing will be consummated at or immediately following Completion.

Many provisions of the Debt Facilities will be substantially the same as apply in respect of term loan drawings under the Credit Agreement, including the security package granted in respect of the Incremental Term Facility (with the Bridge Facility being unsecured), the scope of guarantees provided in respect of each

Debt Facility and the package of representations, covenants and events of default (subject, in the case of the Bridge Facility, to the additional affirmative covenant described below).

Specific terms of each Debt Facility, where these differ materially from the terms of the Credit Agreement and one another, are set out below.

Specific terms of the Incremental Term Facility

The Incremental Term Facility will be provided to Crown Finance US, Inc. in the form of a new tranche of term loans pursuant to the terms of the Credit Agreement.

The Incremental Term Facility will have an applicable margin on Eurocurrency Rate Loans of 3.00 per cent. per annum (subject to certain adjustments, including one step-down of 0.25 per cent. per annum where the first lien net leverage ratio is equal to or less than 3.50:1.00). The applicable margin for Base Rate Loans will be, in each case, one per cent. lower than the applicable margin for Eurocurrency Rate Loans.

Specific terms of the Bridge Facility

The Bridge Facility will be provided to Crown Finance US, Inc. in the form of new senior unsecured increasing rate loans documented separately to the Credit Agreement.

The Bridge Facility will have an applicable margin on Eurocurrency Rate Loans of 4.00 per cent. per annum (subject to certain adjustments, including, subject to certain exceptions, individual step-ups of 0.25 per cent. per annum on (i) the earlier of 1 May 2020 and the date that is 90 days following the date on which Completion occurs, (ii) the date that is 180 days following the date on which Completion occurs, (iii) the date that is 270 days following the date on which Completion occurs and (iv) the date that is 365 days following the date on which Completion occurs). The applicable margin for Base Rate Loans will be, in each case, one per cent. lower than the applicable margin for Eurocurrency Rate Loans. Subject to certain exceptions, an increasing duration fee will be payable by Crown Finance US, Inc. for the period during which loans drawn under the Bridge Facility have not been repaid in full.

The Bridge Facility will include customary voluntary prepayment provisions, permitting Crown Finance US, Inc. voluntarily to prepay the loans drawn thereunder in whole or in part. In addition, the Bridge Facility will include customary provisions requiring mandatory partial or full prepayments of loans drawn thereunder following certain events, such as certain asset disposals or the receipt of insurance proceeds, in each case subject to *de minimis* thresholds and other qualifications. Loans drawn under the Bridge Facility will not amortise and will be payable in full at maturity.

A financial maintenance covenant will apply in respect of the Bridge Facility. This financial maintenance covenant will be on substantially the terms as is applicable under the Credit Agreement, save that the Bridge Facility covenant shall be applicable irrespective of the principal amount outstanding of loans drawn under the Bridge Facility. No other financial covenants will apply under the terms of the Bridge Facility.

The Bridge Facility will include an affirmative covenant on the part of Crown UK Holdco Limited to provide, within a specified period following publication of the audited consolidated financial statements of the Company and its subsidiaries for the period ending 31 December 2019, a preliminary offering memorandum or preliminary private placement memorandum suitable for use in a customary “high-yield road show” for private offerings of debt securities by issuers similar to Crown Finance US, Inc.

(f) Hedging Transactions

On 16 December 2019, Crown UK Holdco Limited entered into a series of hedging transactions with a major financial institution in connection with the Acquisition, consisting of a deal-contingent forward trade with notional value equal to c. CAD\$1.9 billion (the “**Forward**”) and a deal-contingent cross-currency swap with notional value equal to CAD\$1 billion (the “**Swap**”). The Forward and the Swap are, together, intended to hedge the currency exposure involved in financing the Acquisition, ensuring that the Group is able to finance the consideration for the Acquisition in the appropriate currency notwithstanding that the Debt Facilities are expected to be denominated in US dollars. It is expected that settlement of the Forward and initial exchange under the Swap will take place shortly before Completion.

The parties' respective obligations under the Forward and the Swap will terminate in the event that Completion does not occur on or before the Long Stop Date or if the Acquisition Agreement is otherwise terminated on or prior to that date, in each case subject to a customary six-month alternate transaction period.

7.2 Cineplex

The following contracts (not being contracts entered into in the ordinary course of business) have either: (i) been entered into by Cineplex or another member of the Cineplex Group within the period of two years immediately preceding the date of this document and are or may be material; or (ii) been entered into by Cineplex or another member of the Cineplex Group which contain any provisions under which any member of the Cineplex Group has any obligation or entitlement which is, or may be, material as at the date of this document:

(a) Acquisition Agreement

A description of the principal terms of the Acquisition Agreement is set out in Part III (*Principal Terms of the Acquisition*) of this document.

(b) Major Shareholder voting support agreement

A description of the principal terms of the voting support agreement entered into between Cineplex and the Major Shareholder is set out in Part III (*Principal Terms of the Acquisition*) of this document.

(c) Cineplex Credit Agreement

On 13 November 2018, Cineplex entered into a seventh amended and restated credit agreement (the "**Cineplex Credit Agreement**") with a syndicate of lenders. As at 31 December 2018, the credit facilities governed by the Cineplex Credit Agreement consisted of:

- a five-year senior secured revolving credit facility of C\$650 million (the "**Revolving Facility**"), of which C\$430 million was drawn; and
- a seven-year senior secured non-revolving term facility of C\$150 million (the "**Term Facility**"), of which the entirety had been drawn.

Interest

The Revolving Facility and the Term Facility bear interest at a floating rate based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. The Revolving Facility matures on 13 November 2023 and the Term Facility matures on 13 November 2025. The Revolving Facility and Term Facility are payable in full at maturity, with no scheduled repayment of principal required prior to maturity.

Revolving Facility

The Revolving Facility is available for general corporate purposes and to fund approved projects or investments. The Revolving Facility is available to be drawn down by way of prime rate loans, US base rate loans, LIBOR loans, banker's acceptances or letters of credit and bears interest at a floating rate based on the Canadian dollar prime rate, US dollar base rate, LIBOR, bankers' acceptances rates or letter of credit commissions, as applicable, plus, in each case, an applicable margin to those rates based on Cineplex's ratio of total debt to Adjusted EBITDA from time to time. There are provisions to increase the Revolving Facility commitment amount by an additional C\$150 million with the consent of the lenders.

Term Facility

The Term Facility is available to be drawn down by way of prime rate loans, US base rate loans, LIBOR loans or bankers' acceptances, and bears interest at a floating rate based on the Canadian dollar prime rate, US base rate, LIBOR or on the bankers' acceptance rates, as applicable, plus, in each case, an applicable margin to those rates based on Cineplex's ratio of total debt to Adjusted EBITDA from time to time.

The Revolving Facility and Term Facility contain 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 and Term Facility are secured by all of Cineplex's assets. The Revolving Facility and Term Facility also contain customary affirmative, reporting and negative covenants. Pursuant to the terms of the Revolving Facility and Term Facility, Cineplex is required to maintain, on a rolling four quarter basis: (i) a prescribed ratio of total debt (excluding the amount of any outstanding convertible debentures) to Adjusted EBITDA; and (ii) a prescribed ratio of EBITDAR (Adjusted EBITDA plus rent expense for such quarter) to fixed charges (the sum of taxes, maintenance capital expenditures, debt service (including capital lease payments) and rent expense for such quarter).

Security and Guarantees

The obligations under the Revolving Facility and Term Facility are secured by a first ranking charge over all of the personal and real property owned by Cineplex and its subsidiaries other than certain excluded immaterial subsidiaries. The obligations of Cineplex under the Credit Facilities are guaranteed by such subsidiaries.

Events of Default

The Revolving Facility and Term Facility contain customary events of default, including an event of default upon certain circumstances constituting a change of control. Failure to comply with the terms of the Revolving Facility and Term Facility would entitle the lenders to accelerate all amounts outstanding under such facilities, and upon such acceleration, the lenders would be entitled to begin enforcement of security granted to the lenders by Cineplex to recover assets of Cineplex, including accounts receivable, inventory, equipment and material contracts. The lenders would then be repaid from the proceeds of such security, using all available assets. Only after such repayment and the payment of any other secured and unsecured creditors would the holders of Cineplex Shares receive any proceeds from the liquidation of Cineplex's assets. The Revolving Facility and Term Facility, in certain circumstances, restrict the Cineplex and its subsidiaries' ability to make payments in respect of their securities, including the Cineplex Shares, unless sufficient funds are available for the repayment of indebtedness and the payment of interest, expenses and taxes.

8. Litigation

8.1 Cineworld

Subject to the matters disclosed below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Cineworld is aware) during the period covering the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the Cineworld Group.

Regal Appraisal Rights

In connection with the Regal Acquisition, a small number of minority shareholders of Regal exercised their statutory appraisal rights pursuant to section 262 of the General Corporation Law of the State of Delaware, asserting that the offer price of US\$23 per share undervalued their shares in Regal and petitioning the Delaware Court of Chancery to determine the fair value of their respective shareholdings. A number of these claims remain outstanding. The exercise of appraisal rights by minority shareholders is a relatively common feature of large-scale public M&A transactions in the United States. Cineworld considers the petitioners' claims to be without merit; however, in the event of any adverse court judgment, it is possible that Cineworld could be required to pay the petitioners an amount higher than US\$23 per share for their respective Regal shareholdings. It is not possible to quantify the amount of any such potential payments at this stage.

Intertrust Patent Litigation

In August 2019, Intertrust Technologies Corporation initiated litigation against Regal and several other major US cinema operators in the US District Court for the Eastern District of Texas, alleging that certain processes

and practices used in the US cinema industry infringe a number of its digital security technology patents and seeking unspecified damages from each of the defendants for such infringement. At this stage in the proceedings, it is not possible to provide an assessment of the merits of the claim; however, in the event of any adverse court judgment, it is possible that Regal may be required to pay damages and/or ongoing licence fees to Intertrust Technologies Corporation. It is not possible to quantify the amount of any such potential damages and/or payments at this stage.

8.2 Cineplex

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Cineworld is aware) during the period covering the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of Cineplex.

9. Working capital

Cineworld is of the opinion that, taking into account the cash, the committed Debt Facilities and other facilities available to the Enlarged Group, the Enlarged Group has sufficient working capital available to it for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

10. Consents

Goldman Sachs International has given, and has not withdrawn, its consent to the inclusion in this document of the references to its name in the form and context in which they are included.

BofA Securities has given, and has not withdrawn, its consent to the inclusion in this document of the references to its name in the form and context in which they are included.

HSBC has given, and has not withdrawn, its consent to the inclusion in this document of the references to its name in the form and context in which they are included.

PwC is a member firm of the Institute of Chartered Accountants in England and Wales and has given, and not withdrawn, its written consent to the inclusion of its report on the unaudited reconciliation of the consolidated financial information of the Cineplex Group in Part IV (*Historical Financial Information Relating to Cineplex*) and its report on the unaudited pro forma financial information in Part V (*Unaudited Pro Forma Financial Information Relating to the Enlarged Group*), in the form and context in which they are included.

11. No significant change

11.1 Cineworld

There has been no significant change in the financial performance or financial position of the Cineworld Group since 30 June 2019, being the date of the last financial period for which financial information on Cineworld has been published, save for the fact that, as set out in the trading update for the period from 1 January 2019 to 1 December 2019 published by Cineworld on 3 December 2019, given the weaker full year box office, management expects trading for the full year ending 31 December 2019 to be slightly below management's expectations.

11.2 Cineplex

There has been no significant change in the financial performance or financial position of Cineplex since 30 September 2019, being the date to which the financial information on Cineplex, presented in Part IV (*Historical Financial Information Relating to Cineplex*), has been prepared.

12. Related party transactions

Save as set out in the sections on related party transactions in note 17 on page 29 of Cineworld's 2019 Interim Report, note 27 on page 129 of Cineworld's 2018 Annual Report and Accounts, note 24 on page 123 of Cineworld's 2017 Annual Report and Accounts and note 24 on page 128 of Cineworld's 2016 Annual Report and Accounts, which are incorporated by reference into this document, Cineworld has not entered into any related party transactions during the period covered by the historical financial information on Cineplex set out in Part IV (*Historical Financial Information Relating to Cineplex*).

13. Source of financial information

Unless otherwise stated:

- (a) financial information relating to Cineworld has been extracted without material adjustment from Cineworld's 2018 Annual Report and Accounts, which is incorporated by reference into this document; and
- (b) financial information relating to Cineplex has been extracted:
 - (i) without material adjustment from the audited financial statements of Cineplex for the years ended 31 December 2018, 31 December 2017 and 31 December 2016; and
 - (ii) from the unaudited interim condensed consolidated balance sheets for the nine-month period ended 30 September 2019.

14. Information incorporated by reference

The table below sets out the information from documents which have previously been published and filed with the FCA and which shall be deemed incorporated by reference into this document, so as to provide the information required under the Listing Rules. These documents are also available at www.cineworldplc.com.

Reference document	Information incorporated by reference into this document	Page number in reference document
Cineworld Group's 2016 Annual Report and Accounts	Notes to the Consolidated Financial Statements	87
Cineworld Group's 2017 Annual Report and Accounts	Notes to the Consolidated Financial Statements	84
Cineworld Group's 2018 Annual Report and Accounts	Notes to the Consolidated Financial Statements	88
Cineworld Group's 2019 Interim Report	Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income	11
	Condensed Consolidated Balance Sheet	12
	Condensed Consolidated Statement of Changes in Equity	13
	Condensed Consolidated Statement of Cash Flows	15
	Notes to the Interim Condensed Consolidated Financial Statements	16

To the extent that any document or information incorporated by reference or attached to this document itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this document, except where such information or documents are stated within this document as specifically being incorporated by reference or where this document is specifically defined as including such information. For the avoidance of doubt, the contents of any websites referred to in this document (including the Company's website) are not incorporated into and do not form part of this document.

Except as set out above, no other parts of these documents are incorporated by reference into this document, and those parts which are not specifically incorporated by reference are either not relevant for the purposes of this document or the relevant information is included elsewhere in this document.

15. Documents available for inspection

Copies of the following documents may be inspected at www.cineworldplc.com at any time up to and including the date of the General Meeting, or at the registered office of Cineworld Group plc at 8th Floor Vantage London, Great West Road, Brentford, England, TW8 9AG and at the offices of Slaughter and May, being One Bunhill Row, London, EC1Y 8YY, during normal business hours from Monday to Friday (except on bank or other public holidays) up to and including the date of the General Meeting:

- the Articles;
- PwC's report on the unaudited reconciliations of the historical financial information relating to Cineplex set out in Part C of Part IV (*Historical Financial Information Relating to Cineplex*);
- PwC's report on the unaudited pro forma financial information on the Enlarged Group set out in Part A of Part V (*Unaudited Pro Forma Financial Information Relating to the Enlarged Group*);
- Cineworld Group's 2019 Interim Report;
- Cineworld Group's 2018 Annual Report and Accounts;
- Cineworld Group's 2017 Annual Report and Accounts;
- Cineworld Group's 2016 Annual Report and Accounts;
- the letters of consent referred to in paragraph 10 of this Part VI (*Additional Information*);
- the Acquisition Agreement; and
- this document and the Form of Proxy.

24 January 2020

PART VII

DEFINITIONS

The following terms have the following meanings in this document:

- “2016 Annual Report and Accounts”** means the annual report and accounts prepared by Cineworld for the financial year ended 31 December 2016;
- “2017 Annual Report and Accounts”** means the annual report and accounts prepared by Cineworld for the financial year ended 31 December 2017;
- “2018 Annual Report and Accounts”** means the annual report and accounts prepared by Cineworld for the financial year ended 31 December 2018;
- “2019 AGM”** means the annual general meeting of Cineworld Group plc held on 15 May 2019 at 10:30 am at the Cineworld Cinema in Wandsworth, Southside Shopping Centre, Wandsworth High Street, London, SW18 4TF;
- “2019 Interim Report”** means the interim results of Cineworld for the six months ended 30 June 2019;
- “Acquisition”** means the proposed acquisition of all the issued and outstanding and to be issued common shares in the capital of Cineplex, pursuant to the Acquisition Agreement;
- “Acquisition Agreement”** means the agreement dated 15 December 2019, between Cineworld, Bidco and Cineplex in relation to the Acquisition;
- “Adjusted EBITDA”** means, with respect to Cineplex, earnings before interest income and expense, income taxes and depreciation and amortization expense from continuing operations, excluding the change in fair value of financial instrument, loss on disposal of assets, foreign exchange gain, the equity income of CDCP, the non-controlling interests’ share of adjusted EBITDA of Cineplex’s joint venture with Topgolf Canada Holding and depreciation, amortisation, interest and taxes of Cineplex’s other joint ventures and associates;
- “Alternative Acquisition Proposal”** has the meaning given to it in paragraph 1.5 of Part III (*Principal Terms of the Acquisition*);
- “Arrangement”** means an arrangement under Section 182 of the OBCA on the terms and subject to the conditions set out in the Plan of Arrangement, subject to any amendments or variations to the Plan of Arrangement made in accordance with the terms of the Acquisition Agreement and the Plan of Arrangement or made at the direction of the Court in the Final Order with the prior consent of Cineplex and Bidco, each acting reasonably;
- “Arrangement Resolution”** means the special resolution approving the Plan of Arrangement to be considered at the Cineplex Meeting by Cineplex Shareholders;
- “Articles”** means the memorandum and articles of association of Cineworld Group plc;
- “Articles of Arrangement”** means the articles of arrangement of Cineplex in respect of the Arrangement required by the OBCA to be sent to the OBCA Director after the Final Order is made, which shall include the Plan

	of Arrangement and otherwise be in a form and content satisfactory to Cineplex and Bidco, each acting reasonably;
“BANA”	means Bank of America;
“Base Rate Loans”	has the meaning given to it in paragraph 7.1(d) of Part VI (<i>Additional Information</i>);
“Bidco”	means 1232743 B.C. Ltd., an indirectly wholly-owned subsidiary of Cineworld Group plc, incorporated under the laws of the Province of British Columbia, Canada;
“Board”	means the board of directors of Cineworld Group plc;
“BofA Securities”	means Merrill Lynch International;
“Borrowers”	has the meaning given to it in paragraph 7.1(d) of Part VI (<i>Additional Information</i>);
“Bridge Facility”	has the meaning given to it in paragraph 7.1(e) of Part VI (<i>Additional Information</i>);
“Business Day”	means any day (excluding Saturdays, Sundays and public holidays in England and Wales) on which banks are generally open for business in London;
“Buyer Termination Event”	has the meaning given to it in paragraph 1.7 of Part III (<i>Principal Terms of the Acquisition</i>);
“Canadian GAAP”	means the Canadian generally accepted accounting principles, defined as International Financial Reporting Standards as set out in the CPA Canada Handbook – Accounting;
“CDCP”	means the Canadian Digital Cinema Partnership, a limited-life joint venture financing vehicle funded by virtual print fees collected from distributors, in which Cineplex holds a 78.2 per cent. interest;
“Certificate of Arrangement”	means the certificate of arrangement to be issued by the OBCA Director pursuant to subsection 183(2) of the OBCA in respect of the Articles of Arrangement;
“Cineplex”	means Cineplex Inc., a public company incorporated under the laws of the Province of Ontario, Canada and with its registered office at 1303 Yonge Street, Toronto, Ontario, M4T 2Y9;
“Cineplex Board”	means the board of directors of Cineplex;
“Cineplex Change in Recommendation”	means the Cineplex Board’s (i) failure unanimously to recommend, or withdrawal, amendment, modification or qualification in a manner adverse to Bidco of its recommendation that Cineplex Shareholders vote in favour of, the Arrangement Resolution, or (ii) acceptance, approval, endorsement or recommendation of, or public proposal to accept, approve, endorse or recommend, an Alternative Acquisition Proposal, or taking no position or failure publicly to reaffirm within 10 business days after having been requested in writing to do so by Bidco, acting reasonably, its approval or recommendation of the Arrangement or the Arrangement Resolution;

“Cineplex Credit Agreement”	has the meaning given to it in paragraph 7.2(c) of Part VI (<i>Additional Information</i>);
“Cineplex Directors”	means each director and executive officer of Cineplex;
“Cineplex Group”	means Cineplex and its subsidiary undertakings from time to time;
“Cineplex Material Adverse Event”	means any change, event, occurrence, effect or circumstance that, individually or in the aggregate, has had or would reasonably be expected to have a material and adverse effect on the business, affairs, operations, assets, liabilities, financial condition or results of operations of the Cineplex Group subject to certain exceptions set out in the Acquisition Agreement including, <i>inter alia</i> , any change, event, occurrence, effect or circumstance arising out of, relating to, resulting from or attributable to: (i) general economic conditions, (ii) conditions in national or global financial or capital markets, (iii) changes affecting the motion picture theatre industry, (iv) political conditions or acts of sabotage, terrorism or war, (v) natural disasters and outbreaks of illness, (vi) changes in law, regulation or accounting standards, (vii) the announcement of the Acquisition, (viii) actions taken or not taken by the Cineplex Group in accordance with the Acquisition Agreement, (ix) matters disclosed by Cineplex prior to the date of the Acquisition Agreement, (x) industrial disputes or (xi) changes in Cineplex’s share price or the trading volume of Cineplex’s shares;
“Cineplex Meeting”	means the special meeting of Cineplex Shareholders, including any adjournment or postponement thereof in accordance with the terms of the Acquisition Agreement, to be called and held in accordance with the Interim Order to consider the Arrangement Resolution and for any other purpose as may be set out in Cineplex’s circular and agreed to in writing by Bidco, acting reasonably;
“Cineplex Shareholder Approval”	means the approval of the Arrangement Resolution by Cineplex Shareholders representing not less than two-thirds of the votes cast on such resolution by Cineplex Shareholders present in person or represented by proxy at the Cineplex Meeting;
“Cineplex Shareholders”	means the registered and/or beneficial holders of Cineplex Shares, as the context requires;
“Cineplex Shares”	means common shares in the capital of Cineplex;
“Cineworld”	means Cineworld Group plc, a public limited company incorporated and registered in England and Wales with registered number 05212407 and with its registered office at 8th Floor, Vantage London, Great West Road, Brentford TW8 9AG;
“Cineworld Acquisition Proposal”	has the meaning given to it in paragraph 1.5 of Part III (<i>Principal Terms of the Acquisition</i>);
“Cineworld Change in Recommendation”	means the Board’s (i) failure unanimously to recommend, or withdrawal, amendment, modification or qualification in a manner adverse to Cineplex of its approval or recommendation of the Arrangement or recommendation that Shareholders vote in favour of the Resolution or (ii) acceptance, approval, endorsement or recommendation of or public proposal to accept, approve, endorse or recommend, a Cineworld Acquisition Proposal;

“Cineworld Group” or “Group”	means Cineworld Group plc and its subsidiaries from time to time;
“Cineworld Shareholder Approval”	means the approval of the Resolution by Shareholders representing a simple majority of the votes cast (in person or by proxy) at the General Meeting;
“Cineworld Superior Proposal”	has the meaning given to it in paragraph 1.5 of Part III (<i>Principal Terms of the Acquisition</i>);
“Circular”	means this document;
“Commitment Letter”	has the meaning given to it in paragraph 7.1(e) of Part VI (<i>Additional Information</i>);
“Commitment Parties”	means Bank of America, N.A., BAML, HSBC and GS;
“Companies Acts”	has the meaning given in section 2 of the Companies Act 2006;
“Company”	means Cineworld, except where otherwise defined;
“Competition Act”	means the Competition Act (Canada);
“Competition Act Approval”	means, with respect to the transactions contemplated by the Arrangement, (i) that the Commissioner of Competition appointed under the Competition Act (or any person duly authorised to perform duties on behalf of the Commissioner of Competition) shall have issued (and not rescinded or amended) to Bidco an advance ruling certificate under Section 102 of the Competition Act, or (ii) that (a) the waiting period under Section 123 of the Competition Act shall have expired or been terminated or the notification requirement shall have been waived pursuant to Section 113(c) of the Competition Act, and, unless such requirement is waived in writing by Bidco, (b) the Commissioner of Competition shall have issued (and not rescinded or amended) written confirmation to Bidco confirming that he or she does not, at that time, intend to make an application under section 92 of the Competition Act in respect of the transactions contemplated by the Arrangement;
“Completion”	means completion of the Acquisition pursuant to the Arrangement;
“Court”	means the Superior Court of Justice (Ontario) Commercial List, or other court as applicable;
“Credit Agreement”	has the meaning given to it in paragraph 7.1(d) of Part VI (<i>Additional Information</i>);
“CREST”	means the system of paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with Uncertificated Securities Regulations 2001 (SI 2001/3755);
“CREST Manual”	means the manual, as amended from time to time, produced by CRESTCo describing the CREST system and supplied by CRESTCo Limited to users and participants thereof;
“CREST Proxy Instruction”	means the instruction whereby CREST members send a CREST message appointing a proxy for the meeting and instructing the proxy on how to vote;

“Crown Finance US, Inc.”	means Crown Finance US, Inc., a Delaware corporation with file number 6635598;
“Crown UK Holdco Limited”	means Crown UK Holdco Limited, a private company incorporated in England and Wales with registered number 11088548 and with its registered office at 8th Floor, Vantage London, Great West Road, Brentford TW8 9AG;
“Debt Facilities”	means the Incremental Term Facility and the Bridge Facility;
“Debt Financing”	means the debt financing contemplated by the Debt Facilities;
“Directors”	means the directors of Cineworld Group plc from time to time;
“Disclosure and Transparency Rules” or “DTRs”	means the Disclosure Guidance and Transparency Rules made by the FCA pursuant to FSMA;
“Dissent Rights”	means the statutory right of Cineplex Shareholders in the manner set forth in Section 185 of the OBCA pursuant to and as modified by the Interim Order, to apply to the Court to receive fair value for their Cineplex Shares (subject to the conditions set out in the Interim Order and the Plan of Arrangement);
“Dissenting Cineplex Shareholder”	means a Cineplex Shareholder who validly exercises their Dissent Rights in respect of their Cineplex Shares;
“EBIT”	means profit before interest and tax;
“EBITDA”	means profit before interest, tax, depreciation and amortisation and unrealised gains and losses on derivative contracts;
“Effective Date”	means the date shown on the Certificate of Arrangement giving effect to the Arrangement;
“Effective Time”	means 12:01 a.m. (Toronto time) on the Effective Date, or such other time as the Parties agree to in writing before the Effective Date;
“Employee Share Schemes”	means the Cineworld Group Performance Share Plan, the Cineworld Group Company Share Option Plan and the Cineworld Group Long Term Incentive Plan;
“Enlarged Group”	means the Cineworld Group as enlarged by the Acquisition with effect from Completion;
“EPS”	means earnings per share before goodwill, amortisation and exceptional items;
“EU”	means the European Union;
“Eurocurrency Rate Loans”	has the meaning given to it in paragraph 7.1(d) of Part VI (<i>Additional Information</i>);
“Executive Directors”	means collectively, the Chief Executive Officer, Deputy Chief Executive Officer, the Chief Financial Officer and the Chief Commercial Officer of Cineworld, and “ <i>Executive Director</i> ” shall mean any one of them;
“FCA”	means the Financial Conduct Authority of the United Kingdom;

“Final Order”	means the final order of the Court, in a form acceptable to Cineworld, Bidco and Cineplex, each acting reasonably, approving the Arrangement as such order may be amended by the Court (with the consent of Cineworld, Bidco and Cineplex, each acting reasonably) at any time prior to the Effective Date or as such order may be affirmed or amended on appeal (provided that any such amendment is satisfactory to Cineworld, Bidco and Cineplex, each acting reasonably);
“Form of Proxy”	means the form of proxy accompanying this document (for those Shareholders who have not elected to receive shareholder communications in electronic form) for use by Shareholders in connection with the General Meeting;
“FSMA”	means the Financial Services and Markets Act 2000, as amended;
“FY 2014”	means the financial year ended 31 December 2014;
“FY 2018”	means the financial year ended 31 December 2018;
“FY 2019”	means the financial year ended 31 December 2019;
“FY 2020”	means the financial year ended 31 December 2020;
“FY 2021”	means the financial year ended 31 December 2021;
“General Meeting”	means the general meeting of Cineworld proposed to be held at the Cineworld Cinema in Wandsworth, Southside Shopping Centre, Wandsworth High Street, London SW18 4TF on at 11:00 a.m. on 11 February 2020 to approve the Resolution, the notice of which is contained in this document;
“GCH”	means Global City Holdings B.V., shares in which are held in trust for the benefit of the children of Mooky Greidinger and Israel Greidinger but are not controlled by Mooky Greidinger or Israel Greidinger;
“Go-Shop Deadline”	has the meaning given to it in paragraph 1.5 of Part III (<i>Principal Terms of the Acquisition</i>);
“GS”	means Goldman Sachs Bank USA;
“HSBC”	means HSBC Bank plc;
“HSR Act”	means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;
“HSR Act Approval”	means the expiry or termination of the waiting period (and any extension thereof) under the HSR Act;
“IFRS”	means the International Financial Reporting Standards;
“IFRS EU”	means IFRS as adopted by the EU;
“IMAX”	means IMAX®;
“Incremental Term Facility”	has the meaning given to it in paragraph 7.1(e) of Part VI (<i>Additional Information</i>);
“Incremental US Dollar Term Loan”	has the meaning given to it in paragraph 7.1(d) of Part VI (<i>Additional Information</i>);

“Initial Euro Term Loan”	has the meaning given to it in paragraph 7.1(d) of Part VI (<i>Additional Information</i>);
“Initial US Dollar Term Loan”	has the meaning given to it in paragraph 7.1(d) of Part VI (<i>Additional Information</i>);
“Interim Order”	means the interim order of the Court, in a form acceptable to Cineworld, Bidco and Cineplex, each acting reasonably, providing for, among other things, the calling and holding of the Cineplex Meeting, as such order may be amended by the Court with the consent of Cineplex and Bidco, each acting reasonably;
“Investment Canada Act”	means the Investment Canada Act (Canada);
“Investment Canada Act Approval”	means the Canadian Minister of Innovation, Science and Industry and the Canadian Minister of Heritage and Multiculturalism having confirmed in writing to Cineworld or Bidco that they are satisfied, or having been deemed to be satisfied, that the transactions contemplated by the Arrangement are likely to be of net benefit to Canada for the purposes of the Investment Canada Act;
“Latest Practicable Date”	means 22 January 2020, being the latest practicable date for the calculation and inclusion of information prior to the publication of this Circular;
“Listing Rules” or “LRs”	means the Listing Rules made by the FCA pursuant to FSMA governing, <i>inter alia</i> , admission of securities to the Official List of the FCA;
“London Stock Exchange”	means the London Stock Exchange plc or any recognised investment exchange for the purposes of the FMSA that may take over the functions of the London Stock Exchange plc;
“Long Stop Date”	means 30 June 2020;
“LTIP”	means the Cineworld Group plc 2017 Long Term Incentive Plan;
“Major Shareholder”	means Global City Theatres B.V., which is the beneficial owner of 383,131,720 Ordinary Shares as at the Latest Practicable Date and a wholly-owned subsidiary of GCH;
“Major Shareholder Termination Event”	has the meaning given to it in paragraph 1.7 of Part III (Principal Terms of the Acquisition);
“Market Abuse Regulation” or “MAR”	means Regulation (EU) No 596/2014;
“Notice of General Meeting”	means the notice of General Meeting contained in this document;
“OBCE”	means the Business Corporations Act (Ontario);
“OBCE Director”	means the director appointed pursuant to Section 278 of the OBCE;
“Offer Price”	means the price of C\$34.00 (US\$25.92 ³²) per Cineplex Share;
“Ordinary Shares”	means the ordinary shares with a nominal value of one pence each in the capital of the Company;

32 Converted into US dollars at the exchange rate as at the Latest Practicable Date, being C\$1:US\$0.7624.

“Plan of Arrangement”	means the plan of arrangement setting out the terms and conditions of the Arrangement, which terms and conditions shall be implemented by the Articles of Arrangement;
“PSP”	means the Cineworld Group 2007 Performance Share Plan;
“PwC”	means PricewaterhouseCoopers LLP;
“Refinancing”	means the proposed refinancing of existing Cineplex debt as more particularly described in paragraph 7.1(e) of Part VI (<i>Additional Information</i>);
“Regal Acquisition”	means the acquisition by the Cineworld Group of the Regal Entertainment Group, which completed in February 2018;
“Registrars”	means Link Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;
“regulatory authority”	means any central bank, ministry, governmental, quasi-governmental (including the EU), supranational, statutory, regulatory or investigative body or authority (including any national or supranational antitrust or merger control authority), national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof), private body exercising any regulatory, taxing, importing or other authority, trade agency, association, institution or professional or environmental body or any other person or body whatsoever in any relevant jurisdiction, including for the avoidance of doubt, the takeover panel, the FCA and the London Stock Exchange;
“Resolution”	means the ordinary resolution set out in the Notice of General Meeting;
“Revolving Credit Facility”	has the meaning given to it in paragraph 7.1(d) of Part VI (<i>Additional Information</i>);
“Revolving Facility”	has the meaning given to it in paragraph 7.2(c) of Part VI (<i>Additional Information</i>);
“Shareholder”	means any holder of Ordinary Shares registered on the register of members of the Company;
“Sponsor”	means Goldman Sachs International;
“subsidiary” and “subsidiary undertaking”	have the meanings given to them in sections 1159 and 1162 (respectively) of the Companies Act 2006;
“Superior Proposal”	has the meaning given to it in paragraph 1.5 of Part III (<i>Principal Terms of the Acquisition</i>);
“Target Termination Event”	has the meaning given to it in paragraph 1.7 of Part III (<i>Principal Terms of the Acquisition</i>);
“Term Facility”	has the meaning given to it in paragraph 7.2(c) of Part VI (<i>Additional Information</i>);
“Term Loans”	means the Initial US Dollar Term Loan, the Incremental US Dollar Term Loan and the Initial Euro Term Loan;

**“Unaudited Pro Forma
Financial Information”**

means the unaudited pro forma net assets statement of the Enlarged Group set out in Part A of Part V (*Unaudited Pro Forma Financial Information Relating to the Enlarged Group*); and

“United Kingdom” or “UK”

the United Kingdom of Great Britain and Northern Ireland.

PART VIII

NOTICE OF GENERAL MEETING

Cineworld Group plc

(incorporated and registered in England and Wales with registered number 05212407)

NOTICE IS HEREBY GIVEN that a general meeting of Cineworld Group plc (the “**Company**”) will be held at 11:00 a.m. on 11 February 2020 at the Cineworld Cinema in Wandsworth, Southside Shopping Centre, Wandsworth High Street, London SW18 4TF (the “**General Meeting**”) for the purposes of considering and, if thought fit, passing the following resolution which shall be proposed as an ordinary resolution (which means that for the resolution to be passed, more than half of the votes cast must be in favour of the resolution).

THAT, the proposed acquisition of the entire issued and to be issued share capital of Cineplex Inc. (the “**Acquisition**”) pursuant to the terms and subject to the conditions contained in the arrangement agreement dated 15 December 2019 between the Company, 1232743 B.C. Ltd. and Cineplex Inc. (the “**Acquisition Agreement**”) and all other agreements and ancillary arrangements contemplated by the Acquisition Agreement be and are hereby approved and that the directors of the Company (the “**Directors**”) (or any duly constituted committee of the Directors) be and are hereby authorised to take all such steps as may be necessary, expedient or desirable in relation thereto and to carry the same into effect with such modifications, variations, revisions or amendments (provided such modifications, variations or amendments are not of a material nature) as they shall deem necessary, expedient or desirable.

24 January 2020

By the order of the Board

Fiona Smith

Company Secretary

Registered office:

8th Floor

Vantage London

Great West Road

Brentford TW8 9AG

Notes:

Note 1

Holders of ordinary shares, or their duly appointed representatives, are entitled to attend and vote at the General Meeting. Shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at the meeting. A shareholder can appoint the Chairman of the meeting or anyone else to be his/her proxy at the meeting. A proxy need not be a shareholder. More than one proxy can be appointed in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or shares held by that shareholder. To appoint more than one proxy, the proxy form should be photocopied and completed for each proxy holder. The proxy holder's name should be written on the proxy form together with the number of shares in relation to which the proxy is authorised to act. A failure to specify the number of shares each proxy appointment relates to or specifying an aggregate number of shares in excess of those held by the member will result in the proxy appointment being invalid. The box on the proxy form must also be marked with a cross to indicate that the proxy instruction is one of multiple instructions being given. All proxy forms must be signed.

The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in Note 2) will not prevent a shareholder attending the General Meeting and voting in person if he/she wishes to do so.

A form of proxy is enclosed with this notice. To be valid, the form of proxy, together with the power of attorney or other authority under which it is signed (or a notarially certified copy of such power or authority), must be deposited with the Company's Registrars, Link Asset Services, not later than 11:00 a.m. on 7 February 2020 or not less than 48 hours (excluding any part of a day that is not a working day) before the time of the General Meeting if it is adjourned. Alternatively, to appoint a proxy online (which must be done by the same deadline as above), shareholders may go to the following website: www.signalshares.com. To register for Signal Shares enter "Cineworld Group plc". The Company's name will be presented on the next screen and you should click on this. Once you have clicked, you should follow the prompts on the screen by entering your surname, Investor Code, postcode, e mail address and to select a password. Once registered, you will be able to complete your proxy appointment online.

A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he/she is the holder.

Note 2

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Link Asset Services (ID RA10) not later than 11:00 a.m. on 7 February 2020 or not less than 48 hours (excluding any part of a day that is not a working day) before the time of the General Meeting if it is adjourned. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Link Asset Services is able to retrieve the message by enquiry to CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages and normal system timings and limitations will apply in relation to the input of a CREST Proxy Instruction. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations.

Note 3

A person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "**Nominated Person**") may, under an agreement between him/her and the shareholder by whom he/she is nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statements of the rights of members in relation to the appointment of proxies in notes 1 and 2 above do not apply to a Nominated Person. The rights described in those notes can only be exercised by registered members of the Company.

Note 4

Pursuant to regulation 41(1) of the Uncertificated Securities Regulations, only those shareholders registered in the register of members of the Company as at close of business on 7 February 2020 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If the meeting is adjourned for a longer period then, to be so entitled, a member must be entered on the Company's register of members at close of business on the date which is two days prior to the date fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

Note 5

As at 22 January 2020, being the latest practicable date prior to the publication of this document, the Company's issued share capital consists of 1,371,950,293 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company as at 22 January 2020 are 1,371,950,293.

Note 6

All shareholders and their proxies attending have the right to ask questions at the meeting. The Company will answer any such questions relating to the business of the meeting, but it may not answer if (a) it would involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is not desirable in the interests of the Company or the good order of the meeting that the question be answered.

Note 7

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Note 8

You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this notice (or in any related documents including the Class 1 circular and Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

Note 9

A copy of this notice can be found at www.cineworldplc.com.

