

IMAX CORP  
Form 10-Q  
October 20, 2016  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended September 30, 2016**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**Commission file Number 001-35066**

**IMAX Corporation**

**(Exact name of registrant as specified in its charter)**

|                                                                              |                                                  |
|------------------------------------------------------------------------------|--------------------------------------------------|
| <b>Canada</b><br><b>(State or other jurisdiction of</b>                      | <b>98-0140269</b><br><b>(I.R.S. Employer</b>     |
| <b>incorporation or organization)</b>                                        | <b>Identification Number)</b>                    |
| <b>2525 Speakman Drive,</b>                                                  | <b>110 E. 59<sup>th</sup> Street, Suite 2100</b> |
| <b>Mississauga, Ontario, Canada L5K 1B1</b>                                  | <b>New York, New York, USA 10022</b>             |
| <b>(905) 403-6500</b>                                                        | <b>(212) 821-0100</b>                            |
| <b>(Address of principal executive offices, zip code, telephone numbers)</b> |                                                  |
| <b>Securities registered pursuant to Section 12(b) of the Act:</b>           |                                                  |

|                                                                    |                                             |
|--------------------------------------------------------------------|---------------------------------------------|
| <b>Title of Each Class</b>                                         | <b>Name of Exchange on Which Registered</b> |
| <b>Common Shares, no par value</b>                                 | <b>The New York Stock Exchange</b>          |
| <b>Securities registered pursuant to Section 12(g) of the Act:</b> |                                             |

**None**

**(Title of class)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

## Edgar Filing: IMAX CORP - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting Company

Indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of the Act). Yes No

Indicate the number of shares of each of the issuer's classes of common stock, as of the latest practicable date:

| Class                      |
|----------------------------|
| Common stock, no par value |

| Outstanding as of September 30, 2016 |
|--------------------------------------|
| 66,813,963                           |

**Table of Contents**

**IMAX CORPORATION**

**Table of Contents**

|                                                                                                      | <b>Page</b> |
|------------------------------------------------------------------------------------------------------|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>                                                          |             |
| Item 1. <u>Financial Statements</u>                                                                  | 4           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 44          |
| Item 3. <u>Quantitative and Qualitative Factors about Market Risk</u>                                | 74          |
| Item 4. <u>Controls and Procedures</u>                                                               | 75          |
| <b><u>PART II. OTHER INFORMATION</u></b>                                                             |             |
| Item 1. <u>Legal Proceedings</u>                                                                     | 76          |
| Item 1A. <u>Risk Factors</u>                                                                         | 76          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 76          |
| Item 6. <u>Exhibits</u>                                                                              | 76          |
| <u>Signatures</u>                                                                                    | 77          |

---

**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

Certain statements included in this quarterly report may constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business and technology strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business, operations and technology, plans and references to the future success of IMAX Corporation together with its consolidated subsidiaries (the Company) and expectations regarding the Company's future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, the signing of theater system agreements; conditions, changes and developments in the commercial exhibition industry; the performance of IMAX DMR films; the potential impact of increased competition in the markets within which the Company operates; competitive actions by other companies; the failure to respond to change and advancements in digital technology; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; risks related to the Company's growth and operations in China; the Company's largest customer accounting for a significant portion of the Company's revenue and backlog; risks related to new business initiatives; conditions in the in-home and out-of-home entertainment industries; the opportunities (or lack thereof) that may be presented to and pursued by the Company; risks related to cyber-security; risks related to the Company's inability to protect its intellectual property; risks related to the Company's implementation of a new enterprise resource planning system; general economic, market or business conditions; the failure to convert theater system backlog into revenue; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this quarterly report are qualified by these cautionary statements, and actual results or anticipated developments by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

IMAX®, IMAX® Dome, IMAX® 3D, IMAX® 3D Dome, Experience It In IMAX®, *The IMAX Experience®*, *An IMAX Experience®*, *An IMAX 3D Experience®*, IMAX DMR®, DMR®, IMAX nXos®, IMAX think big®, think big® and IMAX Is Believing®, are trademarks and trade names of the Company or its subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

---

**Table of Contents**

**IMAX CORPORATION**

**PART I. FINANCIAL INFORMATION**

**Item 1. *Financial Statements***

|                                                                                                                                         | <b>Page</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------|
| The following unaudited Condensed Consolidated Financial Statements are filed as part of this Report:                                   |             |
| <u>Condensed Consolidated Balance Sheets as at September 30, 2016 and December 31, 2015</u>                                             | 5           |
| <u>Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2016 and 2015</u>           | 6           |
| <u>Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended September 30, 2016 and 2015</u> | 7           |
| <u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2016 and 2015</u>                     | 8           |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                                                             | 9           |

**Table of Contents**

**IMAX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(In thousands of U.S. dollars)*

*(Unaudited)*

|                                                                                                                                                                                 | September 30,<br>2016 | December 31,<br>2015 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                   |                       |                      |
| Cash and cash equivalents                                                                                                                                                       | \$ 218,104            | \$ 317,449           |
| Accounts receivable, net of allowance for doubtful accounts of \$1,026<br>(December 31, 2015 \$1,146)                                                                           | 89,247                | 97,981               |
| Financing receivables                                                                                                                                                           | 118,897               | 117,231              |
| Inventories                                                                                                                                                                     | 51,015                | 38,753               |
| Prepaid expenses                                                                                                                                                                | 11,603                | 6,498                |
| Film assets                                                                                                                                                                     | 15,165                | 14,571               |
| Property, plant and equipment                                                                                                                                                   | 233,984               | 218,267              |
| Other assets                                                                                                                                                                    | 26,419                | 26,136               |
| Deferred income taxes                                                                                                                                                           | 26,233                | 26,666               |
| Other intangible assets                                                                                                                                                         | 29,605                | 28,950               |
| Goodwill                                                                                                                                                                        | 39,027                | 39,027               |
| <b>Total assets</b>                                                                                                                                                             | <b>\$ 859,299</b>     | <b>\$ 931,529</b>    |
| <b>Liabilities</b>                                                                                                                                                              |                       |                      |
| Bank indebtedness                                                                                                                                                               | \$ 27,806             | \$ 29,276            |
| Accounts payable                                                                                                                                                                | 16,733                | 23,455               |
| Accrued and other liabilities                                                                                                                                                   | 90,485                | 95,748               |
| Deferred revenue                                                                                                                                                                | 97,220                | 104,993              |
| <b>Total liabilities</b>                                                                                                                                                        | <b>232,244</b>        | <b>253,472</b>       |
| <b>Commitments and contingencies</b>                                                                                                                                            |                       |                      |
| <b>Non-controlling interests</b>                                                                                                                                                | <b>2,693</b>          | <b>3,307</b>         |
| <b>Shareholders' equity</b>                                                                                                                                                     |                       |                      |
| Capital stock common shares no par value. Authorized unlimited number.<br>66,813,963 issued and 66,813,787 outstanding (December 31, 2015<br>69,673,244 issued and outstanding) | 435,829               | 448,310              |
| Less: Treasury stock held in trust, 176 shares at cost                                                                                                                          | (6)                   |                      |
| Other equity                                                                                                                                                                    | 180,358               | 168,425              |
| Accumulated (deficit) earnings                                                                                                                                                  | (43,816)              | 15,499               |
| Accumulated other comprehensive loss                                                                                                                                            | (4,562)               | (7,443)              |

|                                                                       |                   |                   |
|-----------------------------------------------------------------------|-------------------|-------------------|
| <b>Total shareholders' equity attributable to common shareholders</b> | <b>567,803</b>    | <b>624,791</b>    |
| Non-controlling interests                                             | 56,559            | 49,959            |
| <b>Total shareholders' equity</b>                                     | <b>624,362</b>    | <b>674,750</b>    |
| <b>Total liabilities and shareholders' equity</b>                     | <b>\$ 859,299</b> | <b>\$ 931,529</b> |

*(the accompanying notes are an integral part of these condensed consolidated financial statements)*

[Table of Contents](#)

**IMAX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

*(In thousands of U.S. dollars, except per share amounts)*

*(Unaudited)*

|                                                                                                                                                                                                                                                                                   | <b>Three Months<br/>Ended<br/>September 30,</b> |               | <b>Nine Months Ended<br/>September 30,</b> |                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|---------------|--------------------------------------------|----------------|
|                                                                                                                                                                                                                                                                                   | <b>2016</b>                                     | <b>2015</b>   | <b>2016</b>                                | <b>2015</b>    |
| <b>Revenues</b>                                                                                                                                                                                                                                                                   |                                                 |               |                                            |                |
| Equipment and product sales                                                                                                                                                                                                                                                       | \$ 30,835                                       | \$ 33,083     | \$ 81,064                                  | \$ 72,824      |
| Services                                                                                                                                                                                                                                                                          | 37,195                                          | 33,024        | 122,853                                    | 115,698        |
| Rentals                                                                                                                                                                                                                                                                           | 16,007                                          | 16,665        | 58,538                                     | 59,006         |
| Finance income                                                                                                                                                                                                                                                                    | 2,288                                           | 2,329         | 6,991                                      | 6,803          |
| Other                                                                                                                                                                                                                                                                             | 225                                             |               | 975                                        | 141            |
|                                                                                                                                                                                                                                                                                   | <b>86,550</b>                                   | <b>85,101</b> | <b>270,421</b>                             | <b>254,472</b> |
| <b>Costs and expenses applicable to revenues</b>                                                                                                                                                                                                                                  |                                                 |               |                                            |                |
| Equipment and product sales                                                                                                                                                                                                                                                       | 15,690                                          | 21,949        | 49,075                                     | 43,010         |
| Services                                                                                                                                                                                                                                                                          | 20,393                                          | 15,899        | 58,517                                     | 50,201         |
| Rentals                                                                                                                                                                                                                                                                           | 5,504                                           | 4,864         | 15,367                                     | 13,856         |
| Other                                                                                                                                                                                                                                                                             | 64                                              |               | 110                                        |                |
|                                                                                                                                                                                                                                                                                   | <b>41,651</b>                                   | <b>42,712</b> | <b>123,069</b>                             | <b>107,067</b> |
| <b>Gross margin</b>                                                                                                                                                                                                                                                               | <b>44,899</b>                                   | <b>42,389</b> | <b>147,352</b>                             | <b>147,405</b> |
| Selling, general and administrative expenses<br>(including share-based compensation expense of \$7.7 million and<br>\$22.5 million for the three and nine months ended September 30,<br>2016, respectively (2015 - expense of \$4.3 million and \$14.9<br>million, respectively)) | 30,686                                          | 24,973        | 92,706                                     | 82,348         |
| Research and development                                                                                                                                                                                                                                                          | 4,460                                           | 2,722         | 11,603                                     | 9,611          |
| Amortization of intangibles                                                                                                                                                                                                                                                       | 531                                             | 429           | 1,537                                      | 1,302          |
| Receivable provisions, net of recoveries                                                                                                                                                                                                                                          | 275                                             | 361           | 631                                        | 709            |
| Asset impairments                                                                                                                                                                                                                                                                 | 1,223                                           | 245           | 1,223                                      | 245            |
| Impairment of investments                                                                                                                                                                                                                                                         |                                                 |               | 194                                        | 350            |
| <b>Income from operations</b>                                                                                                                                                                                                                                                     | <b>7,724</b>                                    | <b>13,659</b> | <b>39,458</b>                              | <b>52,840</b>  |
| Interest income                                                                                                                                                                                                                                                                   | 370                                             | 222           | 1,217                                      | 727            |
| Interest expense                                                                                                                                                                                                                                                                  | (469)                                           | (463)         | (1,325)                                    | (1,170)        |

Edgar Filing: IMAX CORP - Form 10-Q

|                                                                                      |                 |                 |                  |                  |
|--------------------------------------------------------------------------------------|-----------------|-----------------|------------------|------------------|
| <b>Income from operations before income taxes</b>                                    | <b>7,625</b>    | <b>13,418</b>   | <b>39,350</b>    | <b>52,397</b>    |
| Provision for income taxes                                                           | (2,551)         | (2,477)         | (9,635)          | (12,408)         |
| Loss from equity-accounted investments, net of tax                                   | (690)           | (427)           | (2,471)          | (1,610)          |
| <b>Net income</b>                                                                    | <b>4,384</b>    | <b>10,514</b>   | <b>27,244</b>    | <b>38,379</b>    |
| Less: net income attributable to non-controlling interests                           | (1,859)         | (1,904)         | (7,401)          | (5,028)          |
| <b>Net income attributable to common shareholders</b>                                | <b>\$ 2,525</b> | <b>\$ 8,610</b> | <b>\$ 19,843</b> | <b>\$ 33,351</b> |
| <b>Net income per share attributable to common shareholders - basic and diluted:</b> |                 |                 |                  |                  |
| Net income per share - basic                                                         | \$ 0.04         | \$ 0.12         | \$ 0.29          | \$ 0.47          |
| Net income per share - diluted                                                       | \$ 0.04         | \$ 0.12         | \$ 0.29          | \$ 0.46          |

*(the accompanying notes are an integral part of these condensed consolidated financial statements)*

Table of Contents

**IMAX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(In thousands of U.S. dollars)*

*(Unaudited)*

|                                                                           | <b>Three Months Ended<br/>September 30,</b> |                  | <b>Nine Months Ended<br/>September 30,</b> |                  |
|---------------------------------------------------------------------------|---------------------------------------------|------------------|--------------------------------------------|------------------|
|                                                                           | <b>2016</b>                                 | <b>2015</b>      | <b>2016</b>                                | <b>2015</b>      |
| <b>Net income</b>                                                         | <b>\$ 4,384</b>                             | <b>\$ 10,514</b> | <b>\$ 27,244</b>                           | <b>\$ 38,379</b> |
| Unrealized net (loss) gain from cash flow hedging instruments             | (293)                                       | (2,309)          | 1,865                                      | (4,983)          |
| Realization of cash flow hedging net loss upon settlement                 | 572                                         | 1,045            | 2,565                                      | 2,196            |
| Foreign currency translation adjustments                                  | (452)                                       | (992)            | (1,849)                                    | (1,162)          |
| Amortization of postretirement benefit plan actuarial loss                | 17                                          |                  | 51                                         |                  |
| <b>Other comprehensive (loss) income, before tax</b>                      | <b>(156)</b>                                | <b>(2,256)</b>   | <b>2,632</b>                               | <b>(3,949)</b>   |
| Income tax (expense) benefit related to other comprehensive (loss) income | (77)                                        | 558              | (1,166)                                    | 996              |
| Other comprehensive (loss) income, net of tax                             | (233)                                       | (1,698)          | 1,466                                      | (2,953)          |
| <b>Comprehensive income</b>                                               | <b>4,151</b>                                | <b>8,816</b>     | <b>28,710</b>                              | <b>35,426</b>    |
| Less: Comprehensive income attributable to non-controlling interests      | (1,717)                                     | (2,056)          | (5,986)                                    | (5,192)          |
| <b>Comprehensive income attributable to common shareholders</b>           | <b>\$ 2,434</b>                             | <b>\$ 6,760</b>  | <b>\$ 22,724</b>                           | <b>\$ 30,234</b> |

*(the accompanying notes are an integral part of these condensed consolidated financial statements)*

Table of Contents

**IMAX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(In thousands of U.S. dollars)*

*(Unaudited)*

|                                                                               | <b>Nine Months Ended<br/>September 30,</b> |                 |
|-------------------------------------------------------------------------------|--------------------------------------------|-----------------|
|                                                                               | <b>2016</b>                                | <b>2015</b>     |
| <b>Cash provided by (used in):</b>                                            |                                            |                 |
| <b>Operating Activities</b>                                                   |                                            |                 |
| Net income                                                                    | \$ 27,244                                  | \$ 38,379       |
| Adjustments to reconcile net income to cash from operations:                  |                                            |                 |
| Depreciation and amortization                                                 | 34,179                                     | 31,191          |
| Write-downs, net of recoveries                                                | 2,903                                      | 2,928           |
| Change in deferred income taxes                                               | (517)                                      | 5,097           |
| Stock and other non-cash compensation                                         | 22,896                                     | 15,204          |
| Unrealized foreign currency exchange (gain) loss                              | (206)                                      | 716             |
| Loss from equity-accounted investments                                        | 2,769                                      | 2,756           |
| Gain on non-cash contribution to equity-accounted investees                   | (298)                                      | (1,146)         |
| Investment in film assets                                                     | (14,162)                                   | (12,069)        |
| Changes in other non-cash operating assets and liabilities                    | (29,504)                                   | (41,033)        |
| <b>Net cash provided by operating activities</b>                              | <b>45,304</b>                              | <b>42,023</b>   |
| <b>Investing Activities</b>                                                   |                                            |                 |
| Purchase of property, plant and equipment                                     | (10,033)                                   | (38,443)        |
| Investment in joint revenue sharing equipment                                 | (25,524)                                   | (20,969)        |
| Investment in new business ventures                                           |                                            | (2,000)         |
| Acquisition of other intangible assets                                        | (2,931)                                    | (3,622)         |
| <b>Net cash used in investing activities</b>                                  | <b>(38,488)</b>                            | <b>(65,034)</b> |
| <b>Financing Activities</b>                                                   |                                            |                 |
| Increase in bank indebtedness                                                 |                                            | 17,568          |
| Repayment of bank indebtedness                                                | (1,500)                                    |                 |
| Repurchase of common shares                                                   | (100,378)                                  | (34,279)        |
| Settlement of restricted share units and options                              | (8,376)                                    | (7,859)         |
| Common shares issued - stock options exercised                                | 7,196                                      | 23,838          |
| Taxes paid on secondary sale and repatriation dividend                        | (2,991)                                    |                 |
| Taxes withheld and paid on employee stock awards vested                       | (230)                                      | (223)           |
| Treasury stock purchased for future settlement of restricted share units      | (6)                                        | (2,141)         |
| Credit facility amendment fees paid                                           |                                            | (1,310)         |
| Issuance of subsidiary shares to non-controlling interests - private offering |                                            | 40,000          |

Edgar Filing: IMAX CORP - Form 10-Q

Share issuance costs from the issuance of subsidiary shares to non-controlling interests - private offering (2,000)

|                                                                       |                   |                   |
|-----------------------------------------------------------------------|-------------------|-------------------|
| <b>Net cash (used in) provided by financing activities</b>            | <b>(106,285)</b>  | <b>33,594</b>     |
| Effects of exchange rate changes on cash                              | 124               | 275               |
| <b>(Decrease) increase in cash and cash equivalents during period</b> | <b>(99,345)</b>   | <b>10,858</b>     |
| <b>Cash and cash equivalents, beginning of period</b>                 | <b>317,449</b>    | <b>106,503</b>    |
| <b>Cash and cash equivalents, end of period</b>                       | <b>\$ 218,104</b> | <b>\$ 117,361</b> |

*(the accompanying notes are an integral part of these condensed consolidated financial statements)*

**Table of Contents**

**IMAX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in thousands of U.S. dollars, unless otherwise stated)*

*(Unaudited)*

**1. Basis of Presentation**

IMAX Corporation, together with its consolidated subsidiaries (the "Company"), prepares its financial statements in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP").

The condensed consolidated financial statements include the accounts of the Company together with its consolidated subsidiaries, except for subsidiaries which the Company has identified as variable interest entities ("VIEs") where the Company is not the primary beneficiary. The nature of the Company's business is such that the results of operations for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all normal and recurring adjustments necessary to make the results of operations for the interim periods a fair statement of such operations.

The Company has evaluated its various variable interests to determine whether they are VIEs as required by the Consolidation Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "Codification").

The Company has 11 film production companies that are VIEs. For five of the Company's film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the respective VIE that most significantly impact the respective VIE's economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. These consolidated production companies have total assets of \$8.4 million (December 31, 2015: \$7.2 million) and total liabilities of \$4.1 million as at September 30, 2016 (December 31, 2015: \$4.1 million). The majority of these consolidated assets are held by the IMAX Original Film Fund (the "Film Fund") as described in note 16(b). For the other six film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at September 30, 2016, these six VIEs have total assets of \$0.4 million (December 31, 2015: \$0.4 million) and total liabilities of \$0.4 million (December 31, 2015: \$0.4 million). Earnings of the investees included in the Company's condensed consolidated statements of operations amounted to \$nil and \$nil for the three and nine months ended September 30, 2016, respectively (2015: \$nil and \$nil, respectively). The carrying value of these investments in VIEs that are not consolidated is \$nil at September 30, 2016 (December 31, 2015: \$nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statements of operations. The Company's exposure, which is determined based on the level of funding contributed by the Company and the development stage of the respective film, is \$nil at September 30, 2016 (December 31, 2015: \$nil).

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 Investments - Equity Method and Joint Ventures ("ASC 323") or ASC 320 Investments in Debt and Equity Securities ("ASC 320"), as appropriate.

All intercompany accounts and transactions, including all unrealized intercompany profits on transactions with equity-accounted investees, have been eliminated.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company's 2015 Annual Report on Form 10-K for the year ended December 31, 2015 (the 2015 Form 10-K) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company's financial statements for the year ended December 31, 2015, except as noted below.

**Table of Contents****2. New Accounting Standards and Accounting Changes*****Adoption of New Accounting Policies***

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement – Extraordinary and Unusual Items* (Subtopic 225-20): *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* (ASU 2015-01). Prior to the changes under ASU 2015-01, an entity was required to separately classify, present and disclose extraordinary events and transactions under the disclosure requirements of Subtopic 225-20, *Income Statement – Extraordinary and Unusual Items* (Subtopic 225-20). ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items therefore such separate disclosure is no longer required in the Income Statement of an entity. For public companies, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments can be applied prospectively or retrospectively. The Company prospectively adopted the amendments under ASU 2015-01 on January 1, 2016. The adoption of the standard did not have an impact on the disclosures presented in the condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015, respectively.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* (ASU 2015-02). ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities such as limited partnerships and similar entities, and variable interest entities that have free arrangements and related party relationships. Furthermore, all legal entities are subject to re-evaluation under the revised consolidation model. The amendments also provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. For public companies, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments can be applied retrospectively or using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The Company adopted the amendments under ASU 2015-02 retrospectively on January 1, 2016. The adoption of the standard did not have an impact on the Company's condensed consolidated financial statements as there was no change to the entities currently consolidated by the Company.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest* (Subtopic 835-30): *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), and in August 2015 issued ASU No. 2015-15, *Interest Imputation of Interest* (Subtopic 835-30): *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* (ASU 2015-15). Under ASU 2015-03, debt issuance costs reported on the balance sheet will be reflected as a direct deduction from the related debt liability rather than as an asset. While ASU 2015-03 addresses costs related to term debt, ASU 2015-15 provides clarification regarding costs to secure revolving lines of credit, which are, at the outset, not associated with an outstanding borrowing. ASU 2015-15 provides commentary that the U.S. Securities and Exchange Commission (SEC) staff would not object to an entity deferring and presenting costs associated with line-of-credit arrangements as an asset and subsequently amortizing them ratably over the term of the revolving debt arrangement. For public companies, the amendments apply to annual periods beginning on or after December 15, 2015, and interim periods within those years and are to be applied retrospectively. The Company adopted these standards on January 1, 2016. As at December 31, 2015, \$0.4 million of unamortized debt issuance costs related to the Company's loan to finance the construction of its Playa Vista facility were reclassified in the condensed consolidated balance sheet from Other assets to Bank indebtedness. The Company will continue to defer and present the debt issuance cost related to its senior secured revolving credit facility in Other assets and amortize it ratably over the term of the agreement.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation* (Topic 718): *Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). The amendment is to simplify several aspects of the

accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, the amendments in ASU 2016-09 are effective for interim and annual reporting periods beginning after December 15, 2016. ASU 2016-09 requires that the Company elect to account for forfeitures based on an estimate of the number of awards for which the requisite service period will not be rendered or to account for forfeitures as they occur. The Company elected to early adopt ASU 2016-09 during the second quarter of 2016 and to account for forfeitures as they occur. The impact from the adoption of the provisions related to forfeiture rates was reflected in the Company's condensed consolidated financial statements on a modified retrospective basis resulting in a balance sheet reclass of \$4.4 million decrease to Accumulated earnings, \$0.9 million increase to Deferred income taxes and \$5.3 million increase to Other equity. A recovery of stock-based compensation expense of \$2.7 million for the nine month period ended September 30, 2016 was also recorded. Amendments related to accounting for excess tax benefits have been adopted prospectively resulting in a tax benefit of \$0.1 million for the nine months ended September 30, 2016, and amendments related to the condensed consolidated statement of cash flows have been adopted

---

**Table of Contents**

retrospectively. See Notes 11 and 12 for further discussion of the impact on the Company's condensed consolidated financial statements from the adoption of ASU 2016-09.

***Recently Issued FASB Accounting Standard Codification Updates***

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). The purpose of the amendment is intended to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. For public entities, the amendments in ASU 2016-01 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2016-01 on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). The purpose of the amendment is to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. New disclosures will include qualitative and quantitative requirements to provide additional information about the amounts recorded in the financial statements. Lessor accounting will remain largely unchanged from current guidance, however ASU 2016-02 will provide improvements that are intended to align lessor accounting with the lessee model and with updated revenue recognition guidance. For public entities, the amendments in ASU 2016-02 are effective for interim and annual reporting periods beginning after December 15, 2018. The Company is currently assessing the impact of ASU 2016-02 on its condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (ASU 2016-05). The amendments in ASU 2016-05 apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815. The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria (including those in paragraphs 815-20-35-14 through 35-18) continue to be met. For public entities, the amendments in ASU 2016-05 are effective for interim and annual reporting periods beginning after December 15, 2016. The Company is currently assessing the impact of ASU 2016-05 on its condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting (ASU 2016-07). The purpose of the amendment is to eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. For public entities, the amendments in ASU 2016-07 are effective for interim and annual reporting periods beginning after December 15, 2016. The Company is currently assessing the impact of ASU 2016-07 on its condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (ASU 2016-08). The purpose of ASU 2016-08 is to clarify the implementation of guidance on principal versus agent considerations. For public entities, the amendments in ASU 2016-08 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2016-08 on its condensed consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (ASU 2016-10). The purpose of ASU 2016-10 is to provide more detailed guidance in the following key areas: identifying performance obligations and licenses of intellectual property. For public entities, the amendments in ASU 2016-10 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2016-10 on its condensed consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 pursuant to Staff announcements at the March 3, 2016 EITF Meeting (ASU 2016-11). The purpose of ASU 2016-11 is to rescind from the FASB Accounting Standards Codification certain SEC paragraphs as a result of two SEC Staff Announcements at the March 3, 2016 meeting. For public entities, the amendments in ASU 2016-11 related to Topic 605 are effective for interim and annual reporting periods beginning after December 15, 2017 and amendments related to Topic 815 are effective for interim and annual reporting periods beginning after December 15,

**Table of Contents**

2015. The Company is currently assessing the impact of ASU 2016-11 related to topic 605 on its condensed consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 660): Narrow-Scope Improvements and Practical Expedients (ASU 2016-12). The purpose of ASU 2016-12 is to clarify certain narrow aspects of Topic 660 such as assessing the collectibility criterion, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition, and technical correction. For public entities, the amendments in ASU 2016-12 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2016-12 on its condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). The purpose of ASU 2016-13 is to require a financial asset measured on the amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. For public entities, the amendments in ASU 2016-13 are effective for interim and annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact of ASU 2016-13 on its condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). The purpose of ASU 2016-15 is to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. For public entities, the amendments in ASU 2016-15 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2016-15 on its condensed consolidated financial statements.

Recently issued FASB accounting standard codification updates, except for the above noted standards, were not material to the Company's condensed consolidated financial statements for the period ended September 30, 2016.

**Table of Contents****3. Financing Receivables**

Financing receivables, consisting of net investment in sales-type leases and receivables from financed sales of theater systems are as follows:

|                                                    | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|----------------------------------------------------|-------------------------------|------------------------------|
| Gross minimum lease payments receivable            | \$ 11,341                     | \$ 13,998                    |
| Unearned finance income                            | (1,826)                       | (2,381)                      |
| Minimum lease payments receivable                  | 9,515                         | 11,617                       |
| Accumulated allowance for uncollectible amounts    | (672)                         | (672)                        |
| Net investment in leases                           | 8,843                         | 10,945                       |
| Gross financed sales receivables                   | 148,358                       | 146,232                      |
| Unearned finance income                            | (37,661)                      | (39,378)                     |
| Financed sales receivables                         | 110,697                       | 106,854                      |
| Accumulated allowance for uncollectible amounts    | (643)                         | (568)                        |
| Net financed sales receivables                     | 110,054                       | 106,286                      |
| Total financing receivables                        | \$ 118,897                    | \$ 117,231                   |
| Net financed sales receivables due within one year | \$ 21,260                     | \$ 19,068                    |
| Net financed sales receivables due after one year  | \$ 88,794                     | \$ 87,218                    |

As at September 30, 2016, the financed sale receivables had a weighted average effective interest rate of 9.2% (December 31, 2015 9.4%).

**4. Inventories**

|                 | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|-----------------|-------------------------------|------------------------------|
| Raw materials   | \$ 32,662                     | \$ 25,750                    |
| Work-in-process | 4,215                         | 2,628                        |
| Finished goods  | 14,138                        | 10,375                       |
|                 | \$ 51,015                     | \$ 38,753                    |

At September 30, 2016, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$5.1 million (December 31, 2015 \$5.4 million).

During the three and nine months ended September 30, 2016, the Company had write-downs for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of a recovery of less than \$0.1 million and an expense of \$0.2 million, respectively (2015 recovery of \$0.1 million and expense of \$0.4 million, respectively).

**Table of Contents****5. Property Plant and Equipment**

|                                     | <b>As at September 30, 2016</b> |                                     |                           |
|-------------------------------------|---------------------------------|-------------------------------------|---------------------------|
|                                     | <b>Cost</b>                     | <b>Accumulated<br/>Depreciation</b> | <b>Net Book<br/>Value</b> |
| Equipment leased or held for use    |                                 |                                     |                           |
| Theater system components           | \$ 216,670                      | \$ 86,219                           | \$ 130,451                |
| Camera equipment                    | 5,902                           | 3,750                               | 2,152                     |
|                                     | 222,572                         | 89,969                              | 132,603                   |
| Assets under construction           | 14,890                          |                                     | 14,890                    |
| Other property, plant and equipment |                                 |                                     |                           |
| Land                                | 8,203                           |                                     | 8,203                     |
| Buildings                           | 68,974                          | 14,306                              | 54,668                    |
| Office and production equipment     | 40,587                          | 21,237                              | 19,350                    |
| Leasehold improvements              | 7,159                           | 2,889                               | 4,270                     |
|                                     | 124,923                         | 38,432                              | 86,491                    |
|                                     | \$ 362,385                      | \$ 128,401                          | \$ 233,984                |

|                                     | <b>As at December 31, 2015</b> |                                     |                           |
|-------------------------------------|--------------------------------|-------------------------------------|---------------------------|
|                                     | <b>Cost</b>                    | <b>Accumulated<br/>Depreciation</b> | <b>Net Book<br/>Value</b> |
| Equipment leased or held for use    |                                |                                     |                           |
| Theater system components           | \$ 199,974                     | \$ 74,568                           | \$ 125,406                |
| Camera equipment                    | 5,393                          | 3,368                               | 2,025                     |
|                                     | 205,367                        | 77,936                              | 127,431                   |
| Assets under construction           | 9,616                          |                                     | 9,616                     |
| Other property, plant and equipment |                                |                                     |                           |
| Land                                | 8,203                          |                                     | 8,203                     |
| Buildings                           | 67,150                         | 12,679                              | 54,471                    |
| Office and production equipment     | 34,396                         | 17,035                              | 17,361                    |
| Leasehold improvements              | 3,512                          | 2,327                               | 1,185                     |
|                                     | 113,261                        | 32,041                              | 81,220                    |
|                                     | \$ 328,244                     | \$ 109,977                          | \$ 218,267                |



**Table of Contents****6. Other Intangible Assets**

|                                    | <b>As at September 30, 2016</b> |                                 |                       |
|------------------------------------|---------------------------------|---------------------------------|-----------------------|
|                                    | <b>Cost</b>                     | <b>Accumulated Amortization</b> | <b>Net Book Value</b> |
| Patents and trademarks             | \$ 11,181                       | \$ 6,928                        | \$ 4,253              |
| Licenses and intellectual property | 22,490                          | 7,295                           | 15,195                |
| Other                              | 14,023                          | 3,866                           | 10,157                |
|                                    | \$ 47,694                       | \$ 18,089                       | \$ 29,605             |

|                                    | <b>As at December 31, 2015</b> |                                 |                       |
|------------------------------------|--------------------------------|---------------------------------|-----------------------|
|                                    | <b>Cost</b>                    | <b>Accumulated Amortization</b> | <b>Net Book Value</b> |
| Patents and trademarks             | \$ 10,399                      | \$ 6,502                        | \$ 3,897              |
| Licenses and intellectual property | 22,390                         | 6,464                           | 15,926                |
| Other                              | 11,878                         | 2,751                           | 9,127                 |
|                                    | \$ 44,667                      | \$ 15,717                       | \$ 28,950             |

Other intangible assets of \$14.0 million are comprised mainly of the Company's investment in an enterprise resource planning system. Fully amortized other intangible assets are still in use by the Company.

During the nine months ended September 30, 2016, the Company acquired \$3.2 million in other intangible assets. The weighted average amortization period for these additions was 10 years.

During the three and nine months ended September 30, 2016, the Company incurred costs of less than \$0.1 million and \$0.2 million, respectively, to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses (2015 less than \$0.1 million and less than \$0.1 million, respectively).

As at September 30, 2016, estimated amortization expense for each of the years ended December 31, are as follows:

|                               |        |
|-------------------------------|--------|
| 2016 (three months remaining) | \$ 858 |
| 2017                          | 3,270  |
| 2018                          | 3,270  |
| 2019                          | 3,270  |
| 2020                          | 3,270  |

**Table of Contents****7. Credit Facility and Playa Vista Loan**

On March 3, 2015, the Company amended and restated the terms of its existing senior secured credit facility (the *Prior Credit Facility* ) in order to, among other things, eliminate the fixed charge coverage ratio under the *Prior Credit Facility* and reset certain financial maintenance covenants. The amended and restated facility (the *Credit Facility* ), with a scheduled maturity of March 3, 2020, has a maximum borrowing capacity of \$200.0 million, the same maximum borrowing capacity as under the *Prior Credit Facility*. Certain of the Company's subsidiaries serve as guarantors (the *Guarantors* ) of the Company's obligations under the *Credit Facility*. The *Credit Facility* is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the *Guarantors*.

The terms of the *Credit Facility* are set forth in the Fourth Amended and Restated Credit Agreement (as amended, the *Credit Agreement* ), dated March 3, 2015, among the Company, the *Guarantors*, the lenders named therein, Wells Fargo Bank, National Association ( *Wells Fargo* ), as agent and issuing lender (Wells Fargo, together with the lenders named therein, the *Lenders* ) and Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Bookrunner and in various collateral and security documents entered into by the Company and the *Guarantors*. Each of the *Guarantors* has also entered into a guarantee in respect of the Company's obligations under the *Credit Facility*. On February 22, 2016, the Company amended the terms of the *Credit Agreement* to increase the general restricted payment basket thereunder (which covers, among other things, the repurchase of shares) from \$150.0 million to \$350.0 million in the aggregate after the amendment date.

The Company was in compliance with all of its requirements at September 30, 2016.

Total amounts drawn and available under the *Credit Facility* at September 30, 2016 were \$nil and \$200.0 million, respectively (December 31, 2015 \$nil and \$200.0 million, respectively).

As at September 30, 2016, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2015 \$nil), under the *Credit Facility*.

*Playa Vista Financing*

On October 6, 2014, IMAX PV Development Inc., a Delaware corporation ( *PV Borrower* ) and wholly-owned subsidiary of the Company, entered into a construction loan agreement with Wells Fargo. The construction loan (the *Playa Vista Construction Loan* ) was used to fund \$22.3 million of the costs of development and construction of the West Coast headquarters of the Company, located in the Playa Vista neighborhood of Los Angeles, California (the *Playa Vista Project* ).

The total cost of development of the *Playa Vista Project* was approximately \$54.0 million, with all costs in excess of the *Playa Vista Construction Loan* provided through funding by the Company. The Company began occupying the *Playa Vista* facility in March of 2015.

On October 19, 2015, *PV Borrower* converted the *Playa Vista Construction Loan* from a construction loan into a permanent loan ( *Playa Vista Loan* ) pursuant to the terms of the loan documents. Pursuant to the conversion, *PV Borrower* increased the principal balance of the loan by an additional \$7.7 million, to \$30.0 million. Prior to the conversion, the *Playa Vista Construction Loan* bore interest at a variable interest rate per annum equal to 2.25% above the 30-day LIBOR rate, and *PV Borrower* was required to make monthly payments of interest only. However, as a result of the conversion, the interest rate decreased from 2.25% to 2.0% above the 30-day LIBOR rate, and *PV Borrower* will be required to make monthly payments of combined principal and interest over a 10-year term with a lump sum payment at the end of year 10. The *Playa Vista Loan* is being amortized over 15 years. The *Playa Vista*

Loan will be fully due and payable on October 19, 2025 (the Maturity Date ), and may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Playa Vista Loan is secured by a deed of trust from PV Borrower in favor of Wells Fargo, granting a first lien on and security interest in the Playa Vista property and the Playa Vista Project, including all improvements to be constructed thereon, and other documents evidencing and securing the loan (the Loan Documents ). The Loan Documents include absolute and unconditional payment and completion guarantees provided by the Company to Wells Fargo for the performance by PV Borrower of all the terms and provisions of the Playa Vista Loan and an environmental indemnity also provided by the Company.

The Loan Documents contain affirmative, negative and financial covenants (including compliance with the financial covenants of the Company s outstanding revolving senior secured facility with Wells Fargo), agreements, representations, warranties, borrowing conditions, and events of default customary for development projects such as the Playa Vista Project.

**Table of Contents**

Bank indebtedness includes the following:

|                                    | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|------------------------------------|-------------------------------|------------------------------|
| Playa Vista Loan                   | \$ 28,167                     | \$ 29,667                    |
| Deferred charges on debt financing | (361)                         | (391)                        |
|                                    | <b>\$ 27,806</b>              | <b>\$ 29,276</b>             |

Total amounts drawn under the loan at September 30, 2016 was \$28.2 million (December 31, 2015 \$29.7 million). The effective interest rate for the three and nine months ended September 30, 2016 was 2.51% and 2.46%, respectively (2015 2.45% and 2.44%, respectively).

In accordance with the loan agreement, the Company is obligated to make payments on the principal of the loan as follows:

|                               |                  |
|-------------------------------|------------------|
| 2016 (three months remaining) | \$ 500           |
| 2017                          | 2,000            |
| 2018                          | 2,000            |
| 2019                          | 2,000            |
| 2020                          | 2,000            |
| Thereafter                    | 19,667           |
|                               | <b>\$ 28,167</b> |

*Wells Fargo Foreign Exchange Facility*

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. There is no settlement risk on its foreign currency forward contracts at September 30, 2016 as the fair value exceeded the notional value of the forward contracts. As at September 30, 2016, the Company has \$26.9 million in notional value of such arrangements outstanding.

*Bank of Montreal Facility*

As at September 30, 2016, the Company has available a \$10.0 million facility (December 31, 2015 \$10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit fully insured by Export Development Canada (the Bank of Montreal Facility). As at September 30, 2016, the Company has letters of credit and advance payment guarantees outstanding of \$0.1 million (December 31, 2015 \$0.3 million) under the Bank of Montreal Facility.

**Table of Contents****8. Contingencies and Guarantees**

The Company is involved in lawsuits, claims, and proceedings, including those identified below, which arise in the ordinary course of business. In accordance with the Contingencies Topic of the FASB ASC, the Company will make a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company believes it has adequate provisions for any such matters. The Company reviews these provisions in conjunction with any related provisions on assets related to the claims at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other pertinent information related to the case. Should developments in any of these matters outlined below cause a change in the Company's determination as to an unfavorable outcome and result in the need to recognize a material provision, or, should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on the Company's results of operations, cash flows, and financial position in the period or periods in which such a change in determination, settlement or judgment occurs.

The Company expenses legal costs relating to its lawsuits, claims and proceedings as incurred.

(a) On May 15, 2006, the Company initiated arbitration against Three-Dimensional Media Group, Ltd. ( 3DMG ) before the International Centre for Dispute Resolution in New York (the ICDR ), alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties' license agreement. On June 21, 2007, the ICDR unanimously denied 3DMG's Motion for Summary Judgment filed on April 11, 2007 concerning the Company's claims and 3DMG's counterclaims. The proceeding was suspended on May 4, 2009 due to failure of 3DMG to pay fees associated with the proceeding. The proceeding was further suspended on October 11, 2010 pending resolution of re-examination proceedings involving one of 3DMG's patents. Following a status conference on April 27, 2016 before the ICDR, the ICDR granted 3DMG leave to amend its answer and counterclaims, and subsequently lifted the stay in this matter. In its amended counterclaims, 3DMG seeks damages for alleged unpaid royalties and other fees under the license and consulting agreements. Discovery is currently ongoing and a final hearing before the ICDR has been scheduled for the week of July 10, 2017. Given the stage of discovery, the Company is unable to determine a range of potential damages in this matter. However, the Company believes that the amount of loss, if any, suffered in connection with the amended counterclaims would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration.

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chamber of Commerce (the ICC ) with respect to the breach by Electronic Media Limited ( EML ) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-City Entertainment (I) PVT Limited ( E-City ). On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, consisting of past and future rents owed to the Company, plus interest and costs, as well as an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. On June 13, 2013, the Bombay High Court ruled that it has jurisdiction over the proceeding but on November 19, 2013, the Supreme Court of India stayed proceedings in the High Court pending Supreme Court review of the High Court's ruling. On June 24, 2011, the Company commenced a proceeding in the Ontario Superior Court of Justice for recognition of the ICC final award. On December 2, 2011, the Ontario Court issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application. In January 2013, the Company filed an action in the New York Supreme Court seeking to collect the amount owed to the Company by certain entities and individuals affiliated with E-City. On October 16, 2015, the New York Supreme

Court denied the Company's petition, and the Company is appealing that decision. On July 29, 2014, the Company commenced a separate proceeding to have the Canadian judgment against E-City recognized in New York, and on October 2, 2015, the New York Supreme Court granted IMAX's request, recognizing the Canadian judgment and entering it as a New York judgment. On November 26, 2014, E-City filed a motion in the Bombay High Court seeking to enjoin IMAX from continuing the New York legal proceedings. On February 2, 2015, the Bombay High Court denied E-City's request for an injunction. On March 16, 2015, E-City filed an appeal of this Bombay High Court decision.

(c) In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd., the Company's majority-owned subsidiary in China, received notice from the Shanghai office of the General Administration of Customs that it had been selected for a customs audit. In the third quarter of 2016 IMAX (Shanghai) Multimedia Technology Co., Ltd put forth a proposal to the Shanghai office of the General Administration of Customs in an attempt to resolve the audit issue of what costs should be subject to duties and taxes on importation into China. As a result of the proposal, the Company has accrued \$1.6 million as at September 30, 2016, of which \$0.8 million is recorded in costs and expenses applicable to revenues and \$0.8 million is recorded in property, plant and equipment. An additional \$1.8 million will be paid to the authorities as

**Table of Contents**

value-added tax, which local management believes is collectible in the form of future input tax credits, and therefore has been presented as a net balance of \$nil in Accrued and other liabilities as at September 30, 2016. The Company is unable to assess any other potential impact of the customs audit, if any, at this time.

(d) On November 11, 2013, Giencourt Investments, S.A. ( Giencourt ) initiated arbitration before the International Centre for Dispute Resolution in Miami, Florida, based on alleged breaches by the Company of its theater agreement and related license agreement with Giencourt. Giencourt submitted its statement of claim in January 2015, the Company submitted its statement of defense and counterclaim in April 2015 and Giencourt submitted its arbitration reply paper in September 2015. An arbitration hearing for witness testimony was held during the week of December 14, 2015. At the hearing, Giencourt's expert identified monetary damages of up to approximately \$10.4 million, which Giencourt seeks to recover from the Company. The Company has asserted a counterclaim against Giencourt for breach of contract and seeks to recover lost profits in excess of \$24.0 million under the agreements. A final hearing with closing statements is scheduled for October 20 and 21, 2016. In addition, on December 10, 2015, Giencourt made a motion to the panel seeking to enforce a purported settlement of the matter based on negotiations between Giencourt and the Company. The Company strongly disputes that discussions about a potential resolution of this matter amounted to an enforceable settlement. The panel has asked the parties to brief this issue, and oral arguments will be held during the upcoming October hearings. Although no assurances can be given with respect to the ultimate outcome of the proceedings, the Company believes that it has meritorious defenses and claims, and will continue to vigorously pursue them.

(e) In addition to the matters described above, the Company is currently involved in other legal proceedings or governmental inquiries which, in the opinion of the Company's management, will not materially affect the Company's financial position or future operating results, although no assurance can be given with respect to the ultimate outcome of any such proceedings.

(f) In the normal course of business, the Company enters into agreements that may contain features that meet the definition of a guarantee. The Guarantees Topic of the FASB ASC defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments (either in cash, financial instruments, other assets, shares of its stock or provision of services) to a third party based on (a) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (b) failure of another party to perform under an obligating agreement or (c) failure of another third party to pay its indebtedness when due.

**Financial Guarantees**

The Company has provided no significant financial guarantees to third parties.

**Product Warranties**

The following summarizes the accrual for product warranties that was recorded as part of accrued liabilities in the condensed consolidated balance sheets:

|                                    | September 30,<br>2016 | December 31,<br>2015 |
|------------------------------------|-----------------------|----------------------|
| Balance at the beginning of period | \$                    | \$ 6                 |
| Warranty redemptions               |                       | (6)                  |

|                              |    |    |    |
|------------------------------|----|----|----|
| Warranties issued            | 15 |    |    |
| Revisions                    |    |    |    |
| Balance at the end of period | \$ | 15 | \$ |

***Director/Officer Indemnifications***

The Company's General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amounts actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the condensed consolidated balance sheet as at September 30, 2016 and December 31, 2015 with respect to this indemnity.

**Table of Contents*****Other Indemnification Agreements***

In the normal course of the Company's operations, the Company provides indemnifications to counterparties in transactions such as: theater system lease and sale agreements and the supervision of installation or servicing of the theater systems; film production, exhibition and distribution agreements; real property lease agreements; and employment agreements. These indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of litigation claims that may be suffered by the counterparty as a consequence of the transaction or the Company's breach or non-performance under these agreements. While the terms of these indemnification agreements vary based upon the contract, they normally extend for the life of the agreements. A small number of agreements do not provide for any limit on the maximum potential amount of indemnification; however, virtually all of the Company's system lease and sale agreements limit such maximum potential liability to the purchase price of the system. The fact that the maximum potential amount of indemnification required by the Company is not specified in some cases prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the condensed consolidated financial statements with respect to the contingent aspect of these indemnities.

**9. Condensed Consolidated Statements of Operations Supplemental Information*****(a) Selling Expenses***

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to revenues-equipment and product sales, totaled \$1.3 million and \$3.0 million for the three and nine months ended September 30, 2016, respectively (2015 \$1.3 million and \$2.8 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$4.8 million and \$13.8 million for the three and nine months ended September 30, 2016, respectively (2015 \$3.4 million and \$8.2 million, respectively) and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled \$0.6 million and \$0.9 million for the three and nine months ended September 30, 2016, respectively (2015 \$0.3 million and \$0.5 million, respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled an expense of \$0.4 million and \$1.0 million for the three and nine months ended September 30, 2016, respectively (2015 \$0.6 million and \$1.2 million, respectively).

***(b) Foreign Exchange***

Included in selling, general and administrative expenses for the three and nine months ended September 30, 2016 is a loss of \$0.2 million and a loss of \$0.1 million, respectively (2015 loss of \$0.5 million and a loss of \$1.5 million, respectively), for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 15(d) for additional information.

**(c) Collaborative Arrangements**

*Joint Revenue Sharing Arrangements*

In a joint revenue sharing arrangement, the Company receives a portion of a theater's box-office and concession revenues, and in some cases a small upfront or initial payment, in exchange for placing a theater system at the theater operator's venue. Under joint revenue sharing arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer. The Company's joint revenue sharing arrangements are typically non-cancellable for 10 years or longer with renewal provisions. Title to equipment under joint revenue sharing arrangements generally does not transfer to the customer. The Company's joint revenue sharing arrangements do not contain a guarantee of residual value at the end of the term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Company for maintenance and extended warranty throughout the term. The customer is responsible for obtaining insurance coverage for the theater systems commencing on the date specified in the arrangement's shipping terms and ending on the date the theater systems are delivered back to the Company.

---

**Table of Contents**

The Company has signed joint revenue sharing agreements with 49 exhibitors for a total of 981 theater systems, of which 592 theaters were operating as at September 30, 2016, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m) of the Company's 2015 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Equipment and Product Sales and Rentals revenue and for the three and nine months ended September 30, 2016 amounted to \$19.7 million and \$66.9 million, respectively (2015 \$19.8 million and \$67.3 million, respectively).

*IMAX DMR*

In an IMAX DMR arrangement, the Company transforms conventional motion pictures into the Company's large screen format, allowing the release of Hollywood content to the global IMAX theater network. In a typical IMAX DMR film arrangement, the Company will absorb its costs for the digital re-mastering and then recoup this cost from a percentage of the net box-office receipts of the film, which in recent years has ranged from 10-15%. The Company does not typically hold distribution rights or the copyright to these films.

For the nine months ended September 30, 2016, the majority of IMAX DMR revenue was earned from the exhibition of 48 IMAX DMR films (2015 48) throughout the IMAX theater network. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2015 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and nine months ended September 30, 2016 amounted to \$21.6 million and \$78.8 million, respectively (2015 \$20.9 million and \$75.1 million, respectively).

*Co-Produced Film Arrangements*

In certain film arrangements, the Company co-produces a film with a third party whereby the third party retains the copyright and rights to the film and the Company obtains exclusive theatrical distribution rights to the film. Under these arrangements, both parties contribute funding to the Company's wholly-owned production company for the production of the film and for associated exploitation costs. Clauses in the film arrangements generally provide for the third party to take over the production of the film if the cost of the production exceeds its approved budget or if it appears as though the film will not be delivered on a timely basis.

The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) and 2(m) of the Company's 2015 Form 10-K.

As at September 30, 2016, the Company has one significant co-produced film arrangement which represents the VIE total assets balance of \$0.4 million and total liabilities balance of \$0.4 million and five other co-produced film arrangements, the terms of which are similar.

For the three and nine months ended September 30, 2016, amounts totaling \$0.5 million and \$1.0 million, respectively (2015 \$0.3 million and \$1.4 million, respectively) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to revenues-services.



**Table of Contents****10. Condensed Consolidated Statements of Cash Flows Supplemental Information**

(a) Changes in other non-cash operating assets and liabilities are comprised of the following:

|                                                 | <b>Nine Months Ended<br/>September 30,</b> |                    |
|-------------------------------------------------|--------------------------------------------|--------------------|
|                                                 | <b>2016</b>                                | <b>2015</b>        |
| Decrease (increase) in:                         |                                            |                    |
| Accounts receivable                             | \$ 6,571                                   | \$ (12,048)        |
| Financing receivables                           | (1,145)                                    | (9,932)            |
| Inventories                                     | (12,508)                                   | (18,904)           |
| Prepaid expenses                                | (5,105)                                    | (2,159)            |
| Commissions and other deferred selling expenses | 285                                        | (206)              |
| Insurance recoveries                            | 132                                        | 28                 |
| Other assets                                    | (1,299)                                    | (2,388)            |
| Increase (decrease) in:                         |                                            |                    |
| Accounts payable                                | (6,616)                                    | 4,212              |
| Accrued and other liabilities                   | (1,991)                                    | (17,528)           |
| Deferred revenue                                | (7,828)                                    | 17,892             |
|                                                 | <b>\$ (29,504)</b>                         | <b>\$ (41,033)</b> |

(b) Cash payments made on account of:

|              | <b>Nine Months Ended<br/>September 30,</b> |             |
|--------------|--------------------------------------------|-------------|
|              | <b>2016</b>                                | <b>2015</b> |
| Income taxes | \$ 20,822                                  | \$ 21,542   |
| Interest     | \$ 541                                     | \$ 302      |

(c) Depreciation and amortization are comprised of the following:

|                                     | <b>Nine Months Ended<br/>September 30,</b> |             |
|-------------------------------------|--------------------------------------------|-------------|
|                                     | <b>2016</b>                                | <b>2015</b> |
| Film assets                         | \$ 11,842                                  | \$ 11,917   |
| Property, plant and equipment       |                                            |             |
| Joint revenue sharing arrangements  | 11,581                                     | 10,043      |
| Other property, plant and equipment | 7,355                                      | 5,635       |
| Other intangible assets             | 2,368                                      | 2,354       |
| Other assets                        | 631                                        | 579         |
| Deferred financing costs            | 402                                        | 663         |

\$ 34,179      \$ 31,191

**Table of Contents**

(d) Write-downs, net of recoveries, are comprised of the following:

|                               | <b>Nine Months<br/>Ended<br/>September 30,</b> |                 |
|-------------------------------|------------------------------------------------|-----------------|
|                               | <b>2016</b>                                    | <b>2015</b>     |
| Accounts receivable           | \$ 556                                         | \$ 709          |
| Financing receivables         | 75                                             |                 |
| Inventories                   | 246                                            | 405             |
| Film assets                   | 1,000                                          |                 |
| Property, plant and equipment | 792                                            | 1,464           |
| Impairment of investments     | 194                                            | 350             |
| Other intangible assets       | 40                                             |                 |
|                               | <b>\$ 2,903</b>                                | <b>\$ 2,928</b> |

**11. Income Taxes*****(a) Income Taxes***

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the quarter ended September 30, 2016, there was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings.

As at September 30, 2016, the Company had net deferred income tax assets after valuation allowance of \$26.2 million (December 31, 2015 \$26.7 million), which consists of a gross deferred income tax asset of \$26.5 million (December 31, 2015 \$27.0 million), against which the Company is carrying a \$0.3 million valuation allowance (December 31, 2015 \$0.3 million).

ASU 2016-09, related to stock-based compensation, was issued in March 2016 and early adopted by the Company in June 2016. ASU 2016-09 eliminates additional paid in capital (APIC) pools and requires excess tax benefits and tax deficiencies to be recorded in the condensed consolidated statements of operations when the awards vest or are settled. Amendments related to accounting for excess tax benefits have been adopted prospectively resulting in a tax benefit of \$nil and \$0.1 million for the three and nine months ended September 30, 2016, respectively. In addition, modified retrospective adoption of ASC 2016-09 eliminates the requirement that excess tax benefits be realized before they can be recognized. The Company has also recorded a cumulative-effect adjustment of \$0.9 million to Accumulated earnings and Deferred income taxes related to the impact from adoption of the provisions related to forfeiture rates. See Notes 2 and 12 for further discussion of the impact from the adoption of ASU 2016-09.

**(b) Income Tax Effect on Other Comprehensive (Loss) Income**

The income tax (expense) benefit included in the Company's other comprehensive (loss) income are related to the following items:

|                                                                  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|------------------------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                                  | <b>2016</b>                                 | <b>2015</b> | <b>2016</b>                                | <b>2015</b> |
| Unrealized change in cash flow hedging instruments               | \$ 76                                       | \$ 606      | \$ (485)                                   | \$ 1,309    |
| Realized change in cash flow hedging instruments upon settlement | (149)                                       | (274)       | (667)                                      | (577)       |
| Amortization of actuarial loss on postretirement benefit plan    | (4)                                         |             | (14)                                       |             |
| Foreign currency translation adjustments                         |                                             | 226         |                                            | 264         |
|                                                                  | \$ (77)                                     | \$ 558      | \$ (1,166)                                 | \$ 996      |

**Table of Contents****12. Capital Stock*****(a) Stock-Based Compensation***

The compensation costs recorded in the condensed consolidated statements of operations for the Company's stock-based compensation plans were \$7.7 million and \$22.5 million for the three and nine months ended September 30, 2016, respectively (2015 \$4.3 million and \$14.9 million, respectively).

As at September 30, 2016, the Company has reserved a total of 12,467,960 (December 31, 2015 7,023,258) common shares for future issuance under the Company's Stock Option Plan (SOP) and the IMAX Corporation Amended and Restated Long-Term Incentive Plan (IMAX LTIP). Of the common shares reserved for issuance, there are options in respect of 5,473,673 common shares and restricted share units (RSUs) in respect of 1,140,138 common shares outstanding at September 30, 2016. At September 30, 2016, options in respect of 3,924,432 common shares were vested and exercisable.

***Stock Option Plan***

The Company recorded an expense of \$3.4 million and \$9.4 million for the three and nine months ended September 30, 2016, respectively (2015 \$2.3 million and \$8.4 million, respectively) related to stock option grants issued to employees and directors in the IMAX LTIP and SOP plans. An income tax benefit is recorded in the condensed consolidated statements of operations of \$0.9 million and \$2.4 million for the three and nine months ended September 30, 2016, respectively (2015 \$0.5 million and \$1.8 million, respectively), for these costs.

The weighted average fair value of all stock options granted to employees and directors for the three and nine months ended September 30, 2016 at the grant date was \$7.80 and \$8.16 per share, respectively (2015 n/a and \$8.07 per share, respectively). The following assumptions were used to estimate the average fair value of the stock options:

|                                 | <b>Three Months<br/>Ended September 30,</b> |             | <b>Nine Months<br/>Ended September 30,</b> |             |
|---------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                 | <b>2016</b>                                 | <b>2015</b> | <b>2016</b>                                | <b>2015</b> |
| Average risk-free interest rate | 1.44%                                       | n/a         | 1.67%                                      | 1.97%       |
| Expected option life (in years) | 4.44 - 4.88                                 | n/a         | 4.44 - 5.24                                | 3.55 - 5.76 |
| Expected volatility             | 30%                                         | n/a         | 30%                                        | 30%         |
| Dividend yield                  | 0%                                          | n/a         | 0%                                         | 0%          |

***Stock options to Non-Employees***

There were no common share options issued to non-employees during the three and nine months ended September 30, 2016 and 2015.

As at September 30, 2016, non-employee stock options outstanding amounted to 28,750 stock options (2015 39,500) with a weighted average exercise price of \$26.90 per share (2015 \$26.78 per share). 26,950 stock options (2015 21,525) were exercisable with an average weighted exercise price of \$26.97 per share (2015 \$26.34 per share) and the vested stock options have an aggregate intrinsic value of \$0.1 million (2015 \$0.2 million).

For the three and nine months ended September 30, 2016, the Company recorded an expense of less than \$0.1 million and a recovery less than \$0.1 million, respectively (2015 expense of less than \$0.1 million and \$0.1 million,

respectively) to cost and expenses related to revenues services and selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is an accrual of less than \$0.1 million for non-employee stock options (December 31, 2015 less than \$0.1 million).

China Long Term Incentive Plan ( China LTIP )

The China LTIP was adopted by IMAX China Holding, Inc. ( IMAX China ), a subsidiary of the Company, in October 2012. Each stock option ( China Option ), RSU or cash settled share-based payment ( CSSBP ) issued under the China LTIP represents an opportunity to participate economically in the future growth and value creation of IMAX China. Prior to the initial public offering of

**Table of Contents**

IMAX China on October 8, 2015 (the IMAX China IPO ), the China Options and CSSBPs issued by IMAX China operated in tandem with options granted to certain employees of IMAX China under the Company's SOP and the IMAX LTIP ( Tandem Options ).

During 2015, no Tandem Options were granted in conjunction with China Options or CSSBPs. Immediately prior to the IMAX China IPO, there were 186,446 outstanding and unvested Tandem Options issued under the Company's SOP and IMAX LTIP with a weighted average exercise price of \$23.70 per share. The Tandem Options had a maximum contractual life of 7 years. The total fair value of the Tandem Options granted with respect to the China LTIP was \$1.9 million. The Company was recognizing this expense over a 5 year period.

Pursuant to their terms, upon the occurrence of a qualified initial public offering or upon a change in control on or prior to the fifth anniversary of the grant date, the 186,446 Tandem Options issued would forfeit immediately and the related charge would be reversed. As a result of the IMAX China IPO on October 8, 2015, the 186,446 Tandem Options with an average price of \$23.70 per share were forfeited immediately. The Company recorded a recovery of \$0.6 million in 2015 related to the forfeiture of Tandem Options issued under the Company's SOP and IMAX LTIP. During the three and nine months ended September 30, 2015, the Company recorded an expense of \$0.1 million and \$0.3 million, respectively, related to the Tandem Options.

The Company subsequently recognized an immediate charge related to the vesting of China Options and certain CSSBPs for China employees. The total fair value of the China Options and CSSBP awards granted with respect to the China LTIP was \$3.9 million and \$2.1 million, respectively. During the fourth quarter of 2015, a charge of \$2.1 million and \$1.4 million was recorded relating to the China Options and CSSBPs, respectively. The remaining charge will be recognized over the related requisite period. The CSSBPs represent the right to receive cash payments in an amount equal to a certain percentage of the excess of the total equity value of IMAX China based on the per share price in the IMAX China IPO over the strike price of the CSSBPs. The CSSBPs were issued in conjunction with the China LTIP, with similar terms and conditions as the China Options. The CSSBP awards are accounted as liability awards, however the fair value of the liability is fixed at the time of the initial public offering. During the fourth quarter of 2015, a portion of the CSSBPs vested and were settled in cash for \$1.0 million.

In connection with the IMAX China IPO and in accordance with the China LTIP, IMAX China adopted a post-IPO share option plan and a post-IPO restricted stock unit plan. Pursuant to these plans, IMAX China issued additional China Options and China LTIP Restricted Share Units ( China RSUs ) during the nine months ended September 30, 2016. No additional China Options and China RSUs were issued for the three months ended September 30, 2016.

During the three and nine months ended September 30, 2016, the Company recorded an expense related to the China Options, China RSUs and CSSBPs of \$0.2 million and \$0.7 million, \$0.1 million and \$0.4 million and \$0.1 million and \$0.3 million, respectively. The liability recognized with respect to the CSSBPs as at September 30, 2016 was \$0.7 million (December 31, 2015 \$0.4 million).

*Stock Option Summary*

The following table summarizes certain information in respect of option activity under the SOP and IMAX LTIP for the nine month periods ended September 30:

|  | <b>Number of Shares</b> | <b>Weighted Average Exercise<br/>Price Per Share</b> |
|--|-------------------------|------------------------------------------------------|
|--|-------------------------|------------------------------------------------------|

Edgar Filing: IMAX CORP - Form 10-Q

|                                          | <b>2016</b> | <b>2015</b> | <b>2016</b> | <b>2015</b> |
|------------------------------------------|-------------|-------------|-------------|-------------|
| Options outstanding, beginning of period | 4,805,244   | 5,925,660   | \$ 27.03    | \$ 24.24    |
| Granted                                  | 984,452     | 871,431     | 31.49       | 31.56       |
| Exercised                                | (268,516)   | (1,231,964) | 20.54       | 19.35       |
| Forfeited                                | (45,024)    | (45,474)    | 28.03       | 28.26       |
| Cancelled                                | (2,483)     |             | 33.80       |             |
| Options outstanding, end of period       | 5,473,673   | 5,519,653   | 28.14       | 26.45       |
| Options exercisable, end of period       | 3,924,432   | 3,195,836   | 27.34       | 25.14       |

**Table of Contents**

The Company cancelled 2,483 stock options from its IMAX LTIP surrendered by a Company employee during the three and nine months ended September 30, 2016, respectively (2015 nil and nil, respectively). No stock options were cancelled from its SOP surrendered by Company employees during the three and nine months ended September 30, 2016 and 2015.

As at September 30, 2016, options that are exercisable have an intrinsic value of \$9.7 million and a weighted average remaining contractual life of 3.9 years. The intrinsic value of options exercised in the three and nine months ended September 30, 2016 was \$0.5 million and \$3.2 million, respectively (2015 \$1.2 million and \$21.4 million, respectively).

*Restricted Share Units*

RSUs have been granted to employees, consultants and directors under the IMAX LTIP. Each RSU represents a contingent right to receive one common share and is the economic equivalent of one common share. The grant date fair value of each RSU is equal to the share price of the Company's stock at the grant date. The Company recorded an expense of \$3.9 million and \$11.6 million for the three and nine months ended September 30, 2016, respectively (2015 \$1.9 million and \$6.2 million, respectively), related to RSU grants issued to employees and directors in the plan. In addition, the Company recorded an expense of \$nil and \$nil for the three and nine months ended September 30, 2016, respectively (2015 less than \$0.1 million and less than \$0.1 million, respectively), related to RSU grants issued to certain advisors and strategic partners of the Company.

During the three and nine months ended September 30, 2016, in connection with the vesting of RSUs, the Company settled 27,416 and 271,032, respectively (2015 32,345 and 192,077, respectively) common shares to IMAX LTIP participants, of which 21,871 and 50,167, respectively (2015 nil and 21,709, respectively) common shares, net of shares withheld for tax withholdings of 5,328 and 8,836, respectively (2015 5,763 and 5,981, respectively) were issued from treasury and 217 and 212,029, respectively (2015 26,582 and 164,387, respectively) common shares were settled through the open market purchases by the IMAX LTIP trustee.

Total stock-based compensation expense related to non-vested RSUs not yet recognized at September 30, 2016 and the weighted average period over which the awards are expected to be recognized is \$26.8 million and 2.4 years, respectively (2015 \$16.4 million and 3.0 years, respectively). The Company's actual tax benefits realized for the tax deductions related to the vesting of RSUs was \$0.3 million and \$2.6 million for the three and nine months ended September 30, 2016, respectively (2015 \$0.4 million and \$2.0 million, respectively).

Historically, RSUs granted under the IMAX LTIP have vested between immediately and four years from the grant date. In connection with the amendment and restatement of the IMAX LTIP at the Company's annual and special meeting of shareholders on June 6, 2016, the IMAX LTIP plan was amended to impose a minimum one-year vesting period on future RSU grants, with a carve-out for 300,000 RSUs that may vest on a shorter schedule. Vesting of the RSUs is subject to continued employment or service with the Company.

The following table summarizes certain information in respect of RSU activity under the IMAX LTIP for the nine months ended September 30:

| <b>Number of Awards</b> |             | <b>Weighted Average Grant Date</b> |             |
|-------------------------|-------------|------------------------------------|-------------|
|                         |             | <b>Fair Value Per Share</b>        |             |
| <b>2016</b>             | <b>2015</b> | <b>2016</b>                        | <b>2015</b> |

Edgar Filing: IMAX CORP - Form 10-Q

|                                       |           |           |          |          |
|---------------------------------------|-----------|-----------|----------|----------|
| RSUs outstanding, beginning of period | 973,637   | 595,834   | \$ 32.27 | \$ 27.13 |
| Granted                               | 465,968   | 337,557   | 31.70    | 34.39    |
| Vested and settled                    | (271,032) | (192,077) | 29.30    | 28.93    |
| Forfeited                             | (28,435)  | (19,499)  | 30.78    | 29.37    |
| RSUs outstanding, end of period       | 1,140,138 | 721,815   | 32.78    | 29.99    |

As at September 30, 2016, the IMAX LTIP trustee held 176 shares purchased for less than \$0.1 million in the open market to be issued upon the settlement of RSUs. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock on the condensed consolidated balance sheet.

**Table of Contents***Issuer Purchases of Equity Securities*

On June 16, 2014, the Company's board of directors approved a new \$150.0 million share repurchase program for shares of the Company's common stock, which program was amended on April 20, 2016 to increase the aggregate purchase allowance to \$200.0 million. Purchases under the program commenced during the third quarter of 2014, and the program expires on June 30, 2017. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time.

During the three and nine months ended September 30, 2016, the Company repurchased 500,000 and 3,290,512 common shares, respectively (2015 1,000,000 and 1,000,000 common shares, respectively), at an average price of \$29.32 and \$30.48 per share, respectively (2015 \$34.25 and \$34.25 per share, respectively). The retired shares were purchased for \$14.7 million and \$100.4 million, respectively (2015 \$34.3 million and \$34.3 million, respectively). The average carrying value of the stock retired was deducted from common stock and the remaining excess over the average carrying value of stock was charged to accumulated deficit.

The total number of shares purchased during the three and nine months ended September 30, 2016 does not include any shares purchased in the administration of employee share-based compensation plans (which amounted to nil and 249,657 common shares, respectively, at an average price of \$nil and \$33.55 per share, respectively).

*Canadian Securities Law Matters*

The Company has received an exemption decision issued by the Ontario Securities Commission, dated April 1, 2016, for relief from the formal issuer bid requirements under Canadian securities laws. The exemption decision permits the Company to repurchase up to 10% of its outstanding common shares in any twelve-month period through the facilities of the New York Stock Exchange ( NYSE ) under repurchase programs that the Company may implement from time to time. The Canadian securities laws regulate an issuer's ability to make repurchases of its own securities.

The Company sought the exemption so that it can make repurchases under its repurchase programs in excess of the maximum allowable in reliance on the existing other published markets exemption from the formal issuer bid requirements available under Canadian securities laws. The other published markets exemption caps the Company's ability to repurchase its securities through the facilities of the NYSE at 5% of the issuer's outstanding securities during any 12-month period.

The conditions of the exemption decision are as follows: (i) any repurchases made in reliance on the exemption decision must be permitted under, and part of repurchase programs established and conducted in accordance with, U.S. securities laws and NYSE rules, (ii) the aggregate number of common shares acquired in reliance on the exemption decision by the Company and any person or company acting jointly or in concert with the Company within any 12 months does not exceed 10% of the outstanding common shares at the beginning of the 12-month period, (iii) the common shares are not listed and posted for trading on an exchange in Canada, (iv) the exemption decision applies only to the acquisition of common shares by the Company within 36 months of the date of the decision, and (v) prior to purchasing common shares in reliance on the exemption decision, the Company discloses the terms of the exemption decision and the conditions applicable thereto in a press release that is issued on SEDAR and includes such language as part of the news release required to be issued in accordance with the other published markets exemption in respect of any repurchase program that may be implemented by the Company.

*Impact of Stock-based Compensation Accounting Standard Update*

ASU 2016-09, related to stock-based compensation, was issued in March 2016 and early adopted in June 2016. ASU 2016-09 eliminates the requirement to estimate and apply a forfeiture rate to reduce stock compensation expense during the vesting period and, instead, account for forfeitures as they occur. ASU 2016-09 requires that this change be adopted using the modified retrospective approach. The impact from the adoption of the provisions related to forfeiture rates was reflected on a modified retrospective basis resulting in a balance sheet reclass of \$4.4 million decrease to Accumulated earnings, \$0.9 million increase to Deferred income taxes and \$5.3 million increase to Other equity. An increase in APIC and a reduction in stock-based compensation expense of \$2.7 million for the nine month period ended September 30, 2016 was also recorded. Additionally, ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the condensed consolidated statement of cash flows. The Company is required to present excess tax benefits as an operating activity on the condensed consolidated statement of cash flows, which is where the Company previously classified these items. ASU 2016-09 also requires the presentation of employee taxes as a financing activity on the condensed consolidated statement of cash flows. This change was reflected in the condensed consolidated statement of cash flows retrospectively. See Notes 2 and 11 for further discussion of the impact from the adoption of ASU 2016-09.

**Table of Contents****(b) Income Per Share**

Reconciliations of the numerator and denominator of the basic and diluted per-share computations are comprised of the following:

|                                                                               | <b>Three Months</b>        |             | <b>Nine Months</b>         |             |
|-------------------------------------------------------------------------------|----------------------------|-------------|----------------------------|-------------|
|                                                                               | <b>Ended September 30,</b> |             | <b>Ended September 30,</b> |             |
|                                                                               | <b>2016</b>                | <b>2015</b> | <b>2016</b>                | <b>2015</b> |
| Net income attributable to common shareholders                                | \$ 2,525                   | \$ 8,610    | \$ 19,843                  | \$ 33,351   |
| Less: Accretion charges associated with redeemable common stock               |                            | (263)       |                            | (747)       |
| Net income applicable to common shareholders                                  | \$ 2,525                   | \$ 8,347    | \$ 19,843                  | \$ 32,604   |
| Weighted average number of common shares (000 s):                             |                            |             |                            |             |
| Issued and outstanding, beginning of period                                   | 67,067                     | 70,152      | 69,673                     | 68,988      |
| Weighted average number of shares issued (repurchased) during the period      | 23                         | (453)       | (1,620)                    | 594         |
| Weighted average number of shares used in computing basic income per share    | 67,090                     | 69,699      | 68,053                     | 69,582      |
| Assumed exercise of stock options and RSUs, net of shares assumed repurchased | 656                        | 1,161       | 668                        | 1,520       |
| Weighted average number of shares used in computing diluted income per share  | 67,746                     | 70,860      | 68,721                     | 71,102      |

The calculation of diluted earnings per share excludes 2,570,983 and 2,834,896 shares, respectively that are issuable upon the vesting of 19,530 and 283,443 RSUs, respectively and the exercise of 2,551,453 and 2,551,453 stock options, respectively for the three and nine months ended September 30, 2016, as the impact would be antidilutive. The calculation of diluted earnings per share excludes 1,473,950 and 1,067,859 shares, respectively that are issuable upon the vesting of nil and 61,534 RSUs, respectively and the exercise of 1,473,950 and 1,006,325 stock options, respectively for the three and nine months ended September 30, 2015, as the impact would be antidilutive.

As part of the adoption of ASU 2016-09, the excess tax benefit is no longer included in the calculation of diluted shares under the treasury stock method. This has been applied prospectively.

**Table of Contents****(c) Shareholders' Equity Attributable to Common Shareholders**

The following summarizes the movement of Shareholders' Equity attributable to common shareholders for the nine months ended September 30, 2016:

|                                                                         |            |
|-------------------------------------------------------------------------|------------|
| Balance as at December 31, 2015                                         | \$ 624,791 |
| Net income attributable to common shareholders                          | 19,843     |
| Adjustments to capital stock:                                           |            |
| Cash received from the issuance of common shares                        | 5,514      |
| Issuance of common shares for vested RSUs                               | 1,121      |
| Fair value of stock options exercised at the grant date                 | 2,104      |
| Average carrying value of repurchased and retired common shares         | (21,220)   |
| Share held in treasury                                                  | (6)        |
| Adjustments to other equity:                                            |            |
| Employee stock options granted                                          | 10,092     |
| Non-employee stock options granted and vested                           | 30         |
| Fair value of stock options exercised at the grant date                 | (2,104)    |
| RSUs granted                                                            | 12,242     |
| RSUs vested                                                             | (8,793)    |
| Stock exercised from treasury shares                                    | (1,216)    |
| Cash received from the issuance of common shares in excess of par value | 1,682      |
| Adjustments to accumulated deficit:                                     |            |
| Common shares repurchased and retired                                   | (79,158)   |
| Adjustments to accumulated other comprehensive loss:                    |            |
| Unrealized net gain from cash flow hedging instruments                  | 1,865      |
| Realization of cash flow hedging net loss upon settlement               | 2,565      |
| Foreign currency translation adjustments                                | (434)      |
| Amortization of actuarial loss on postretirement benefit plan           | 51         |
| Tax effect of movement in other comprehensive income                    | (1,166)    |
| Balance as at September 30, 2016                                        | \$ 567,803 |

---

**Table of Contents****13. Segmented Information**

The Company has seven reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; and other. The IMAX systems segment includes the design, manufacture, sale or lease of IMAX theater projection system equipment. The theater system maintenance segment includes the maintenance of IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment includes the provision of IMAX theater projection system equipment to an exhibitor in exchange for a share of the box-office and concession revenues. The film production and IMAX DMR segment includes the production of films and the performance of film re-mastering services. The film distribution segment includes the distribution of films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The Company refers to all theaters using the IMAX theater system as IMAX theaters. The other segment includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2015 Form 10-K.

Management, including the Company's Chief Executive Officer (CEO) who is the Company's Chief Operating Decision Maker (as defined in the Segment Reporting Topic of the FASB ASC), assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), write-downs net of recoveries, interest income, interest expense and tax (provision) recovery are not allocated to the segments.

Transactions between the film production and IMAX DMR segment and the film post-production segment are valued at exchange value. Inter-segment profits are eliminated upon consolidation, as well as for the disclosures below.

Transactions among the other segments are not significant.

**Table of Contents**

|                                                   | <b>Three Months Ended<br/>September 30,</b> |                  | <b>Nine Months Ended<br/>September 30,</b> |                   |
|---------------------------------------------------|---------------------------------------------|------------------|--------------------------------------------|-------------------|
|                                                   | <b>2016</b>                                 | <b>2015</b>      | <b>2016</b>                                | <b>2015</b>       |
| <b>Revenue<sup>(1)</sup></b>                      |                                             |                  |                                            |                   |
| IMAX theater systems                              |                                             |                  |                                            |                   |
| IMAX systems                                      | \$ 25,687                                   | \$ 30,153        | \$ 70,508                                  | \$ 64,632         |
| Theater system maintenance                        | 10,293                                      | 9,337            | 30,031                                     | 27,345            |
| Joint revenue sharing arrangements                | 19,698                                      | 19,797           | 66,940                                     | 67,259            |
|                                                   | 55,678                                      | 59,287           | 167,479                                    | 159,236           |
| <b>Films</b>                                      |                                             |                  |                                            |                   |
| Production and IMAX DMR                           | 21,549                                      | 20,865           | 78,767                                     | 75,144            |
| Distribution                                      | 2,092                                       | 967              | 3,345                                      | 3,513             |
| Post-production                                   | 2,327                                       | 761              | 6,436                                      | 5,259             |
|                                                   | 25,968                                      | 22,593           | 88,548                                     | 83,916            |
| Other                                             | 4,904                                       | 3,221            | 14,394                                     | 11,320            |
| <b>Total</b>                                      | <b>\$ 86,550</b>                            | <b>\$ 85,101</b> | <b>\$ 270,421</b>                          | <b>\$ 254,472</b> |
| <b>Gross margin</b>                               |                                             |                  |                                            |                   |
| IMAX theater systems                              |                                             |                  |                                            |                   |
| IMAX systems <sup>(2)</sup>                       | \$ 16,743                                   | \$ 13,109        | \$ 38,252                                  | \$ 34,831         |
| Theater system maintenance                        | 3,398                                       | 3,521            | 10,207                                     | 9,891             |
| Joint revenue sharing arrangements <sup>(2)</sup> | 10,980                                      | 12,130           | 44,716                                     | 46,816            |
|                                                   | 31,121                                      | 28,760           | 93,175                                     | 91,538            |
| <b>Films</b>                                      |                                             |                  |                                            |                   |
| Production and IMAX DMR <sup>(2)</sup>            | 12,448                                      | 13,929           | 52,398                                     | 55,642            |
| Distribution <sup>(2)</sup>                       | 258                                         | 15               | (998)                                      | (201)             |
| Post-production                                   | 1,003                                       | (48)             | 3,028                                      | 847               |
|                                                   | 13,709                                      | 13,896           | 54,428                                     | 56,288            |
| Other                                             | 69                                          | (267)            | (251)                                      | (421)             |
| <b>Total</b>                                      | <b>\$ 44,899</b>                            | <b>\$ 42,389</b> | <b>\$ 147,352</b>                          | <b>\$ 147,405</b> |

- (1) The Company's largest customer represented 11.2% and 14.3% of total revenues for the three and nine months ended September 30, 2016, respectively (2015 17.6% and 17.4%, respectively).
- (2) IMAX systems include marketing and commission costs of \$0.8 million and \$1.9 million for the three and nine months ended September 30, 2016, respectively (2015 \$0.9 million and \$1.8 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.4 million and

\$2.9 million for the three and nine months ended September 30, 2016, respectively (2015 \$1.3 million and \$2.7 million, respectively). Production and DMR segment margins include marketing costs of \$4.2 million and \$11.7 million for the three and nine months ended September 30, 2016, respectively (2015 \$3.4 million and \$8.3 million, respectively). Distribution segment margins include marketing expense of \$0.6 million and \$2.1 million for the three and nine months ended September 30, 2016, respectively (2015 cost recovery of less than \$0.1 million and cost recovery of \$0.1 million, respectively).

**Table of Contents*****Geographic Information***

Revenue by geographic area is based on the location of the customer. Revenue related to IMAX DMR is presented based upon the geographic location of the theaters that exhibit the re-mastered films. IMAX DMR revenue is generated through contractual relationships with studios and other third parties and these may not be in the same geographical location as the theater.

|                                | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                | <b>2016</b>                                 | <b>2015</b> | <b>2016</b>                                | <b>2015</b> |
| <b>Revenue</b>                 |                                             |             |                                            |             |
| United States                  | \$ 28,139                                   | \$ 27,914   | \$ 96,276                                  | \$ 95,945   |
| Canada                         | 2,368                                       | 3,412       | 9,992                                      | 8,440       |
| Greater China                  | 29,736                                      | 27,513      | 84,797                                     | 71,427      |
| Asia (excluding Greater China) | 10,665                                      | 11,007      | 25,034                                     | 26,732      |
| Western Europe                 | 6,140                                       | 7,100       | 26,522                                     | 24,139      |
| Russia & the CIS               | 2,397                                       | 1,705       | 7,684                                      | 9,510       |
| Latin America                  | 1,408                                       | 2,459       | 8,562                                      | 7,849       |
| Rest of the World              | 5,697                                       | 3,991       | 11,554                                     | 10,430      |
| Total                          | \$ 86,550                                   | \$ 85,101   | \$ 270,421                                 | \$ 254,472  |

No single country in the Rest of the World, Western Europe, Latin America and Asia (excluding Greater China) classifications comprises more than 10% of the total revenue.

**Table of Contents****14. Employee s Pension and Postretirement Benefits****(a) Defined Benefit Plan**

The Company has an unfunded U.S. defined benefit pension plan (the SERP ) covering Richard L. Gelfond, CEO of the Company.

The following table provides disclosure of the pension obligation for the SERP:

|                                               | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|-----------------------------------------------|-------------------------------|------------------------------|
| Projected benefit obligation:                 |                               |                              |
| Obligation, beginning of period               | \$ 19,478                     | \$ 19,405                    |
| Interest cost                                 | 196                           | 253                          |
| Actuarial gain                                |                               | (180)                        |
| Obligation, end of period and unfunded status | \$ 19,674                     | \$ 19,478                    |

The following table provides disclosure of pension expense for the SERP:

|                 | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                 | <b>2016</b>                                 | <b>2015</b> | <b>2016</b>                                | <b>2015</b> |
| Interest cost   | \$ 65                                       | \$ 63       | \$ 196                                     | \$ 189      |
| Pension expense | \$ 65                                       | \$ 63       | \$ 196                                     | \$ 189      |

No contributions are expected to be made for the SERP during the remainder of 2016. The Company expects interest costs of \$0.1 million to be recognized as a component of net periodic benefit cost during the remainder of 2016.

The accumulated benefit obligation for the SERP was \$19.7 million at September 30, 2016 (December 31, 2015 \$19.5 million).

The following benefit payments are expected to be made as per the current SERP assumptions and the terms of the SERP in each of the next 5 years, and in the aggregate:

|                               |        |
|-------------------------------|--------|
| 2016 (three months remaining) | \$     |
| 2017                          | 19,871 |
| 2018                          |        |
| 2019                          |        |
| 2020                          |        |
| Thereafter                    |        |

\$ 19,871

The SERP assumptions are that Mr. Gelfond will receive a lump sum payment six months after retirement at the end of the current term of his employment agreement (December 31, 2016), although Mr. Gelfond has not informed the Company that he intends to retire at that time, and is currently in discussions regarding an extension of his employment agreement with the Company.

***(b) Defined Contribution Pension Plan***

The Company also maintains defined contribution plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and nine months ended September 30, 2016, the Company contributed and expensed an aggregate of \$0.3 million and \$0.9 million, respectively (2015 \$0.2 million and \$0.8 million, respectively) to its Canadian defined contribution plan and an aggregate of \$0.1 million and \$0.5 million, respectively (2015 \$0.2 million and \$0.4 million, respectively) to its defined contribution employee plan under Section 401(k) of the U.S. Internal Revenue Code.

**Table of Contents*****(c) Postretirement Benefits - Executives***

The Company has an unfunded postretirement plan for Mr. Gelfond and Bradley J. Wechsler, Chairman of the Company's Board of Directors. The plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by Messrs. Gelfond and Wechsler. The postretirement benefits obligation as at September 30, 2016 is \$0.8 million (December 31, 2015 \$0.8 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and nine months ended September 30, 2016, respectively (2015 less than \$0.1 million and less than \$0.1 million, respectively).

The following benefit payments are expected to be made as per the current plan assumptions in each of the next 5 years:

|                               |               |
|-------------------------------|---------------|
| 2016 (three months remaining) | \$ 34         |
| 2017                          | 54            |
| 2018                          | 60            |
| 2019                          | 66            |
| 2020                          | 33            |
| Thereafter                    | 539           |
| <b>Total</b>                  | <b>\$ 786</b> |

***(d) Postretirement Benefits - Canadian Employees***

The Company has an unfunded postretirement plan for its Canadian employees upon meeting specific eligibility requirements. The Company will provide eligible participants, upon retirement, with health and welfare benefits. The postretirement benefits obligation as at September 30, 2016 is \$1.9 million (December 31, 2015 \$1.8 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and nine months ended September 30, 2016, respectively (2015 less than \$0.1 million and \$0.1 million, respectively).

The following benefit payments are expected to be made as per the current plan assumptions in each of the next 5 years:

|                               |                 |
|-------------------------------|-----------------|
| 2016 (three months remaining) | \$ 96           |
| 2017                          | 100             |
| 2018                          | 108             |
| 2019                          | 115             |
| 2020                          | 117             |
| Thereafter                    | 1,330           |
| <b>Total</b>                  | <b>\$ 1,866</b> |



**Table of Contents****15. Financial Instruments*****(a) Financial Instruments***

The Company maintains cash with various major financial institutions. The Company's cash is invested with highly rated financial institutions.

The Company's accounts receivables and financing receivables are subject to credit risk. The Company's accounts receivable and financing receivables are concentrated with the theater exhibition industry and film entertainment industry. To minimize the Company's credit risk, the Company retains title to underlying theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. The Company believes it has adequately provided for related exposures surrounding receivables and contractual commitments.

***(b) Fair Value Measurements***

The carrying values of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities due within one year approximate fair values due to the short-term maturity of these instruments. The Company's other financial instruments are comprised of the following:

|                                                | <b>As at September 30,<br/>2016</b> |                                     | <b>As at December 31,<br/>2015</b> |                                     |
|------------------------------------------------|-------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
|                                                | <b>Carrying<br/>Amount</b>          | <b>Estimated<br/>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b>         | <b>Estimated<br/>Fair<br/>Value</b> |
| Cash and cash equivalents                      | \$ 218,104                          | \$ 218,104                          | \$ 317,449                         | \$ 317,449                          |
| Net financed sales receivable                  | \$ 110,054                          | \$ 110,260                          | \$ 106,286                         | \$ 108,184                          |
| Net investment in sales-type leases            | \$ 8,843                            | \$ 9,142                            | \$ 10,945                          | \$ 11,154                           |
| Available-for-sale investment                  | \$ 1,000                            | \$ 1,012                            | \$ 1,000                           | \$ 997                              |
| Convertible loan receivable                    | \$ 1,000                            | \$ 1,000                            | \$                                 | \$                                  |
| Foreign exchange contracts designated forwards | \$ 7                                | \$ 7                                | \$ (4,423)                         | \$ (4,423)                          |
| Borrowings under the Playa Vista Loan          | \$ (28,167)                         | \$ (28,167)                         | \$ (29,667)                        | \$ (29,667)                         |

Cash and cash equivalents are comprised of cash and interest-bearing investments with original maturity dates of 90 days or less. Cash and cash equivalents are recorded at cost, which approximates fair value (Level 1 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2016 and December 31, 2015, respectively.

The estimated fair values of the net financed sales receivable and net investment in sales-type leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2016 and December 31, 2015, respectively.

The fair value of the Company's available-for-sale investment is determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2016 and December 31, 2015, respectively.

The fair value of the Company's convertible loan receivable approximates market value as at September 30, 2016, as the loan was issued in the last month of the quarter (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy).

The fair value of foreign currency derivatives is determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2016 and December 31, 2015, respectively. These identical instruments are traded on a closed exchange.

The carrying value of borrowings under the Playa Vista Loan approximates fair value as the interest rates offered under the Playa Vista Loan are close to September 30, 2016 market rates for the Company for debt of the same remaining maturities (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2016.

---

**Table of Contents**

There were no significant transfers between Level 1 and Level 2 during the nine months ended September 30, 2016 or 2015. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

There were no transfers in or out of the Company's level 3 assets during the nine months ended September 30, 2016.

***(c) Financing Receivables***

The Company's net investment in leases and its net financed sale receivables are subject to the disclosure requirements of ASC 310 - Receivables. Due to differing risk profiles of its net investment in leases and its net financed sales receivables, the Company views its net investment in leases and its net financed sale receivables as separate classes of financing receivables. The Company does not aggregate financing receivables to assess impairment.

The Company monitors the credit quality of each customer on a frequent basis through collections and aging analyses. The Company also holds meetings monthly in order to identify credit concerns and whether a change in credit quality classification is required for the customer. A customer may improve in their credit quality classification once a substantial payment is made on overdue balances or the customer has agreed to a payment plan with the Company and payments have commenced in accordance to the payment plan. The change in credit quality indicator is dependent upon management approval.

The Company classifies its customers into four categories to indicate the credit quality worthiness of its financing receivables for internal purposes only:

**Good standing** Theater continues to be in good standing with the Company as the client's payments and reporting are up-to-date.

**Credit Watch** Theater operator has begun to demonstrate a delay in payments, and has been placed on the Company's credit watch list for continued monitoring, but active communication continues with the Company. Depending on the size of outstanding balance, length of time in arrears and other factors, transactions may need to be approved by management. These financing receivables are considered to be in better condition than those receivables related to theaters in the Pre-approved transactions category, but not in as good of condition as those receivables in Good standing.

**Pre-approved transactions only** Theater operator is demonstrating a delay in payments with little or no communication with the Company. All service or shipments to the theater must be reviewed and approved by management. These financing receivables are considered to be in better condition than those receivables related to theaters in the All transactions suspended category, but not in as good of condition as those receivables in Credit Watch. Depending on the individual facts and circumstances of each customer, finance income recognition may be suspended if management believes the receivable to be impaired.

**All transactions suspended** Theater is severely delinquent, non-responsive or not negotiating in good faith with the Company. Once a theater is classified as All transactions suspended the theater is placed on nonaccrual status and all revenue recognitions related to the theater are stopped.

**Table of Contents**

The following table discloses the recorded investment in financing receivables by credit quality indicator:

|                           | As at September 30, 2016     |                                  |            | As at December 31, 2015      |                                  |            |
|---------------------------|------------------------------|----------------------------------|------------|------------------------------|----------------------------------|------------|
|                           | Minimum<br>Lease<br>Payments | Financed<br>Sales<br>Receivables | Total      | Minimum<br>Lease<br>Payments | Financed<br>Sales<br>Receivables | Total      |
| In good standing          | \$ 7,974                     | \$ 108,375                       | \$ 116,349 | \$ 10,252                    | \$ 105,352                       | \$ 115,604 |
| Pre-approved transactions |                              | 1,387                            | 1,387      |                              | 757                              | 757        |
| Transactions suspended    | 1,541                        | 935                              | 2,476      | 1,365                        | 745                              | 2,110      |
|                           | \$ 9,515                     | \$ 110,697                       | \$ 120,212 | \$ 11,617                    | \$ 106,854                       | \$ 118,471 |

While recognition of finance income is suspended, payments received by a customer are applied against the outstanding balance owed. If payments are sufficient to cover any unreserved receivables, a recovery of provision taken on the billed amount, if applicable, is recorded to the extent of the residual cash received. Once the collectibility issues are resolved and the customer has returned to being in good standing, the Company will resume recognition of finance income.

The Company's investment in financing receivables on nonaccrual status is as follows:

|                                | As at September 30, 2016 |                      | As at December 31, 2015 |                      |
|--------------------------------|--------------------------|----------------------|-------------------------|----------------------|
|                                | Recorded<br>Investment   | Related<br>Allowance | Recorded<br>Investment  | Related<br>Allowance |
| Net investment in leases       | \$ 1,541                 | \$ (672)             | \$ 1,365                | \$ (672)             |
| Net financed sales receivables | 935                      | (643)                | 745                     | (568)                |
| Total                          | \$ 2,476                 | \$ (1,315)           | \$ 2,110                | \$ (1,240)           |

The Company considers financing receivables with aging between 60-89 days as indications of theaters with potential collection concerns. The Company will begin to focus its review on these financing receivables and increase its discussions internally and with the theater regarding payment status. Once a theater's aging exceeds 90 days, the Company's policy is to review and assess collectibility on the theater's past due accounts. Over 90 days past due is used by the Company as an indicator of potential impairment as invoices up to 90 days outstanding could be considered reasonable due to the time required for dispute resolution or for the provision of further information or supporting documentation to the customer.

**Table of Contents**

The Company's aged financing receivables are as follows:

| As at September 30, 2016       |                     |            |          |                              |            |            |                                      |                    |                            |
|--------------------------------|---------------------|------------|----------|------------------------------|------------|------------|--------------------------------------|--------------------|----------------------------|
|                                | Accrued and Current |            |          | Billed Financing Receivables |            |            | Related Unbilled Recorded Investment |                    | Recorded Investment Net of |
|                                |                     | 30-89 Days | 90+ Days |                              |            |            | Investment                           | Related Allowances | Allowances                 |
| Net investment in leases       | \$ 84               | \$ 81      | \$ 771   | \$ 936                       | \$ 8,579   | \$ 9,515   | \$ (672)                             | \$ 8,843           |                            |
| Net financed sales receivables | 2,038               | 883        | 2,489    | 5,410                        | 105,287    | 110,697    | (643)                                | 110,054            |                            |
| Total                          | \$ 2,122            | \$ 964     | \$ 3,260 | \$ 6,346                     | \$ 113,866 | \$ 120,212 | \$ (1,315)                           | \$ 118,897         |                            |

| As at December 31, 2015        |                     |            |          |                              |            |            |                                      |                    |                            |
|--------------------------------|---------------------|------------|----------|------------------------------|------------|------------|--------------------------------------|--------------------|----------------------------|
|                                | Accrued and Current |            |          | Billed Financing Receivables |            |            | Related Unbilled Recorded Investment |                    | Recorded Investment Net of |
|                                |                     | 30-89 Days | 90+ Days |                              |            |            | Investment                           | Related Allowances | Allowances                 |
| Net investment in leases       | \$ 840              | \$ 177     | \$ 446   | \$ 1,463                     | \$ 10,154  | \$ 11,617  | \$ (672)                             | \$ 10,945          |                            |
| Net financed sales receivables | 908                 | 1,013      | 1,177    | 3,098                        | 103,756    | 106,854    | (568)                                | 106,286            |                            |
| Total                          | \$ 1,748            | \$ 1,190   | \$ 1,623 | \$ 4,561                     | \$ 113,910 | \$ 118,471 | \$ (1,240)                           | \$ 117,231         |                            |

The Company's recorded investment in past due financing receivables for which the Company continues to accrue finance income is as follows:

| As at September 30, 2016       |                     |            |          |                              |           |           |                                      |           |                                  |
|--------------------------------|---------------------|------------|----------|------------------------------|-----------|-----------|--------------------------------------|-----------|----------------------------------|
|                                | Accrued and Current |            |          | Billed Financing Receivables |           |           | Related Unbilled Recorded Investment |           | Recorded Investment Past Due and |
|                                |                     | 30-89 Days | 90+ Days |                              |           |           | Investment                           | Allowance | Accruing                         |
| Net investment in leases       | \$ 12               | \$ 53      | \$ 315   | \$ 380                       | \$ 2,424  | \$ 2,804  | \$ 2,804                             |           |                                  |
| Net financed sales receivables | 546                 | 522        | 2,463    | 3,531                        | 23,103    | 26,634    |                                      |           |                                  |
| Total                          | \$ 558              | \$ 575     | \$ 2,778 | \$ 3,911                     | \$ 25,527 | \$ 29,438 |                                      |           |                                  |

| As at December 31, 2015 |         |  |  |        |  |  |                  |  |                     |
|-------------------------|---------|--|--|--------|--|--|------------------|--|---------------------|
|                         | Accrued |  |  | Billed |  |  | Related Unbilled |  | Recorded Investment |
|                         |         |  |  |        |  |  |                  |  |                     |

|                                | <b>and</b>     |                   |                 | <b>Financing</b>   | <b>Recorded</b>   | <b>Related</b>   | <b>Past Due</b>     |
|--------------------------------|----------------|-------------------|-----------------|--------------------|-------------------|------------------|---------------------|
|                                | <b>Current</b> | <b>30-89 Days</b> | <b>90+ Days</b> | <b>Receivables</b> | <b>Investment</b> | <b>Allowance</b> | <b>and Accruing</b> |
| Net investment in leases       | \$ 41          | \$ 47             | \$ 205          | \$ 293             | \$ 1,076          | \$               | \$ 1,369            |
| Net financed sales receivables | 129            | 224               | 839             | 1,192              | 10,795            |                  | 11,987              |
| <b>Total</b>                   | <b>\$ 170</b>  | <b>\$ 271</b>     | <b>\$ 1,044</b> | <b>\$ 1,485</b>    | <b>\$ 11,871</b>  | <b>\$</b>        | <b>\$ 13,356</b>    |

The Company considers financing receivables to be impaired when it believes it to be probable that it will not recover the full amount of principal or interest owing under the arrangement. The Company uses its knowledge of the industry and economic trends, as well as its prior experiences to determine the amount recoverable for impaired financing receivables. The following table discloses information regarding the Company's impaired financing receivables:

**Table of Contents****For the Three Months Ended September 30, 2016**

|                                                                     | <b>Recorded<br/>Investment</b> | <b>Unpaid<br/>Principal</b> | <b>Related<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> | <b>Interest<br/>Income<br/>Recognized</b> |
|---------------------------------------------------------------------|--------------------------------|-----------------------------|------------------------------|--------------------------------------------|-------------------------------------------|
| <u>Recorded investment for which there is a related allowance:</u>  |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                      | \$ 748                         | \$ 269                      | \$ (643)                     | \$ 748                                     | \$                                        |
| <u>Recorded investment for which there is no related allowance:</u> |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                      |                                |                             |                              |                                            |                                           |
| <u>Total recorded investment in impaired loans:</u>                 |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                      | \$ 748                         | \$ 269                      | \$ (643)                     | \$ 748                                     | \$                                        |

**For the Three Months Ended September 30, 2015**

|                                                                     | <b>Recorded<br/>Investment</b> | <b>Unpaid<br/>Principal</b> | <b>Related<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> | <b>Interest<br/>Income<br/>Recognized</b> |
|---------------------------------------------------------------------|--------------------------------|-----------------------------|------------------------------|--------------------------------------------|-------------------------------------------|
| <u>Recorded investment for which there is a related allowance:</u>  |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                      | \$ 525                         | \$ 53                       | \$ (494)                     | \$ 525                                     | \$                                        |
| <u>Recorded investment for which there is no related allowance:</u> |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                      |                                |                             |                              |                                            |                                           |
| <u>Total recorded investment in impaired loans:</u>                 |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                      | \$ 525                         | \$ 53                       | \$ (494)                     | \$ 525                                     | \$                                        |

**For the Nine Months Ended September 30, 2016**

|                                                                     | <b>Recorded<br/>Investment</b> | <b>Unpaid<br/>Principal</b> | <b>Related<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> | <b>Interest<br/>Income<br/>Recognized</b> |
|---------------------------------------------------------------------|--------------------------------|-----------------------------|------------------------------|--------------------------------------------|-------------------------------------------|
| <u>Recorded investment for which there is a related allowance:</u>  |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                      | \$ 748                         | \$ 269                      | \$ (643)                     | \$ 674                                     | \$                                        |
| <u>Recorded investment for which there is no related allowance:</u> |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                      |                                |                             |                              |                                            |                                           |
| <u>Total recorded investment in impaired loans:</u>                 |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                      | \$ 748                         | \$ 269                      | \$ (643)                     | \$ 674                                     | \$                                        |

## For the Nine Months Ended September 30, 2015

|                                                                     | Recorded<br>Investment | Unpaid<br>Principal | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|---------------------------------------------------------------------|------------------------|---------------------|----------------------|-----------------------------------|----------------------------------|
| <u>Recorded investment for which there is a related allowance:</u>  |                        |                     |                      |                                   |                                  |
| Net financed sales receivables                                      | \$ 525                 | \$ 53               | \$ (494)             | \$ 525                            | \$                               |
| <u>Recorded investment for which there is no related allowance:</u> |                        |                     |                      |                                   |                                  |
| Net financed sales receivables                                      |                        |                     |                      |                                   |                                  |
| <u>Total recorded investment in impaired loans:</u>                 |                        |                     |                      |                                   |                                  |
| Net financed sales receivables                                      | \$ 525                 | \$ 53               | \$ (494)             | \$ 525                            | \$                               |

**Table of Contents**

The Company's activity in the allowance for credit losses for the period and the Company's recorded investment in financing receivables are as follows:

|                                                             | <b>Three Months Ended September 30, 2016</b> |                                               | <b>Nine Months Ended September 30, 2016</b> |                                               |
|-------------------------------------------------------------|----------------------------------------------|-----------------------------------------------|---------------------------------------------|-----------------------------------------------|
|                                                             | <b>Net<br/>Investment<br/>in Leases</b>      | <b>Net<br/>Financed<br/>Sales Receivables</b> | <b>Net<br/>Investment<br/>in Leases</b>     | <b>Net<br/>Financed<br/>Sales Receivables</b> |
| <u>Allowance for credit losses:</u>                         |                                              |                                               |                                             |                                               |
| Beginning balance                                           | \$ 672                                       | \$ 643                                        | \$ 672                                      | \$ 568                                        |
| Charge-offs                                                 |                                              |                                               |                                             |                                               |
| Recoveries                                                  |                                              |                                               |                                             |                                               |
| Provision                                                   |                                              |                                               |                                             | 75                                            |
| Ending balance                                              | \$ 672                                       | \$ 643                                        | \$ 672                                      | \$ 643                                        |
| Ending balance:<br>individually evaluated for<br>impairment | \$ 672                                       | \$ 643                                        | \$ 672                                      | \$ 643                                        |
| <u>Financing receivables:</u>                               |                                              |                                               |                                             |                                               |
| Ending balance:<br>individually evaluated for<br>impairment | \$ 9,515                                     | \$ 110,697                                    | \$ 9,515                                    | \$ 110,697                                    |

|                                                             | <b>Three Months Ended September 30, 2015</b> |                                                   | <b>Nine Months Ended<br/>September 30, 2015</b> |                                                   |
|-------------------------------------------------------------|----------------------------------------------|---------------------------------------------------|-------------------------------------------------|---------------------------------------------------|
|                                                             | <b>Net Investment<br/>in Leases</b>          | <b>Net<br/>Financed<br/>Sales<br/>Receivables</b> | <b>Net Investment<br/>in Leases</b>             | <b>Net<br/>Financed<br/>Sales<br/>Receivables</b> |
| <u>Allowance for credit losses:</u>                         |                                              |                                                   |                                                 |                                                   |
| Beginning balance                                           | \$ 972                                       | \$ 494                                            | \$ 972                                          | \$ 494                                            |
| Charge-offs                                                 |                                              |                                                   |                                                 |                                                   |
| Recoveries                                                  |                                              |                                                   |                                                 |                                                   |
| Provision                                                   |                                              |                                                   |                                                 |                                                   |
| Ending balance                                              | \$ 972                                       | \$ 494                                            | \$ 972                                          | \$ 494                                            |
| Ending balance:<br>individually evaluated for<br>impairment | \$ 972                                       | \$ 494                                            | \$ 972                                          | \$ 494                                            |

Financing receivables:

|                                                             |           |            |           |            |
|-------------------------------------------------------------|-----------|------------|-----------|------------|
| Ending balance:<br>individually evaluated for<br>impairment | \$ 12,032 | \$ 103,418 | \$ 12,032 | \$ 103,418 |
|-------------------------------------------------------------|-----------|------------|-----------|------------|

**Table of Contents****(d) Foreign Exchange Risk Management**

The Company is exposed to market risk from changes in foreign currency rates. A majority portion of the Company's revenues is denominated in U.S. dollars while a substantial portion of its costs and expenses is denominated in Canadian dollars. A portion of the net U.S. dollar cash flows of the Company is periodically converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In China and Japan the Company has ongoing operating expenses related to its operations in Chinese Renminbi and Japanese yen, respectively. Net cash flows are converted to and from U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Chinese Renminbi, Japanese yen, Canadian dollars and Euros which are converted to U.S. dollars through the spot market. The Company's policy is to not use any financial instruments for trading or other speculative purposes.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at September 30, 2016 (the "Foreign Currency Hedges"), with settlement dates throughout 2016 and 2017. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statements of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statements of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The Company currently does not hold any derivatives which are not designated as hedging instruments and therefore no gain or loss pertaining to an ineffective portion has been recognized.

The following tabular disclosures reflect the impact that derivative instruments and hedging activities have on the Company's condensed consolidated financial statements:

Notional value of foreign exchange contracts:

|                                                | September 30,<br>2016 | December 31,<br>2015 |
|------------------------------------------------|-----------------------|----------------------|
| Derivatives designated as hedging instruments: |                       |                      |
| Foreign exchange contracts - Forwards          | \$ 26,869             | \$ 30,710            |

Fair value of derivatives in foreign exchange contracts:

|                                                | Balance Sheet Location        | September 30,<br>2016 | December 31,<br>2015 |
|------------------------------------------------|-------------------------------|-----------------------|----------------------|
| Derivatives designated as hedging instruments: |                               |                       |                      |
| Foreign exchange contracts - Other assets      |                               |                       |                      |
| Forwards                                       |                               | \$ 734                | \$                   |
|                                                | Accrued and other liabilities | (727)                 | (4,423)              |

\$ 7 \$ (4,423)

**Table of Contents**

Derivatives in Foreign Currency Hedging relationships for the nine months ended September 30:

|                            |                                                              | Three Months Ended September 30, |            | Nine Months Ended September 30, |            |
|----------------------------|--------------------------------------------------------------|----------------------------------|------------|---------------------------------|------------|
|                            |                                                              | 2016                             | 2015       | 2016                            | 2015       |
| Foreign exchange contracts | Derivative (Loss) Gain Recognized in OCI (Effective Portion) |                                  |            |                                 |            |
| Forwards                   |                                                              | \$ (293)                         | \$ (2,309) | \$ 1,865                        | \$ (4,983) |

| Location of Derivative Loss                            |                                              | Three Months Ended September 30, |            | Nine Months Ended September 30, |            |
|--------------------------------------------------------|----------------------------------------------|----------------------------------|------------|---------------------------------|------------|
| Reclassified from AOCI into Income (Effective Portion) |                                              | 2016                             | 2015       | 2016                            | 2015       |
| Foreign exchange contracts                             | Selling, general and administrative expenses |                                  |            |                                 |            |
| Forwards                                               |                                              | \$ (572)                         | \$ (1,045) | \$ (2,565)                      | \$ (2,196) |

The Company's estimated net amount of the existing gains as at September 30, 2016 is \$0.1 million, which is expected to be reclassified to earnings within the next twelve months

**(e) Investments in New Business Ventures**

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 or FASB ASC 320, as appropriate. As at September 30, 2016, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2015 \$1.0 million). The Company's accumulated losses in excess of its equity investment were \$1.4 million as at September 30, 2016, and are classified in Accrued and other liabilities. For the three months ended September 30, 2016, gross revenues, cost of revenue and net loss for the Company's investments were \$nil, \$1.6 million and \$1.5 million, respectively (2015 \$nil, \$1.9 million and \$1.8 million, respectively). For the nine months ended September 30, 2016, gross revenues, cost of revenue and net loss for the Company's investments were \$0.3 million, \$6.0 million and \$5.6 million, respectively (2015 \$nil, \$6.4 million and \$6.2 million, respectively). The Company has determined it is not the primary beneficiary of this VIE, and therefore this entity has not been consolidated. In the third quarter of 2016, the Company issued a convertible loan of \$1.0 million to this entity with a term of 3 years with an annual effective interest rate of 5.0%. The instrument is classified as an available-for-sale investment due to certain features that allow for conversion to common stock in the entity in the event of certain triggers occurring. In addition, the Company has an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under the FASB ASC 320 and is recorded at a fair value of \$nil at September 30, 2016 (December 31, 2015 \$nil). This investment was classified as an available-for-sale investment. Furthermore, the Company has an investment of \$1.0 million (December 31, 2015 \$1.0 million) in the shares of an exchange traded fund. This investment is also classified as an available-for-sale investment. The Company has an investment of \$2.5 million in the preferred shares of an enterprise which meet the criteria for classification as an equity security under FASB ASC 325. In the three and nine months ended September 30, 2016, respectively, the Company recognized an other-than-temporary impairment of \$nil and \$0.2 million in the condensed consolidated statements of operations (2015 \$nil and \$0.4 million, respectively). The total carrying value of investments in new business ventures at September 30, 2016 is \$1.0 million (December 31, 2015 \$2.2 million) and is recorded in Other assets.



**Table of Contents****16. Non-Controlling Interests*****(a) IMAX China Non-Controlling Interest***

On April 8, 2014, the Company announced sale and issuance of 20% of the shares of IMAX China to entities owned and controlled by CMC Capital Partners ( CMC ), an investment fund that is focused on media and entertainment, and FountainVest Partners ( FountainVest ), a China-focused private equity firm. The sale price for the interest was \$80.0 million, and was paid by the investors in two equal installments on April 8, 2014 and February 10, 2015.

On October 8, 2015, IMAX China completed the IMAX China IPO. Following the IMAX China IPO, the Company continues to indirectly own approximately 68.5% of IMAX China, which remains a consolidated subsidiary of the Company.

The following summarizes the movement of the non-controlling interest in shareholders' equity, in the Company's subsidiary for the nine months ended September 30, 2016:

|                                  |           |
|----------------------------------|-----------|
| Balance as at December 31, 2015  | \$ 49,959 |
| Net income                       | 8,015     |
| Other comprehensive loss         | (1,415)   |
| Balance as at September 30, 2016 | \$ 56,559 |

***(b) Other Non-Controlling Interest***

In 2014, the Company announced the creation of the Film Fund to co-finance a portfolio of 10 original large-format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company, which will contribute \$9.0 million to the Film Fund over five years starting in 2014, anticipates the Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous, steady flow of high-quality documentary content. To date, the Film Fund invested \$7.7 million toward the development of original films. The related production, financing and distribution agreement includes put and call rights relating to change of control of the rights, title and interest in the co-financed pictures.

The following summarizes the movement of the non-controlling interest in temporary equity, in the Company's subsidiary for the nine months ended September 30, 2016:

|                                  |          |
|----------------------------------|----------|
| Balance as at December 31, 2015  | \$ 3,307 |
| Net loss                         | (614)    |
| Balance as at September 30, 2016 | \$ 2,693 |



**Table of Contents**

**IMAX CORPORATION**

**Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations***  
**OVERVIEW**

IMAX Corporation, together with its consolidated subsidiaries (the "Company"), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as "IMAX theaters." IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as such, IMAX's network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 1,145 IMAX theater systems (1,037 commercial multiplexes, 16 commercial destinations, 92 institutional) operating in 74 countries as of September 30, 2016. This compares to 1,008 theater systems (887 commercial multiplexes, 19 commercial destinations, 102 institutional) operating in 66 countries as of September 30, 2015.

IMAX theater systems combine:

IMAX DMR (Digital Re-Mastering) movie conversion technology, which results in higher image and sound fidelity than conventional cinema experiences;

advanced, high-resolution projectors with specialized equipment and automated theater control systems, which generate significantly more contrast and brightness than conventional theater systems;

large screens and proprietary theater geometry, which result in a substantially larger field of view so that the screen extends to the edge of a viewer's peripheral vision and creates more realistic images;

sound system components, which deliver more expansive sound imagery and pinpointed origination of sound to any specific spot in an IMAX theater; and

specialized theater acoustics, which result in a four-fold reduction in background noise.

Together these components cause audiences in IMAX theaters to feel as if they are a part of the on-screen action, creating a more intense, immersive and exciting experience than in a traditional theater.

As a result of the immersiveness and superior image and sound quality of *The IMAX Experience*, the Company's exhibitor customers typically charge a premium for IMAX DMR films over films exhibited in their other auditoriums. The premium pricing, combined with the higher attendance levels associated with IMAX DMR films, generates incremental box-office for the Company's exhibitor customers and for the movie studios releasing their films to the IMAX network. The incremental box-office generated by IMAX DMR films has helped establish IMAX as a key premium distribution and marketing platform for Hollywood blockbuster films. Driven by the advent of digital

technology that reduced the IMAX DMR conversion time and with the strengthening of the Company's relationships with the major studios, the number of IMAX DMR films released to the theater network per year has increased to 44 films in 2015, up from six films in 2007. The Company expects to release a similar number of IMAX DMR films in 2016 as compared to 2015.

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. To that end, the Company introduced its next-generation laser-based digital projection system at the end of 2014, which was co-developed with Barco N.V and incorporates exclusive technology developed or otherwise obtained by the Company. The Company believes that the IMAX laser-based projectors present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network. As at September 30, 2016, 33 laser-based digital systems were operational.

The Company is also undertaking new lines of business, with a focus on location-based experiences, alternative forms of in-cinema entertainment and in-home entertainment. In the second quarter of 2016, the Company announced its comprehensive virtual reality ( VR ) strategy to develop a premium, location-based VR offering that will deliver immersive, multi-dimensional experiences, including entertainment content and games, to multiplexes, malls and other commercial destinations. The Company's VR initiative is premised on a unique combination of high quality content, proprietary design and premium technology. The Company has also partnered with Google to design and develop a cinema-grade IMAX VR camera, which will enable filmmakers and content creators to capture and deliver high-quality, 360-degree content experiences to audiences.

**Table of Contents**

The Company's VR experiences will include content developed by the Company's studio partners and independent producers, as well as premium content created through use of the IMAX VR camera. The Company intends to deliver premium VR experiences in IMAX VR centers, which are expected to be located in both stand-alone, arcade-like venues, as well as shopping centers and multiplexes that are retrofitted with proprietary VR pods that permit interactive, moveable VR experiences. The Company plans to open several IMAX VR pilot sites over the coming months, beginning with a sales center in Los Angeles, California and a pilot location in Manchester, England that the Company will be launching in partnership with ODEON & UCI Cinemas Group. Through its VR initiative, the Company sees a unique opportunity to combine premium equipment, more robust computing power, and specially designed spaces to create a highly differentiated, destination-based VR experience that will draw audiences out of their homes, similar to the strategy it has successfully employed in the cinema space. In addition, the Company is working with Starbreeze AB, a Swedish-based independent creator, publisher and distributor of high quality VR entertainment content and hardware, and Acer Inc., to incorporate next-generation headset-mounted display technology that offers industry-leading resolution and an extra-wide peripheral field of view.

The Company is also focusing on alternative forms of in-cinema entertainment, including original content. In 2014, the Company announced the creation of the IMAX Original Film Fund (the Film Fund) to co-finance a portfolio of 10 original large format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company, which will contribute \$9.0 million to the Film Fund over five years starting in 2014, anticipates the Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous flow of high-quality documentary content. To date, the Film Fund has invested \$7.7 million toward the development of original films.

Furthermore, in 2015, the Company announced the creation of the IMAX China Film Fund (the China Film Fund) with its subsidiary IMAX China and its partner CMC to help fund Mandarin language commercial films. The China Film Fund, which is expected initially to be capitalized with approximately \$50.0 million, will target productions that can leverage the Company's brand, relationships, technology and release windows in China. The China Film Fund is expected to co-finance approximately 15 Mandarin-language tent-pole films over three years, and will target contributions of between \$3.0 million and \$7.0 million per film. The China Film Fund will operate under an IMAX-CMC controlled greenlight committee, and the Company is in the process of bringing in other investors to increase the size of the China Film Fund.

With respect to in-home entertainment, the Company has announced new home theater initiatives, including a joint venture with TCL Multimedia Technology Holding Limited (TCL) to design, develop, manufacture and sell a premium home theater system. Since announcing the joint venture in 2013 and introducing the new private home theater in 2015, the Company has signed agreements for more than 130 premium home theater systems. Beyond its premium home theater, the Company is also developing other components of broader home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*® in their homes.

Important factors that the Company's Chief Executive Officer (CEO) Richard L. Gelfond uses in assessing the Company's business and prospects include:

the signing, installation and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements and new laser-based projection system);

film performance and the securing of new film projects (particularly IMAX DMR films);

revenue and gross margins from the Company's operating segments;

operating leverage;

earnings from operations as adjusted for unusual items that the Company views as non-recurring;

short- and long-term cash flow projections;

the continuing ability to invest in and improve the Company's technology to enhance its differentiation of presentation versus other cinematic experiences;

the overall execution, reliability and consumer acceptance of *The IMAX Experience*; and

the success of new business initiatives (including new content initiatives).

The primary revenue sources for the Company can be categorized into two main groups: theater systems and films. On the theater systems side, the Company derives revenues from theater exhibitors primarily through either a sale or sales-type lease arrangement or a joint revenue sharing arrangement. Theater exhibitors also pay for associated maintenance and extended warranty services. Film revenue is derived primarily from film studios for the provision of film production and digital re-mastering services for exhibition on

---

**Table of Contents**

IMAX theater systems around the world. The Company derives other film revenues from the distribution of certain films and the provision of post-production services. The Company also derives a small portion of other revenues from the operation of its own theaters, the provision of aftermarket parts for its system components, and camera rentals.

**IMAX Theater Systems: IMAX Systems (Sales and Sales-type Leases), Joint Revenue Sharing Arrangements and Theater System Maintenance**

One of the Company's principal businesses is the design, manufacture and delivery of premium theater systems (IMAX theater systems). The theater system equipment components (including the projection system, sound system, screen system and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and the use of the IMAX brand are all elements of what the Company considers the system deliverable. The IMAX theater systems are based on proprietary and patented technology developed over the course of the Company's 49-year history. The Company provides IMAX theater systems to customers through sales, long-term leases or under joint revenue sharing arrangements. The Company's customers who purchase, lease or otherwise acquire the IMAX theater systems through joint revenue sharing arrangements are theater exhibitors that operate commercial theaters (particularly multiplexes), museums, science centers, or destination entertainment sites. The Company generally does not own IMAX theaters, but licenses the use of its trademarks along with the sale, lease or contribution of the IMAX theater system.

**IMAX Systems**

*Sales and Sales-Type Lease Arrangements*

The Company provides IMAX theater systems to customers on a sales or long-term lease basis, typically with an initial 10-year term. These agreements typically require the payment of initial fees and ongoing fees (which can include a fixed minimum amount per annum and contingent fees in excess of the minimum payments), as well as maintenance and extended warranty fees. The initial fees vary depending on the system configuration and location of the theater. Initial fees are paid to the Company in installments between the time of system signing and the time of system installation, which is when the total of these fees, in addition to the present value of future annual minimum payments, are recognized as revenue. Ongoing fees are paid over the term of the contract, commencing after the theater system has been installed, and are equal to the greater of a fixed minimum amount per annum or a percentage of box-office receipts. Contingent payments in excess of fixed minimum ongoing payments are recognized as revenue when reported by theater operators, provided collectibility is reasonably assured. Typically, ongoing fees are indexed to a local consumer price index. Finance income is derived over the term of a financed sale or sales-type lease arrangement as the unearned income on that financed sale or sales-type lease is earned.

Under the Company's sales agreements, title to the theater system equipment components passes to the customer. In certain instances, however, the Company retains title or a security interest in the equipment until the customer has made all payments required under the agreement. Under the terms of a sales-type lease agreement, title to the theater system equipment components remains with the Company. The Company has the right to remove the equipment for non-payment or other defaults by the customer.

The revenue earned from customers under the Company's theater system sales or lease agreements varies from quarter to quarter and year to year based on a number of factors, including the number and mix of theater system configurations sold or leased, the timing of installation of the theater systems, the nature of the arrangement and other factors specific to individual contracts.

*Joint Revenue Sharing Arrangements*

The Company also provides IMAX theater systems to customers under joint revenue sharing arrangements ( JRSA ). The Company has two basic types of joint revenue sharing arrangements: traditional and hybrid.

Under a traditional joint revenue sharing arrangement, the Company provides the IMAX theater system in return for a portion of the customer s IMAX box-office receipts and, in some cases, concession revenues, rather than requiring the customer to pay a fixed upfront payment or annual minimum payments. Payments, which are based on box-office receipts, are required throughout the term of the arrangement and are due either monthly or quarterly. Certain maintenance and extended warranty services are provided to the customer for a separate fixed annual fee. The Company retains title to the theater system equipment components, and the equipment is returned to the Company at the conclusion of the arrangement.

Under a hybrid joint revenue sharing arrangement, by contrast, the customer is responsible for making upfront payments prior to the delivery and installation of the IMAX theater system in an amount that is typically half of what the Company would receive from a

---

**Table of Contents**

straight sale transaction. As with a traditional joint revenue sharing arrangement, the customer also pays the Company a portion of the customer's IMAX box-office receipts over the term of the arrangement, although the percentage of box-office receipts owing to the Company is typically half that of a traditional joint revenue sharing arrangement. The Company generally retains title to the theater system equipment components, and the equipment is returned to the Company at the conclusion of the arrangement. In limited instances, however, title to the theater system equipment components passes to the customer.

Under the significant majority of joint revenue sharing arrangements (both traditional and hybrid), the initial non-cancellable term of IMAX theater systems is 10 years or longer, and is renewable by the customer for one to two additional terms of between three to five years. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are non-cancellable by the customer unless the Company fails to perform its obligations.

The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company's commercial theater network, which has grown by approximately 488% since the beginning of 2008. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box-office. The Company funds its joint revenue sharing arrangements through cash flows from operations. As at September 30, 2016, the Company had 592 theaters in operation under joint revenue sharing arrangements, an 18.9% increase as compared to the 498 joint revenue sharing arrangements open as at September 30, 2015. The Company also had contracts in backlog for an additional 389 theaters under joint revenue sharing arrangements as at September 30, 2016.

The revenue earned from customers under the Company's joint revenue sharing arrangements can vary from quarter to quarter and year to year based on a number of factors including film performance, the mix of theater system configurations, the timing of installation of these theater systems, the nature of the arrangement, the location, size and management of the theater and other factors specific to individual arrangements.

#### *Theater System Maintenance*

For all IMAX theaters, theater owners or operators are also responsible for paying the Company an annual maintenance and extended warranty fee. Under these arrangements, the Company provides proactive and emergency maintenance services to every theater in its network to ensure that each presentation is up to the highest IMAX quality standard. Annual maintenance fees are paid throughout the duration of the term of the theater agreements and are typically indexed to a local consumer price index.

#### *Other Theater Revenues*

The Company derives a small portion of its revenues from other sources. As at September 30, 2016, the Company had two owned and operated IMAX theaters (December 31, 2015 – three owned and operated theaters). In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses and provides management services to three other theaters. The Company also rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers. Additionally, the Company generates revenues from the sale of after-market parts and 3D glasses.

Revenue from theater system arrangements is recognized at a different time from when cash is collected. See Critical Accounting Policies in Item 1 of the Company's Form 10-K for the year ended December 31, 2015 (the 2015 Form 10-K ) for further discussion on the Company's revenue recognition policies.

**Table of Contents****IMAX Theater Network**

The following table outlines the breakdown of the theater network by type and geographic location as at September 30:

|                                | 2016 Theater Network Base |                        |               |              | 2015 Theater Network Base |                        |               |              |
|--------------------------------|---------------------------|------------------------|---------------|--------------|---------------------------|------------------------|---------------|--------------|
|                                | Commercial Multiplex      | Commercial Destination | Institutional | Total        | Commercial Multiplex      | Commercial Destination | Institutional | Total        |
| United States                  | 348                       | 5                      | 41            | 394          | 333                       | 6                      | 48            | 387          |
| Canada                         | 37                        | 2                      | 7             | 46           | 37                        | 2                      | 8             | 47           |
| Greater China <sup>(1)</sup>   | 354                       |                        | 17            | 371          | 258                       |                        | 17            | 275          |
| Asia (excluding Greater China) | 88                        | 2                      | 4             | 94           | 76                        | 3                      | 6             | 85           |
| Western Europe                 | 73                        | 6                      | 10            | 89           | 65                        | 7                      | 10            | 82           |
| Russia & the CIS               | 50                        |                        |               | 50           | 48                        |                        |               | 48           |
| Latin America <sup>(2)</sup>   | 38                        |                        | 11            | 49           | 34                        |                        | 11            | 45           |
| Rest of the World              | 49                        | 1                      | 2             | 52           | 36                        | 1                      | 2             | 39           |
| <b>Total</b>                   | <b>1,037</b>              | <b>16</b>              | <b>92</b>     | <b>1,145</b> | <b>887</b>                | <b>19</b>              | <b>102</b>    | <b>1,008</b> |

(1) Greater China includes China, Hong Kong, Taiwan and Macau.

(2) Latin America includes South America, Central America and Mexico.

As of September 30, 2016, 38.4% of IMAX systems in operation were located in the United States and Canada compared to 43.1% as at September 30, 2015.

To minimize the Company's credit risk, the Company retains title to the underlying theater systems under lease arrangements, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimates of potentially uncollectible amounts.

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 2,450 IMAX theaters worldwide from 1,037 commercial multiplex IMAX theaters operating as September 30, 2016. While the Company continues to grow in the United States and Canada, it believes that the majority of its future growth will come from international markets. As at September 30, 2016, 61.6% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 56.9% as at September 30, 2015. Revenues and gross box-office derived from outside the United States and Canada continues to exceed revenues and gross box-office from the United States and Canada. Risks associated with the Company's international business are outlined in Risk Factors. The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects in Item 1A of the Company's 2015 Form 10-K.

Greater China continues to be the Company's second-largest and fastest-growing market. The Company's Greater China operations have accounted for an increasingly significant portion of its overall revenues, with nearly 31% of overall revenues generated from the Company's China operations in the nine months ended September 30, 2016. As at September 30, 2016, the Company had 371 theaters operating in Greater China with an additional 381 theaters in

backlog that are scheduled to be installed in Greater China by 2022. The Company's backlog in Greater China represents 69.7% of the Company's current backlog. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. The Company's largest single international partnership is in China with Wanda Cinema Line Corporation ( "Wanda" ). In the third quarter of 2016, the Company and Wanda signed an agreement for an additional 150 theater systems under a joint revenue sharing arrangement. This increases Wanda's total commitment to the Company to 360 theater systems, of which 345 theater systems are under the parties' joint revenue sharing arrangement. Furthermore, the Company has a partnership with CJ CGV Holdings, Ltd., for a commitment of 120 theater systems, of which 100 theater systems will be located in China. In addition, in the second quarter of 2016, the Company and Guangzhou JinYi Media Corporation ( "JinYi" ) expanded its existing commitment to include 40 theater systems under a joint revenue sharing arrangement. With the addition of these theater systems, JinYi's total commitment to the Company is for 60 theater systems, all of which are located in China. See Risk Factors The Company faces risks in connection with the continued expansion of its business in China in Item 1A of the Company's 2015 Form 10-K.

In 2014, the Company completed the sale and issuance of 20% of the shares of the Company's subsidiary, IMAX China Holding, Inc. ( "IMAX China" ), to entities owned and controlled by CMC Capital Partners ( "CMC" ), an investment fund that is focused on

**Table of Contents**

media and entertainment, and FountainVest Partners (FountainVest), a China-focused private equity firm. The sale price for the interest was \$80.0 million, and was paid by the investors in two equal installments on April 8, 2014 and February 10, 2015 (collectively, the IMAX China Investment).

Thereafter, on October 8, 2015, IMAX China completed an initial public offering of its ordinary shares on the Main Board of the Hong Kong Stock Exchange Limited (the IMAX China IPO). Following the IMAX China IPO, the Company continues to indirectly own approximately 68.5% of IMAX China, which remains a consolidated subsidiary of the Company.

The following table outlines the breakdown of the Commercial Multiplex theater network by arrangement type and geographic location as at September 30:

|                                         | 2016<br>IMAX Commercial Multiplex Theater Network |                         |       | 2015<br>IMAX Commercial Multiplex Theater Network |                         |       |
|-----------------------------------------|---------------------------------------------------|-------------------------|-------|---------------------------------------------------|-------------------------|-------|
|                                         | JRSA                                              | Sale / Sales-type lease | Total | JRSA                                              | Sale / Sales-type lease | Total |
| Domestic Total (United States & Canada) | 264                                               | 121                     | 385   | 254                                               | 116                     | 370   |
| International:                          |                                                   |                         |       |                                                   |                         |       |
| Greater China                           | 221                                               | 133                     | 354   | 159                                               | 99                      | 258   |
| Asia (excluding Greater China)          | 50                                                | 38                      | 88    | 40                                                | 36                      | 76    |
| Western Europe                          | 42                                                | 31                      | 73    | 37                                                | 28                      | 65    |
| Russia & the CIS                        |                                                   | 50                      | 50    |                                                   | 48                      | 48    |
| Latin America                           |                                                   | 38                      | 38    |                                                   | 34                      | 34    |
| Rest of the World                       | 15                                                | 34                      | 49    | 8                                                 | 28                      | 36    |
| International Total                     | 328                                               | 324                     | 652   | 244                                               | 273                     | 517   |
| Worldwide Total                         | 592                                               | 445                     | 1,037 | 498                                               | 389                     | 887   |

As at September 30, 2016, 264 (2015 254) of the 592 (2015 498) theaters under joint revenue sharing arrangements in operation, or 44.6% (2015 51.0%) were located in the United States and Canada, with the remaining 328 (2015 244) or 55.4% (2015 49.0%) of arrangements being located in international markets. The Company continues to seek to expand its network of theaters under joint revenue sharing arrangements, particularly in select international markets.

***Sales Backlog***

The Company's current sales backlog is as follows:

**September 30, 2016**

**September 30, 2015**

Edgar Filing: IMAX CORP - Form 10-Q

|                                         | <b>Number of<br/>Systems</b> | <b>Dollar Value<br/>(in thousands)</b> | <b>Number of<br/>Systems</b> | <b>Dollar Value<br/>(in thousands)</b> |
|-----------------------------------------|------------------------------|----------------------------------------|------------------------------|----------------------------------------|
| Sales and sales-type lease arrangements | 158                          | \$ 197,730                             | 175                          | \$ 228,907                             |
| Joint revenue sharing arrangements      | 389                          | 55,456                                 | 209                          | 47,664                                 |
|                                         | 547 <sup>(1)(2)</sup>        | \$ 253,186                             | 384 <sup>(1)(3)</sup>        | \$ 276,571                             |

- (1) Includes 20 laser-based digital theater system configurations (2015 – 69), including upgrades. The Company continues to develop and roll out its laser-based digital projection system. See Research and Development in Item 2 of this Part I for additional information.
- (2) Includes five upgrades to a laser-based digital theater system, in existing IMAX theater locations.
- (3) Includes 20 upgrades to a digital theater system, in existing IMAX theater locations (two xenon configurations and 18 laser configurations, of which four are under joint revenue sharing arrangements).

**Table of Contents**

The number of theater systems in the backlog reflects the minimum number of commitments under signed contracts. The dollar value fluctuates depending on the number of new theater system arrangements signed from year to year, which adds to backlog, and the installation and acceptance of theater systems and the settlement of contracts, both of which reduce backlog. Sales backlog typically represents the fixed contracted revenue under signed theater system sale and lease agreements that the Company believes will be recognized as revenue upon installation and acceptance of the associated theater. Sales backlog includes initial fees along with the estimated present value of contractual ongoing fees due over the lease term; however, it excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of contractual ongoing fees that may be received in the future. The value of sales backlog does not include revenue from theaters in which the Company has an equity interest, operating leases, letters of intent or long-term conditional theater commitments. The value of theaters under joint revenue sharing arrangements is excluded from the dollar value of sales backlog, although certain theater systems under joint revenue sharing arrangements provide for contracted upfront payments and therefore carry a backlog value based on those payments. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

From time to time, in the normal course of its business, the Company will have customers who are unable to proceed with a theater system installation for a variety of reasons, including the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the agreement with the customer is terminated or amended. If the agreement is terminated, once the Company and the customer are released from all their future obligations under the agreement, all or a portion of the initial rents or fees that the customer previously made to the Company are recognized as revenue.

The following table outlines the breakdown of the total backlog by arrangement type and geographic location as at September 30:

|                                         | 2016                 |              |       | 2015                 |              |       |
|-----------------------------------------|----------------------|--------------|-------|----------------------|--------------|-------|
|                                         | IMAX Theater Backlog |              |       | IMAX Theater Backlog |              |       |
|                                         | JRSA                 | Sale / Lease | Total | JRSA                 | Sale / Lease | Total |
| Domestic Total (United States & Canada) | 44                   | 11           | 55    | 30                   | 21           | 51    |
| International:                          |                      |              |       |                      |              |       |
| Greater China                           | 315                  | 66           | 381   | 152                  | 66           | 218   |
| Asia (excluding Greater China)          | 16                   | 21           | 37    | 12                   | 20           | 32    |
| Western Europe                          | 9                    | 7            | 16    | 8                    | 8            | 16    |
| Russia & the CIS                        |                      | 22           | 22    |                      | 23           | 23    |
| Latin America                           |                      | 16           | 16    |                      | 22           | 22    |
| Rest of the World                       | 5                    | 15           | 20    | 7                    | 15           | 22    |
| International Total                     | 345                  | 147          | 492   | 179                  | 154          | 333   |
| Worldwide Total                         | 389                  | 158          | 547   | 209                  | 175          | 384   |

Approximately 89.9% of IMAX theater system arrangements in backlog as at September 30, 2016 are scheduled to be installed in international markets (2015 86.7%).



**Table of Contents**

The following reflects the Company's signings and installations:

|                                                  | For the Three Months Ended<br>September 30, |      | For the Nine Months Ended<br>September 30, |                   |
|--------------------------------------------------|---------------------------------------------|------|--------------------------------------------|-------------------|
|                                                  | 2016                                        | 2015 | 2016                                       | 2015              |
| <b>Theater System Signings:</b>                  |                                             |      |                                            |                   |
| Full new sales and sales-type lease arrangements | 5                                           | 11   | 52                                         | 42 <sup>(1)</sup> |
| New joint revenue sharing arrangements           | 156                                         | 22   | 238                                        | 39                |
| Total new theaters                               | 161                                         | 33   | 290                                        | 81                |
| Upgrades of IMAX theater systems                 | 1                                           | 2    | 3                                          | 5                 |
| Total theater signings                           | 162                                         | 35   | 293                                        | 86                |

|                                                  | For the Three<br>Months Ended<br>September 30, |                   | For the Nine<br>Months Ended<br>September 30, |                      |
|--------------------------------------------------|------------------------------------------------|-------------------|-----------------------------------------------|----------------------|
|                                                  | 2016                                           | 2015              | 2016                                          | 2015                 |
| <b>Theater System Installations:</b>             |                                                |                   |                                               |                      |
| Full new sales and sales-type lease arrangements | 15                                             | 12                | 33 <sup>(2)</sup>                             | 32 <sup>(2)</sup>    |
| New joint revenue sharing arrangements           | 33                                             | 22                | 63                                            | 48                   |
| Total new theaters                               | 48                                             | 34                | 96                                            | 80                   |
| Upgrades of IMAX theater systems                 | 2 <sup>(3)</sup>                               | 10 <sup>(3)</sup> | 13 <sup>(4)(5)</sup>                          | 12 <sup>(4)(5)</sup> |
| Total theater installations                      | 50                                             | 44                | 109                                           | 92                   |

- (1) Includes one signing which replaced a theater system under an existing arrangement in backlog.
- (2) Includes one used theater system (2015 – one theater system).
- (3) Includes two installations of an upgrade to a laser-based digital system under sales and sales-type lease arrangements (2015 – nine laser-based digital systems, seven under a sales and sales-type lease arrangement, one under a short-term operating lease arrangement and one under a joint revenue sharing arrangement).
- (4) Includes 11 installations of an upgrade to a laser-based digital system under sales and sales-type lease arrangements (2015 – 10 laser-based digital systems, eight under a sales and sales-type lease arrangement, one under a short-term operating lease arrangement and one under a joint revenue sharing arrangement).
- (5) Includes two installations of an upgrade to a xenon-based digital system under sales arrangements (2015 – two xenon-based digital systems, one under a sales and sales-type lease arrangement and one under a short-term operating lease arrangement).

The Company now expects that it will install 155 new theater systems (excluding upgrades) in 2016. The Company's installation estimates includes scheduled systems from backlog, as well as the Company's estimate of installations from arrangements that will sign and install in the same calendar year. The Company cautions, however, that theater

system installations may slip from period to period over the course of the Company's business, usually for reasons beyond its control.

**Films: Digital Re-Mastering (IMAX DMR) and other film revenue**

*Digital Re-Mastering (IMAX DMR)*

In 2002, the Company developed a proprietary technology to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in IMAX theaters at a modest cost that is incurred by the Company. This system, known as IMAX DMR, digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which *The IMAX Experience* is known. This technology enabled the IMAX theater network to release Hollywood films simultaneously with their broader domestic release. The development of this technology was critical in helping the Company execute its strategy of expanding its commercial theater network by establishing IMAX theaters as a key, premium distribution platform for Hollywood films. In a typical IMAX DMR film arrangement, the Company receives a percentage, which in recent years has ranged between 10-15%, of net box-office receipts of any commercial films released in the IMAX network from the applicable film studio for the conversion of the film to the IMAX DMR format and for access to the Company's premium distribution platform.

**Table of Contents**

IMAX films benefit from enhancements made by individual filmmakers exclusively for the IMAX release, and filmmakers and studios have sought IMAX-specific enhancements in recent years to generate interest in and excitement for their films. Such enhancements include shooting selected scenes with IMAX cameras to increase the audience's immersion in the film and taking advantage of the unique dimensions of the IMAX screen by shooting the film in a larger aspect ratio. Certain films also enjoy early release windows in IMAX, including *Everest: An IMAX 3D Experience* and *The Walk: The IMAX Experience*, which were released one week early in IMAX theaters in September 2015. Several recent films have featured select sequences shot with IMAX cameras including *Captain America: Civil War: An IMAX 3D Experience*, released in May 2016; *Batman v Superman: Dawn of Justice: An IMAX 3D Experience*, released in March 2016; *Star Wars: The Force Awakens: An IMAX 3D Experience*, released in December 2015; *Interstellar: The IMAX Experience*, released in November 2014; and *Transformers Age of Extinction: An IMAX 3D Experience*, released in June 2014. In addition, Marvel's *Avengers: Infinity War – Part 1: An IMAX 3D Experience* and *Avengers: Infinity War – Part 2: An IMAX 3D Experience* are expected to be shot in their entirety using the IMAX camera, which is the second time a full feature length movie will be filmed with the IMAX cameras. *Sully: The IMAX Experience*, released in August 2016, was shot with IMAX cameras for a majority of the film.

The original soundtrack of a film to be released to the IMAX theater network is re-mastered for the IMAX six or twelve-channel digital sound systems in connection with the IMAX DMR release. Unlike the soundtracks played in conventional theaters, IMAX re-mastered soundtracks are uncompressed and full fidelity. IMAX sound systems use proprietary loudspeaker systems and proprietary surround sound configurations that ensure every theater seat is in a good listening position.

The Company believes that the growth in international box-office is an important driver of future growth for the Company. During nine months ended September 30, 2016, 62.8% of the Company's gross box-office from IMAX DMR films was generated in international markets, as compared to 63.7% in the nine months ended September 30, 2015. To support growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. During 2015, eleven local language IMAX DMR films, including eight in China and three in Japan were released to the IMAX theater network. During the nine months ended September 30, 2016, eleven local language IMAX DMR films, including eight in China, two in Russia and one in Japan were released to the IMAX theater network. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in the remainder of 2016 and beyond.

In addition to the 42 IMAX DMR films released to the IMAX theater network during the first nine months ended September 30, 2016, five additional IMAX DMR films have been announced so far to be released in the remaining three months of 2016:

*Inferno: The IMAX Experience* (Sony Pictures, October 2016);

*Jack Reacher: Never Go Back: The IMAX Experience* (Paramount Pictures, October 2016);

*Doctor Strange: The IMAX Experience* (Walt Disney Studios, November 2016);

## Edgar Filing: IMAX CORP - Form 10-Q

*Fantastic Beasts and Where to Find Them: The IMAX Experience* (Warner Bros. Pictures, November 2016); and

*Rogue One: A Star Wars Story: The IMAX Experience* (Walt Disney Studios, December 2016).

In addition, the Company released an IMAX documentary film, *Voyage of Time*, on October 7, 2016.

To date, the Company has announced the following 24 titles to be released in 2017 to the IMAX theater network:

*xXx: Return of Xander Cage: The IMAX Experience* (Paramount Pictures, January 2017);

*Resident Evil: The Final Chapter: The IMAX Experience* (Sony Pictures, February 2017);

*Attraction: The IMAX Experience* (Art Pictures Studio, January 2017, Russia only);

*The Lego Batman Movie: The IMAX Experience* (Warner Bros. Pictures, February 2017);

*The Great Wall: The IMAX Experience* (Legendary East Ltd., February 2017);

*Logan: The IMAX Experience* (20th Century Fox, March 2017);

*Kong: Skull Island: The IMAX Experience* (Warner Bros. Pictures, March 2017);

*Beauty and The Beast: The IMAX Experience* (Walt Disney Studios, March 2017);

*Ghost in the Shell: The IMAX Experience* (Paramount Pictures, March 2017);

*Fast 8: The IMAX Experience* (Universal Pictures, April 2017);

*Guardians of the Galaxy Vol. 2: The IMAX Experience* (Walt Disney Studios, May 2017);

*Pirates of the Caribbean: Dead Men Tell No Tales: The IMAX Experience* (Walt Disney Studios, May 2017);

*Wonder Woman: The IMAX Experience* (Warner Bros. Pictures, June 2017);



---

**Table of Contents**

*The Mummy: The IMAX Experience* (Universal Pictures, June 2017);

*Transformers: The Last Knight: The IMAX Experience* (Paramount Pictures, June 2017);

*Spider-Man: Homecoming: The IMAX Experience* (Sony Pictures-distributed and Marvel Studios and Sony Pictures-produced, July 2017);

*Dunkirk: The IMAX Experience* (Warner Bros. Pictures, July 2017);

*The Solutrean: The IMAX Experience* (Sony Pictures, September 2017);

*The Lego Ninjago Movie: The IMAX Experience* (Warner Bros. Pictures, September 2017);

*Blade Runner 2049: The IMAX Experience* (Warner Bros. Pictures, October 2017);

*Geostorm: The IMAX Experience* (Warner Bros. Pictures, October 2017);

*Thor: Ragnarök: The IMAX Experience* (Walt Disney Studios, November 2017);

*Justice League: The IMAX Experience* (Warner Bros. Pictures, November 2017); and

*Star Wars: Episode VIII: The IMAX Experience* (Walt Disney Studios, December 2017).

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate, and anticipates that the number of IMAX DMR films to be released to the IMAX network in 2017 will be similar to the 47 IMAX DMR films slated for release in 2016.

*Other Film Revenues: Film Distribution and Post-Production*

The Company is also a distributor of large-format films, primarily for its institutional theater partners. The Company generally distributes films which it produces or for which it has acquired distribution rights from independent producers. The Company receives either a percentage of the theater box-office receipts or a fixed amount as a distribution fee.

IMAX Post/DKP Inc. (formerly David Keighley Productions 70MM Inc.), a wholly-owned subsidiary of the Company, provides film post-production and quality control services for large-format films (whether produced internally or externally), and digital post-production services.



---

**Table of Contents**

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company prepares its condensed consolidated financial statements in accordance with United States Generally Accepted Accounting Principles ( U.S. GAAP ).

The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to selling prices associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; write-downs for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the condensed consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company's significant accounting policies are discussed in Item 7 of the Company's 2015 Form 10-K.

**Impact of Recently Issued Accounting Pronouncements**

See note 2 to the condensed consolidated financial statements in Item 1 for information regarding the Company's recent changes in accounting policies and the impact of recently issued accounting pronouncements impacting the Company.

**Non-GAAP Financial Measures**

In this report, the Company presents adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share as supplemental measures of performance of the Company, which are not recognized under U.S. GAAP. The Company presents adjusted net income and adjusted net income per diluted share because it believes that they are important supplemental measures of its comparable controllable operating performance and it wants to ensure that its investors fully understand the impact of its stock-based compensation (net of any related tax impact) on net income. In addition, the Company presents adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share because it believes that they are important supplemental measures of its comparable financial results and could potentially distort the analysis of trends in business performance and it wants to ensure that its investors fully understand the impact of net income attributable to non-controlling interests and its stock-based compensation (net of any related tax impact) in determining net income attributable to common shareholders. Management uses these measures to review operating performance on a comparable basis from period to period. However, these non-GAAP measures may not be comparable to similarly titled amounts reported by other companies. Adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share should be considered in addition to, and not as a substitute for, net income and net income attributable to common shareholders and other measures of financial performance reported in accordance with U.S. GAAP.



---

**Table of Contents**

**RESULTS OF OPERATIONS**

Management, including the Company's CEO, who is the Company's Chief Operating Decision Maker (as defined in the Segment Reporting Topic of the FASB ASC), assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), write-downs net of recoveries, interest income, interest expense and tax (provision) recovery are not allocated to the segments. As identified in note 13 to the accompanying condensed consolidated financial statements in Item 1, the Company has the following seven reportable segments identified by category of product sold or service provided:

**IMAX Theater Systems**

The IMAX systems segment, which is comprised of the design, manufacture, sale or lease of IMAX theater projection system equipment.

The theater system maintenance segment, which is comprised of the maintenance of IMAX theater projection system equipment in the IMAX theater network.

The joint revenue sharing arrangements segment, which is comprised of the provision of IMAX theater projection system equipment to exhibitors in exchange for a certain percentage of box-office receipts, and in some cases, concession revenue and/or a small upfront or initial payment.

The other segment, which includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items.

**Film**

The film production and IMAX DMR segment, which is comprised of the production of films and performance of film re-mastering services.

The film distribution segment, which includes the distribution of films for which the Company has distribution rights.

The film post-production segment, which includes the provision of film post-production and film print services.

The Company's Management's Discussion and Analysis ( MD&A ) of Financial Condition and Results of Operations has been organized by the Company into two primary reporting groups IMAX Theater Systems and Film. Each of the Company's reportable segments, as identified above, has been classified into one of these broader reporting groups for

purposes of MD&A discussion. The Company believes that this approach is consistent with management's view of the business and is not expected to have an impact on the readers' ability to understand the Company's business. Management believes that a discussion and analysis based on its reporting groups is significantly more relevant as the Company's condensed consolidated statements of operations captions combine results from several segments.

**Table of Contents****Three Months Ended September 30, 2016 versus Three Months Ended September 30, 2015**

The Company reported net income of \$4.4 million or \$0.07 per basic and diluted share for the third quarter of 2016 as compared to net income of \$10.5 million or \$0.15 per basic share and \$0.14 per diluted share for the third quarter of 2015. Net income for the third quarter of 2016 includes a \$7.7 million charge, or \$0.11 per diluted share (2015 \$4.3 million or \$0.06 per diluted share), for stock-based compensation. Adjusted net income, which consists of net income excluding the impact of stock-based compensation and the related tax impact, was \$9.9 million, or \$0.15 per diluted share, for the third quarter of 2016 as compared to adjusted net income of \$13.9 million, or \$0.19 per diluted share, for the third quarter of 2015. Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation and the related tax impact, was \$7.9 million, or \$0.12 per diluted share, for the third quarter of 2016 as compared to adjusted net income attributable to common shareholders of \$12.0 million, or \$0.17 per diluted share, for the third quarter of 2015. A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

| <i>(In thousands of U.S. dollars, except per share amounts)</i>                                            | <b>Three Months Ended<br/>September 30, 2016</b> |                    | <b>Three Months Ended<br/>September 30, 2015</b> |                        |
|------------------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------|--------------------------------------------------|------------------------|
|                                                                                                            | <b>Net Income</b>                                | <b>Diluted EPS</b> | <b>Net Income</b>                                | <b>Diluted EPS</b>     |
| Reported net income                                                                                        | \$ 4,384                                         | \$ 0.07            | \$ 10,514                                        | \$ 0.14 <sup>(1)</sup> |
| Adjustments:                                                                                               |                                                  |                    |                                                  |                        |
| Stock-based compensation                                                                                   | 7,742                                            | 0.11               | 4,252                                            | 0.06                   |
| Tax impact on items listed above                                                                           | (2,210)                                          | (0.03)             | (901)                                            | (0.01)                 |
| Adjusted net income                                                                                        | 9,916                                            | 0.15               | 13,865                                           | 0.19 <sup>(1)</sup>    |
| Net income attributable to non-controlling interests                                                       | (1,859)                                          | (0.03)             | (1,904)                                          | (0.02)                 |
| Stock-based compensation (net of tax of less than \$0.1 million) attributable to non-controlling interests | (128)                                            |                    |                                                  |                        |
| Adjusted net income attributable to common shareholders                                                    | \$ 7,929                                         | \$ 0.12            | \$ 11,961                                        | \$ 0.17 <sup>(1)</sup> |
| Weighted average diluted shares outstanding                                                                |                                                  | 67,746             |                                                  | 70,860                 |

(1) Includes impact \$0.3 million of accretion charges associated with redeemable Class C shares of IMAX China. The following table sets forth the breakdown of revenue and gross margin by category for the three months ended September 30:

| <i>(In thousands of U.S. dollars)</i>                 | <b>Revenue</b> |             | <b>Gross Margin</b> |             |
|-------------------------------------------------------|----------------|-------------|---------------------|-------------|
|                                                       | <b>2016</b>    | <b>2015</b> | <b>2016</b>         | <b>2015</b> |
| <b>IMAX Theater Systems</b>                           |                |             |                     |             |
| IMAX Systems                                          |                |             |                     |             |
| Sales and sales-type leases <sup>(1)</sup>            | \$ 21,804      | \$ 26,635   | \$ 12,936           | \$ 9,775    |
| Ongoing rent, fees, and finance income <sup>(2)</sup> | 3,883          | 3,518       | 3,807               | 3,334       |
| Other                                                 | 4,904          | 3,221       | 69                  | (267)       |
|                                                       | 30,591         | 33,374      | 16,812              | 12,842      |
| Theater System Maintenance                            | 10,293         | 9,337       | 3,398               | 3,521       |
| Joint Revenue Sharing Arrangements                    | 19,698         | 19,797      | 10,980              | 12,130      |
| <b>Film</b>                                           |                |             |                     |             |
| Production and IMAX DMR                               | 21,549         | 20,865      | 12,448              | 13,929      |
| Film distribution and post-production                 | 4,419          | 1,728       | 1,261               | (33)        |
|                                                       | 25,968         | 22,593      | 13,709              | 13,896      |
|                                                       | \$ 86,550      | \$ 85,101   | \$ 44,899           | \$ 42,389   |

**Table of Contents**

- (1) Includes initial payments and the present value of fixed minimum payments from equipment, sales and sales-type lease transactions.
- (2) Includes rental income from operating leases, contingent rents from operating and sales-type leases, contingent fees from sales arrangements and finance income.

***Revenues and Gross Margin***

The Company's revenues for the third quarter of 2016 increased 1.7% to \$86.6 million from \$85.1 million in third quarter of 2015, primarily due to an increase in revenues from the Company's film distribution and post-production segment, mostly offset by a decrease in revenue from the IMAX systems segment. The gross margin across all segments in the third quarter of 2016 was \$44.9 million, or 51.9% of total revenue, compared to \$42.4 million, or 49.8% of total revenue in the third quarter of 2015.

***IMAX Systems***

IMAX systems revenue decreased 8.3% to \$30.6 million in the third quarter of 2016 as compared to \$33.4 million in third quarter of 2015. The Company installed 17 theater systems under sales or sales-type lease arrangements in the third quarter of 2016 versus 20 theater systems in the third quarter of 2015.

Revenue from sales and sales-type leases was \$21.8 million in the third quarter of 2016, as compared to \$26.6 million in the third quarter of 2015. The Company recognized revenue on 15 full, new theater systems which qualified as either sales or sales-type leases in the third quarter of 2016, with a total value of \$19.0 million, versus 12 full, new theater systems in the third quarter of 2015 with a total value of \$14.5 million. The Company also recognized revenue on the installation of two laser-based digital upgrades in the third quarter of 2016, with a total value of \$2.6 million under sales arrangements, as compared to seven laser-based digital upgrades and one xenon-based digital upgrade in the third quarter of 2015, with a total value of \$10.4 million. Digital upgrades typically have a lower sales prices and gross margin than full theater system installations.

Average revenue per full, new sales and sales-type lease systems was \$1.3 million for the three months ended September 30, 2016, as compared to \$1.2 million in the three months ended September 30, 2015. The average revenue per full, new sales and sales-type lease systems varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors. Average revenue per digital upgrade was \$1.3 million for the three months ended September 30, 2016, which was consistent with the three months ended September 30, 2015.

The installation of theater systems in newly-built theaters or multiplexes, which make up a large portion of the Company's theater system backlog, depends primarily on the timing of the construction of those projects, which is not under the Company's control. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system configuration is outlined in the table below:

|                                                             | <b>Three Months Ended September 30,</b> |                   |
|-------------------------------------------------------------|-----------------------------------------|-------------------|
|                                                             | <b>2016</b>                             | <b>2015</b>       |
| New IMAX digital theater systems - installed and recognized |                                         |                   |
| Sales and sales-types lease arrangements                    | 15                                      | 12 <sup>(1)</sup> |

Edgar Filing: IMAX CORP - Form 10-Q

|                                                                    |                  |                  |
|--------------------------------------------------------------------|------------------|------------------|
| Joint revenue sharing arrangements                                 | 33               | 22               |
| Total new theater systems                                          | 48               | 34               |
| IMAX digital theater system upgrades -<br>installed and recognized |                  |                  |
| Sales and sales-types lease arrangements                           | 2 <sup>(1)</sup> | 8 <sup>(1)</sup> |
| Short-term operating lease arrangements                            |                  | 1 <sup>(1)</sup> |
| Joint revenue sharing arrangements                                 |                  | 1 <sup>(1)</sup> |
| Total upgraded theater systems                                     | 2                | 10               |
| Total theater systems installed                                    | 50               | 44               |

---

**Table of Contents**

(1) Includes two laser-based digital system configurations under sales arrangements (2015 one new laser-based digital system configuration and nine laser-based digital system configuration upgrades).

IMAX theater system margin from full, new sales and sales-type lease systems was 68.8% in the third quarter of 2016 which was higher than the 58.6% experienced in the third quarter of 2015. The stronger margin was driven by variances in the product mix of systems installed in the third quarter of 2016 as compared to the prior year period. Gross margin from digital upgrades was less than \$0.1 million in the third quarter of 2016, as compared to \$1.2 million in the third quarter of 2015. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

Revenues from sales and sales-type leases include settlement revenue of \$0.2 million in the third quarter of 2016, as compared to \$nil in the third quarter of 2015.

Ongoing rent revenue and finance income was \$3.9 million in the third quarter of 2016 compared to \$3.5 million in the third quarter of 2015. Gross margin for ongoing rent and finance income increased 14.2% to \$3.8 million in the third quarter of 2016 from \$3.3 million in the third quarter of 2015. Contingent fees included in this caption amounted to \$0.9 million and \$0.8 million in the three months ended September 30, 2016 and 2015, respectively.

Other revenue increased to \$4.9 million in the third quarter of 2016 as compared to \$3.2 million in 2015. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental business and after-market sales of projection system parts and 3D glasses. The growth in revenue is primarily the result of an increase in revenue from after-market sales and camera rentals during third quarter of 2016 as compared to the prior year period.

The gross margin recognized from other revenue was \$0.1 million in the third quarter of 2016 as compared to a loss of \$0.3 million in the third quarter of 2015, primarily driven by higher margins from the Company's camera rentals in the current period versus the prior year comparative period.

***Theater System Maintenance***

Theater system maintenance revenue increased 10.2% to \$10.3 million in the third quarter of 2016 from \$9.3 million in the third quarter of 2015. Theater system maintenance gross margin was \$3.4 million in the third quarter of 2016 versus \$3.5 million in the third quarter of 2015, due to the number and nature of maintenance issues experienced in the current quarter versus the prior year comparative period. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

***Joint Revenue Sharing Arrangements***

Revenues from joint revenue sharing arrangements was relatively consistent at \$19.7 million in the third quarter of 2016 and \$19.8 million in the third quarter of 2015. The Company ended the third quarter of 2016 with 592 theaters operating under joint revenue sharing arrangements, as compared to 498 theaters at the end of the third quarter of 2015, an increase of 18.9%. The decrease in revenues from joint revenue sharing arrangements was largely due to lower film box-office performance versus the prior year period, offset by an increase in the number of theater systems installed in the current period coupled with continued network growth. During the third quarter of 2016, the Company installed 33 full, new theaters under joint revenue sharing arrangements, as compared to 22 full new theaters during

the third quarter of 2015.

The gross margin from joint revenue sharing arrangements decreased 9.5% to \$11.0 million in the third quarter of 2016 from \$12.1 million in the third quarter of 2015. Included in the calculation of gross margin for the third quarter of 2016 were certain advertising, marketing and commission costs primarily associated with new theater launches of \$1.4 million, as compared to \$1.3 million during the third quarter of 2015.

***Film***

Revenue from the Company's film segments increased 14.9% to \$26.0 million in the third quarter of 2016 from \$22.6 million in the third quarter of 2015 primarily due to higher film distribution and post-production revenue. Film production and IMAX DMR revenues increased 3.3% to \$21.5 million in the third quarter of 2016 from \$20.9 million in the third quarter of 2015, mostly the result of continued theater network growth. Gross box-office generated by IMAX DMR films decreased 1.8% to \$186.3 million in the third

**Table of Contents**

quarter of 2016 from \$189.8 million in the third quarter of 2015. Gross box-office per screen for the third quarter of 2016 averaged \$184,700, in comparison to \$220,500 in the third quarter of 2015. In the third quarter of 2016, gross box-office was generated primarily by the exhibition of 29 films (21 new and 8 carryovers), as compared to 21 films (14 new and 7 carryovers) exhibited in the third quarter of 2015:

**Three Months Ended September 30, 2016 - Films Exhibited**

*The Crew: An IMAX 3D Experience*

*The Jungle Book: An IMAX 3D Experience*

*Alice in Wonderland: Through the Looking Glass: An IMAX 3D Experience*

*Teenage Mutant Ninja Turtles: Out of the Shadows: An IMAX 3D Experience*

*Warcraft: An IMAX 3D Experience*

*Finding Dory: An IMAX 3D Experience*

*Independence Day: Resurgence: An IMAX 3D Experience*

*The Legend of Tarzan: An IMAX 3D Experience*

*Ice Age: Collision Course: An IMAX 3D Experience*

*The BFG: An IMAX 3D Experience*

*Jason Bourne: The IMAX Experience*

*Godzilla: Resurgence: The IMAX Experience*

*Cold War 2: An IMAX 3D Experience*

*The Secret Life of Pets: An IMAX 3D Experience*

*Ghostbusters: An IMAX 3D Experience*

*For a Few Bullets: The IMAX Experience*

*Star Trek Beyond: An IMAX 3D Experience*

*League of Gods: An IMAX 3D Experience*

*Skiptrace: An IMAX 3D Experience*

*Time Raiders: An IMAX 3D Experience*

*Suicide Squad: An IMAX 3D Experience*

*Ben-Hur: An IMAX 3D Experience*

*Sully: The IMAX Experience*

*My War: An IMAX 3D Experience*

*The Magnificent Seven: The IMAX Experience*

**Three Months Ended September 30, 2015 - Films Exhibited**

*Wolf Totem: An IMAX 3D Experience*

*The Avengers: Age of Ultron: An IMAX 3D Experience*

*Jurassic World: An IMAX 3D Experience*

*Terminator Genisys: An IMAX 3D Experience*

*Mad Max: Fury Road: An IMAX 3D Experience*

*Inside Out: An IMAX 3D Experience*

*The Monk Comes Down the Mountain: An IMAX 3D Experience*

*Minions: An IMAX 3D Experience*

*Monster Hunt: An IMAX 3D Experience*

*Ant-Man: An IMAX 3D Experience*

*Pixels: An IMAX 3D Experience*

*Mission: Impossible – Rogue Nation: The IMAX Experience*

*Attack on Titan: Part 1: The IMAX Experience*

*To the Fore: The IMAX Experience*

*The Man from U.N.C.L.E.: The IMAX Experience*

*Go Away Mr. Tumor: The IMAX Experience*

*The Transporter Refueled: The IMAX Experience*

*Everest: An IMAX 3D Experience*

*Attack on Titan: Part 2: The IMAX Experience*

*Lost in Hong Kong: The IMAX Experience*

*The Walk: An IMAX 3D Experience*

*Storks: An IMAX 3D Experience*

*The Duelist: The IMAX Experience*

*Deepwater Horizon: The IMAX Experience*

*L.O.R.D.: An IMAX 3D Experience*

Other revenues attributable to the film segment was \$4.4 million in the third quarter of 2016 as compared to \$1.7 million in the third quarter of 2015, primarily due to an increase in film distribution revenue from IMAX original films.

The Company's gross margin from its film segments decreased 1.3% to \$13.7 million in the third quarter of 2016 from \$13.9 million in the third quarter of 2015. Film production and IMAX DMR gross margins decreased to \$12.4 million from \$13.9 million primarily due to lower film box-office performance and higher costs, including marketing, print and sound. Other gross margin attributable to the film segment was \$1.3 million in the third quarter of 2016 as compared to a loss of less than \$0.1 million in the third quarter of 2015, primarily due to the release of *A Beautiful Planet* earlier in 2016.

---

**Table of Contents*****Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased to \$30.7 million in the third quarter of 2016, as compared to \$25.0 million in the third quarter of 2015. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$23.0 million in the third quarter of 2016, as compared to \$20.7 million in the third quarter of 2015. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

a \$3.4 million increase in the Company's stock-based compensation;

a \$2.1 million increase in staff costs related to the core business, including salaries and benefits; and

a \$0.5 million net increase in other general corporate expenditures including consulting, professional fees, travel and entertainment.

These increases were offset by a \$0.3 million decrease due to a change in foreign exchange rates. During the third quarter ended September 30, 2016, the Company recorded a foreign exchange loss of \$0.2 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of \$0.5 million recorded in 2015.

***Research and Development***

Research and development expenses increased to \$4.5 million in the third quarter of 2016 compared to \$2.7 million in the third quarter of 2015 and are primarily attributable to the continued development of the Company's commercial laser-based digital projection system, digital distribution and other initiatives. As of September 30, 2016, the Company had 33 laser-based digital theater systems in operation and 20 laser-based digital theater systems in backlog.

The Company intends for additional research and development to continue in the fourth quarter of 2016 and beyond as the Company supports further development of the commercial laser-based projection system. In addition to continued research and development with respect to its core business, the Company intends to conduct research and development in connection with the previously-announced cinema-grade VR camera to be developed in partnership with Google. The Company also plans to continue research and development activity in the future in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing and manufacturing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology, developing IMAX theater systems' capabilities in both home and live entertainment, and further enhancing the IMAX theater and sound system design through the addition of more channels and improvements to the DMR process.

***Receivable Provisions, Net of Recoveries***

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.3 million in the third quarter of 2016 as compared to a net provision of \$0.4 million in the third quarter of 2015.

The Company's accounts receivables and financing receivables are subject to credit risk. These receivables are concentrated with the leading theater exhibitors and studios in the film entertainment industry. To minimize the

Company's credit risk, the Company retains title to underlying theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. Accordingly, the Company believes it has adequately protected itself against exposures relating to receivables and contractual commitments.

***Asset impairments and Other Charges***

In the third quarter of 2016, the Company recorded a charge related to property, plant and equipment of \$0.4 million reflecting assets that no longer meet capitalization requirements as compared to \$1.2 million in the third quarter of 2015.

In the third quarter of 2016, the Company recorded a charge of \$1.0 million reflecting the carrying value of a documentary film asset that exceeded the expected revenues generated from estimated future gross box-office. No such charge was recognized in the third quarter of 2015.

---

**Table of Contents*****Interest Income and Expense***

Interest income was \$0.4 million in the third quarter of 2016, as compared to \$0.2 million in the third quarter of 2015.

Interest expense was \$0.5 million in the third quarter of 2016 and 2015, respectively. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.1 million in the third quarter of 2016, as compared to \$0.3 million in the third quarter of 2015. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

***Income Taxes***

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of numerous permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations.

As at September 30, 2016, the Company had a gross deferred income tax asset of \$26.5 million, against which the Company is carrying a \$0.3 million valuation allowance. For the three months ended September 30, 2016, the Company recorded an income tax provision of \$2.6 million, of which a provision of less than \$0.1 million was related to an increase in its provision for uncertain tax positions.

The Company's Chinese subsidiary has made certain enquiries of the Chinese State Administration of Taxation regarding the potential deductibility of certain stock based compensation for stock options issued by the Chinese subsidiary's parent company, IMAX China Holding, Inc. In addition, Chinese regulatory authorities responsible for capital and exchange controls will need to review and approve the proposed transactions before they can be completed. There may be a requirement for future investment of funds into China in order to secure the deduction. Should the Company proceed, any such future investment would come from existing capital invested in the IMAX China group of companies being redeployed amongst the IMAX China group of companies, including the Chinese subsidiary. The Company is unable to reliably estimate the magnitude of the related tax benefits at this time.

***Equity-Accounted Investments***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. As at September 30, 2016, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2015 \$1.0 million). The Company's accumulated losses in excess of its equity investment were \$1.4 million as at September 30, 2016. For the three months ended September 30, 2016, gross revenues, cost of revenue and net loss for these investments were \$nil, \$1.6 million and \$1.5 million, respectively (2015 \$nil, \$1.9 million and \$1.8 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.7 million third quarter of 2016, compared to \$0.4 million experienced in the third quarter of 2015.

***Non-Controlling Interests***

The Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the IMAX China IPO as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the three months ended September 30, 2016, the net income attributable to non-controlling interests of the Company's subsidiaries was \$1.9 million (2015 \$1.9 million).



**Table of Contents****Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015**

The Company reported net income of \$27.2 million or \$0.40 per basic and diluted share for the nine months ended September 30, 2016, as compared to net income of \$38.4 million or \$0.54 per basic share and \$0.53 per diluted share for the nine months ended September 30, 2015. Net income for the nine months ended September 30, 2016 includes a \$22.5 million charge or \$0.32 per diluted share (2015 \$14.9 million or \$0.21 per diluted share) for stock-based compensation. Adjusted net income, which consists of net income excluding the impact of stock-based compensation and the related tax impact, was \$43.3 million or \$0.63 per diluted share for the nine months ended September 30, 2016, as compared to adjusted net income of \$50.7 million or \$0.70 per diluted share for the nine months ended September 30, 2015. Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation and the related tax impact, was \$35.5 million or \$0.52 per diluted share for the nine months ended September 30, 2016, as compared to adjusted net income attributable to common shareholders of \$45.7 million or \$0.63 per diluted share for the nine months ended September 30, 2015. A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

|                                                                                                  | <b>Nine Months Ended<br/>September 30,<br/>2016</b> |                    | <b>Nine Months Ended<br/>September 30,<br/>2015</b> |                        |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------------|--------------------|-----------------------------------------------------|------------------------|
| <i>(In thousands of U.S. dollars, except per share amounts)</i>                                  | <b>Net Income</b>                                   | <b>Diluted EPS</b> | <b>Net Income</b>                                   | <b>Diluted EPS</b>     |
| Reported net income                                                                              | \$ 27,244                                           | \$ 0.40            | \$ 38,379                                           | \$ 0.53 <sup>(1)</sup> |
| Adjustments:                                                                                     |                                                     |                    |                                                     |                        |
| Stock-based compensation                                                                         | 22,485                                              | 0.32               | 14,930                                              | 0.21                   |
| Tax impact on items listed above                                                                 | (6,394)                                             | (0.09)             | (2,603)                                             | (0.04)                 |
| Adjusted net income                                                                              | 43,335                                              | 0.63               | 50,706                                              | 0.70 <sup>(1)</sup>    |
| Net income attributable to non-controlling interests                                             | (7,401)                                             | (0.11)             | (5,028)                                             | (0.07)                 |
| Stock-based compensation (net of tax of \$0.1 million) attributable to non-controlling interests | (421)                                               |                    |                                                     |                        |
| Adjusted net income attributable to common shareholders                                          | \$ 35,513                                           | \$ 0.52            | \$ 45,678                                           | \$ 0.63 <sup>(1)</sup> |
| Weighted average diluted shares outstanding                                                      |                                                     | 68,721             |                                                     | 71,102                 |

(1) Includes impact of \$0.7 million of accretion charges associated with redeemable Class C shares of IMAX China. The following table sets forth the breakdown of revenue and gross margin by category for the nine months ended September 30:

|                                       | <b>Revenue</b> |             | <b>Gross Margin</b> |             |
|---------------------------------------|----------------|-------------|---------------------|-------------|
| <i>(In thousands of U.S. dollars)</i> | <b>2016</b>    | <b>2015</b> | <b>2016</b>         | <b>2015</b> |

**IMAX Theater Systems**

## IMAX Systems

|                                                       |           |           |           |           |
|-------------------------------------------------------|-----------|-----------|-----------|-----------|
| Sales and sales-type leases <sup>(1)</sup>            | \$ 58,522 | \$ 53,924 | \$ 26,795 | \$ 24,720 |
| Ongoing rent, fees, and finance income <sup>(2)</sup> | 11,986    | 10,708    | 11,457    | 10,111    |
| Other                                                 | 14,394    | 11,320    | (251)     | (421)     |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
|  | 84,902 | 75,952 | 38,001 | 34,410 |
|--|--------|--------|--------|--------|

|                            |        |        |        |       |
|----------------------------|--------|--------|--------|-------|
| Theater System Maintenance | 30,031 | 27,345 | 10,207 | 9,891 |
|----------------------------|--------|--------|--------|-------|

|                                    |        |        |        |        |
|------------------------------------|--------|--------|--------|--------|
| Joint Revenue Sharing Arrangements | 66,940 | 67,259 | 44,716 | 46,816 |
|------------------------------------|--------|--------|--------|--------|

**Film**

|                                       |        |        |        |        |
|---------------------------------------|--------|--------|--------|--------|
| Production and IMAX DMR               | 78,767 | 75,144 | 52,398 | 55,642 |
| Film distribution and post-production | 9,781  | 8,772  | 2,030  | 646    |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
|  | 88,548 | 83,916 | 54,428 | 56,288 |
|--|--------|--------|--------|--------|

|  |            |            |            |            |
|--|------------|------------|------------|------------|
|  | \$ 270,421 | \$ 254,472 | \$ 147,352 | \$ 147,405 |
|--|------------|------------|------------|------------|

**Table of Contents**

- (1) Includes initial payments and the present value of fixed minimum payments from equipment, sales and sales-type lease transactions.
- (2) Includes rental income from operating leases, contingent rents from operating and sales-type leases, contingent fees from sales arrangements and finance income.

***Revenues and Gross Margin***

The Company's revenues for the nine months ended September 30, 2016 increased 6.3% to \$270.4 million from \$254.5 million in the nine months ended September 30, 2015, largely due to an increase in revenues from the Company's IMAX systems and film segments. The gross margin across all segments in the nine months ended September 30, 2016 was \$147.4 million, or 54.5% of total revenue, and \$147.4 million, or 57.9% of total revenue in the nine months ended September 30, 2015. Gross margin, excluding the impact of these digital upgrades, was 57.3% of total revenue in the nine months ended September 30, 2016, as compared to 60.4% in the nine months ended September 30, 2015.

***IMAX Systems***

IMAX systems revenue increased 11.8% to \$84.9 million in the nine months ended September 30, 2016, as compared to \$76.0 million in the nine months ended September 30, 2015. The Company installed 46 theater systems under sales or sales-type lease arrangements in the nine months ended September 30, 2016 versus 41 theater systems in the nine months ended September 30, 2015.

Revenue from sales and sales-type leases increased 8.5% to \$58.5 million in the nine months ended September 30, 2016 from \$53.9 million in the nine months ended September 30, 2015. The Company recognized revenue on 32 full, new theater systems which qualified as either sales or sales-type leases in the nine months ended September 30, 2016, with a total value of \$40.9 million, versus 31 full, new theater systems in the nine months ended September 30, 2015 with a total value of \$38.6 million. The Company also recognized revenue on the installation of 11 laser-based digital upgrades and two xenon-based digital upgrades in the nine months ended September 30, 2016, with a total value of \$16.2 million, as compared to eight laser-based digital upgrades and one xenon-based digital upgrade in the nine months ended September 30, 2015, with a total value of \$12.3 million. Digital upgrades typically have lower sales prices and gross margin than full theater system installations. There was one used xenon-based theater system installed in the nine months ended September 30, 2016 with a total value of \$0.3 million, as compared to one xenon-based digital system installed and recognized in the nine months ended September 30, 2015 with a total value of \$0.2 million.

Average revenue per full, new sales and sales-type lease systems was \$1.3 million in the nine months ended September 30, 2016 and \$1.2 million for the nine months ended September 30, 2015. The average revenue per full, new sales and sales-type lease systems varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors. Average revenue per digital upgrade was \$1.2 million in the nine months ended September 30, 2016, as compared to \$1.4 million in the nine months ended September 30, 2015.

The installation of theater systems in newly-built theaters or multiplexes, which make up a large portion of the Company's theater system backlog, depends primarily on the timing of the construction of those projects, which is not under the Company's control. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system configuration is outlined in the table below:



**Table of Contents**

|                                                                                | <b>Nine Months Ended September 30,</b> |                   |
|--------------------------------------------------------------------------------|----------------------------------------|-------------------|
|                                                                                | <b>2016</b>                            | <b>2015</b>       |
| New IMAX xenon-based digital theater systems<br>- installed and recognized     |                                        |                   |
| Sales and sales-types lease arrangements                                       | 33 <sup>(1)</sup>                      | 32 <sup>(2)</sup> |
| Joint revenue sharing arrangements                                             | 63 <sup>(1)</sup>                      | 48                |
| Total new theater systems                                                      | 96                                     | 80                |
| IMAX xenon-based digital theater system<br>upgrades - installed and recognized |                                        |                   |
| Sales and sales-types lease arrangements                                       | 13 <sup>(1)</sup>                      | 9 <sup>(2)</sup>  |
| Short-term operating lease arrangements                                        |                                        | 2 <sup>(2)</sup>  |
| Joint revenue sharing arrangements                                             |                                        | 1 <sup>(2)</sup>  |
| Total upgraded theater systems                                                 | 13                                     | 12                |
| Total theater systems installed                                                | 109                                    | 92                |

(1) Includes 15 laser-based digital system configurations (four new laser-based digital systems, two under sales arrangements and two under joint revenue sharing arrangements and 11 laser-based digital system upgrades).

(2) Includes 11 laser-based digital system configurations (one new laser-based digital system and 10 laser-based digital system upgrades).

IMAX theater system margin from full, new sales and sales-type lease systems, excluding the impact of settlements, was 64.5% in the nine months ended September 30, 2016, as compared to 63.0% in the nine months ended September 30, 2015. Gross margin from digital upgrades was \$1.7 million in the nine months ended September 30, 2016, as compared to \$1.8 million in the nine months ended September 30, 2015. In addition, in the nine months ended September 30, 2016, the Company recorded a charge of \$0.2 million upon the upgrade of xenon-based digital systems under operating lease arrangements to laser-based digital systems under sales arrangements in IMAX systems margin. In the nine months ended September 30, 2015, there was a reduction of \$0.4 million included in gross margin due to a reduction in the net realizable value of its inventories. No similar charge was recorded in the nine months ended September 30, 2016. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

Revenues from sales and sales-type leases include settlement revenue of \$1.0 million in the nine months ended September 30, 2016, as compared to \$0.1 million in the nine months ended September 30, 2015. Gross margin from sales and sales-type leases include settlement margin of \$0.9 million in the nine months ended September 30, 2016, as compared to \$0.1 million in the nine months ended September 30, 2015.

Ongoing rent revenue and finance income increased to \$12.0 million in the nine months ended September 30, 2016, as compared to \$10.7 million in the nine months ended September 30, 2015. Gross margin for ongoing rent and finance income increased to \$11.5 million in the nine months ended September 30, 2016, compared to \$10.1 million in the nine months ended September 30, 2015. Contingent fees included in this caption amounted to \$3.1 million and \$2.0 million in the nine months ended September 30, 2016 and 2015, respectively.

Other revenue increased to \$14.4 million in the nine months ended September 30, 2016, as compared to \$11.3 million in the nine months ended September 30, 2015. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental business, new business initiatives and after-market sales of projection system parts and 3D glasses. The growth in revenue is primarily the result of an increase in revenue from after-market sales and camera rentals in the nine months ended September 30, 2016 versus prior year comparative period.

The gross margin recognized from other revenue was a loss of \$0.3 million in the nine months ended September 30, 2016, as compared to a loss of \$0.4 million in the nine months ended September 30, 2015.

***Theater System Maintenance***

Theater system maintenance revenue increased 9.8% to \$30.0 million in the nine months ended September 30, 2016 from \$27.3 million in the nine months ended September 30, 2015. Theater system maintenance gross margin increased to \$10.2 million in the nine

**Table of Contents**

months ended September 30, 2016 from \$9.9 million in the nine months ended September 30, 2015. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

***Joint Revenue Sharing Arrangements***

Revenues from joint revenue sharing arrangements was \$66.9 million in the nine months ended September 30, 2016, as compared to \$67.3 million in the nine months ended September 30, 2015. As at September 30, 2016, the Company's theater network included 592 theaters operating under joint revenue sharing arrangements, as compared to 498 theaters at the end of nine months ended September 30, 2015, an increase of 18.9%. During the nine months ended September 30, 2016, the Company installed 63 full, new theaters under joint revenue sharing arrangements, as compared to 48 full new theaters during the nine months ended September 30, 2015.

The gross margin from joint revenue sharing arrangements was \$44.7 million in the nine months ended September 30, 2016, as compared to \$46.8 million in the nine months ended September 30, 2015. Included in the calculation of gross margin for the nine months ended September 30, 2016, were certain advertising, marketing and commission costs primarily associated with new theater launches of \$2.9 million, as compared to \$2.7 million for such expenses in the nine months ended September 30, 2015.

***Film***

Revenue from the Company's film segments was \$88.5 million in the nine months ended September 30, 2016 as compared to \$83.9 million in the nine months ended September 30, 2015. Gross box-office generated by IMAX DMR films increased 3.1% to \$719.1 million in the nine months ended September 30, 2016 from \$697.5 million in the nine months ended September 30, 2015, primarily due to continued network growth. Film production and IMAX DMR revenues increased 4.8% to \$78.8 million in the nine months ended September 30, 2016 from \$75.1 million in the nine months ended September 30, 2015. Gross box-office per screen for the nine months ended September 30, 2016 averaged \$732,600 in comparison to \$829,000 in the nine months ended September 30, 2015. In the nine months ended September 30, 2016, gross box-office was generated primarily from the exhibition of 48 films listed below (42 new and 6 carryovers) which was consistent with the 48 (37 new and 11 carryover) films exhibited in the nine months ended September 30, 2015:

**Nine Months Ended September 30, 2016 - Films Exhibited**

*Interstellar: The IMAX Experience*

*Mad Max: Fury Road: An IMAX 3D Experience*

*The Walk: The IMAX Experience*

*The Martian: An IMAX 3D Experience*

*Lojin: The Lost Legend (aka The Ghouls): An IMAX 3D Experience*

*Star Wars: The Force Awakens: An IMAX 3D Experience*

*The Revenant: The IMAX Experience*

**Nine Months Ended September 30, 2015 - Films Exhibited**

*Teenage Mutant Ninja Turtles: An IMAX 3D Experience*

*Fury: The IMAX Experience*

*Interstellar: The IMAX Experience*

*Big Hero 6: An IMAX 3D Experience*

*Penguins of Madagascar: An IMAX 3D Experience*

*Exodus: Gods and Kings: An IMAX 3D Experience*

*The Hobbit: The Battle of the Five Armies: An IMAX 3D Experience*

*The Finest Hours: An IMAX 3D Experience*

*Gone with the Bullets: An IMAX 3D Experience*

*Ang Fu Panda 3: An IMAX 3D Experience*

*Seventh Son: An IMAX 3D Experience*

*The Monkey King 2: An IMAX 3D Experience*

*Night at the Museum: Secret of the Tomb: An IMAX 3D Experience*

*Crouching Tiger, Hidden Dragon: Sword of Destiny: An IMAX 3D Experience*

*Taken 3: The IMAX Experience*

*X-Men: Days of Future Past: The IMAX Experience*

*American Sniper: The IMAX Experience*

*The Gods of Egypt: An IMAX 3D Experience*

*Game of Thrones: The IMAX Experience (Season 4, Episodes 9 and 10)*

*Interstellar: An IMAX 3D Experience*

*Kingsman: The Secret Service: The IMAX Experience*

*The Cloverfield Lane: The IMAX Experience*

*Jupiter Ascending: An IMAX 3D Experience*

*The Divergent Series: Allegiant: The IMAX Experience*

*Fifty Shades of Grey: The IMAX Experience*

*Batman v Superman: Dawn of Justice: An IMAX 3D Experience*

**Table of Contents**

|                                                                                |                                                                 |
|--------------------------------------------------------------------------------|-----------------------------------------------------------------|
| <i>The Crew: An IMAX 3D Experience</i>                                         | <i>Wolf Totem: An IMAX 3D Experience</i>                        |
| <i>The Jungle Book: An IMAX 3D Experience</i>                                  | <i>Dragon Blade: An IMAX 3D Experience</i>                      |
| <i>Captain America: Civil War: An IMAX 3D Experience</i>                       | <i>Focus: The IMAX Experience</i>                               |
| <i>X-Men: Apocalypse: An IMAX 3D Experience</i>                                | <i>Chappie: The IMAX Experience</i>                             |
| <i>Alice in Wonderland: Through the Looking Glass: An IMAX 3D Experience</i>   | <i>Cinderella: The IMAX Experience</i>                          |
| <i>Teenage Mutant Ninja Turtles: Out of the Shadows: An IMAX 3D Experience</i> | <i>The Divergent Series: Insurgent: An IMAX 3D Experience</i>   |
| <i>Warcraft: An IMAX 3D Experience</i>                                         | <i>Furious 7: The IMAX Experience</i>                           |
| <i>Finding Dory: An IMAX 3D Experience</i>                                     | <i>The Water Diviner: The IMAX Experience</i>                   |
| <i>Independence Day: Resurgence: An IMAX 3D Experience</i>                     | <i>Dragon Ball Z: Resurrection of F : An IMAX 3D Experience</i> |
| <i>The Legend of Tarzan: An IMAX 3D Experience</i>                             | <i>The Avengers: Age of Ultron: An IMAX 3D Experience</i>       |
| <i>Ice Age: Collision Course: An IMAX 3D Experience</i>                        | <i>Tomorrowland: The IMAX Experience</i>                        |
| <i>The BFG: An IMAX 3D Experience</i>                                          | <i>Jurassic World: An IMAX 3D Experience</i>                    |
| <i>Jason Bourne: The IMAX Experience</i>                                       | <i>Terminator Genisys: An IMAX 3D Experience</i>                |
| <i>Godzilla: Resurgence: The IMAX Experience</i>                               | <i>San Andreas: An IMAX 3D Experience</i>                       |
| <i>Cold War 2: An IMAX 3D Experience</i>                                       | <i>Mad Max: Fury Road: An IMAX 3D Experience</i>                |
| <i>The Secret Life of Pets: An IMAX 3D Experience</i>                          | <i>Inside Out: An IMAX 3D Experience</i>                        |
| <i>Ghostbusters: An IMAX 3D Experience</i>                                     | <i>The Maze Runner: The IMAX Experience</i>                     |
| <i>For a Few Bullets: The IMAX Experience</i>                                  | <i>The Monk Comes Down the Mountain: An IMAX 3D Experience</i>  |
| <i>Star Trek Beyond: An IMAX 3D Experience</i>                                 | <i>Minions: An IMAX 3D Experience</i>                           |
| <i>League of Gods: An IMAX 3D Experience</i>                                   | <i>Monster Hunt: An IMAX 3D Experience</i>                      |
| <i>Skiptrace: An IMAX 3D Experience</i>                                        | <i>Ant-Man: An IMAX 3D Experience</i>                           |
| <i>Time Raiders: An IMAX 3D Experience</i>                                     | <i>Pixels: An IMAX 3D Experience</i>                            |
| <i>Suicide Squad: An IMAX 3D Experience</i>                                    | <i>Mission: Impossible – Rogue Nation: The IMAX Experience</i>  |
| <i>Ben-Hur: An IMAX 3D Experience</i>                                          | <i>Attack on Titan: Part 1: The IMAX Experience</i>             |
| <i>Sully: The IMAX Experience</i>                                              | <i>To the Fore: The IMAX Experience</i>                         |
| <i>My War: An IMAX 3D Experience</i>                                           | <i>The Man from U.N.C.L.E.: The IMAX Experience</i>             |
| <i>The Magnificent Seven: The IMAX Experience</i>                              | <i>Go Away Mr. Tumor: The IMAX Experience</i>                   |
| <i>Storks: An IMAX 3D Experience</i>                                           | <i>The Transporter Refueled: The IMAX Experience</i>            |
| <i>The Duelist: The IMAX Experience</i>                                        | <i>Everest: An IMAX 3D Experience</i>                           |

*Deepwater Horizon: The IMAX Experience*

*Attack on Titan: Part 2: The IMAX Experience*

*L.O.R.D.: An IMAX 3D Experience*

*Lost in Hong Kong: The IMAX Experience*

*The Walk: An IMAX 3D Experience*

Other revenues attributable to the film segment increased to \$9.8 million in the nine months ended September 30, 2016 from \$8.8 million in the nine months ended September 30, 2015, primarily due to an increase in film distribution revenue from IMAX original films. The nine months ended September 30, 2016 includes the release of an IMAX original production, *A Beautiful Planet* on April 29, 2016, whereas no original films were released in the prior year comparative period.

The Company's gross margin from its film segments decreased 3.3% in the nine months ended September 30, 2016 to \$54.4 million from \$56.3 million in the nine months ended September 30, 2015. Film production and IMAX DMR gross margins decreased to \$52.4 million from \$55.6 million primarily due to higher costs, including marketing and print and sound. Other gross margin attributable to the film segment was \$2.0 million in the nine months ended September 30, 2016, as compared to \$0.6 million in the nine months ended September 30, 2015, primarily due to the release and performance of *A Beautiful Planet*, in the current year period

---

**Table of Contents*****Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased to \$92.7 million in the nine months ended September 30, 2016, as compared to \$82.3 million in the nine months ended September 30, 2015. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$70.2 million in the nine months ended September 30, 2016, as compared to \$67.4 million in the nine months ended September 30, 2015. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

a \$7.6 million increase in the Company's stock-based compensation;

a \$4.0 million increase in staff costs related to the core business, including salaries and benefits; and

a \$0.2 million net increase in other general corporate expenditures, including travel and entertainment.

These increases were offset by a \$1.4 million decrease due to a change in foreign exchange rates. During the nine months ended September 30, 2016, the Company recorded a foreign exchange loss of \$0.1 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of \$1.5 million recorded in the nine months ended September 30, 2015.

***Research and Development***

Research and development expenses increased to \$11.6 million in the nine months ended September 30, 2016 compared to \$9.6 million in the nine months ended September 30, 2015 and are primarily attributable to the continued development of the Company's new laser-based digital projection system, digital distribution and other initiatives. As of September 30, 2016, the Company had 33 laser-based digital theater systems in operation and 20 laser-based digital theater systems in backlog. In 2015, the Company introduced its new private home theater in China.

The Company intends for additional research and development to continue in the fourth quarter of 2016 and beyond as the Company supports further development of the commercial laser-based projection system. In addition to continued research and development with respect to its core business, the Company intends to conduct research and development in connection with the previously-announced cinema-grade VR camera to be developed in partnership with Google. The Company also plans to continue research and development activity in the future in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing and manufacturing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology, developing IMAX theater systems' capabilities in both home and live entertainment, and further enhancing the IMAX theater and sound system design through the addition of more channels and improvements to the DMR process.

***Receivable Provisions, Net of Recoveries***

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.6 million in the nine months ended September 30, 2016, as compared to \$0.7 million in the nine months ended September 30, 2015.

The Company's accounts receivables and financing receivables are subject to credit risk. These receivables are concentrated with the leading theater exhibitors and studios in the film entertainment industry. To minimize the Company's credit risk, the Company retains title to underlying theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. Accordingly, the Company believes it has adequately protected itself against exposures relating to receivables and contractual commitments.

***Asset Impairments and Other Charges***

In the nine months ended September 30, 2016, the Company recognized a \$0.2 million other-than-temporary impairment of its investments as the value is not expected to recover based on the length of time and extent to which the market value has been less than cost. In the nine months ended September 30, 2015, the Company recognized a similar charge of \$0.4 million.

---

**Table of Contents**

In the nine months ended September 30, 2016, the Company recorded a charge related to property, plant and equipment of \$0.8 million reflecting assets that no longer meet the capitalization requirements, as compared to \$1.5 million in the nine months ended September 30, 2015.

In the nine months ended September 30, 2016, the Company recorded a charge of \$1.0 million reflecting the carrying value of a documentary film asset that exceeded the expected revenues generated from estimated future gross box-office. No such charge was recognized in the nine months ended September 30, 2015.

***Interest Income and Expense***

Interest income was \$1.2 million in the nine months ended September 30, 2016, as compared to \$0.7 million in the nine months ended September 30, 2015.

Interest expense was \$1.3 million in the nine months ended September 30, 2016, as compared to \$1.2 million in the nine months ended September 30, 2015. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.4 million and \$0.7 million in the nine months ended September 30, 2016 and 2015, respectively. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

***Income Taxes***

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of numerous permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations.

As at September 30, 2016, the Company had a gross deferred income tax asset of \$26.5 million, against which the Company is carrying a \$0.3 million valuation allowance. For the nine months ended September 30, 2016, the Company recorded an income tax provision of \$9.6 million, of which a provision of less than \$0.1 million was related to an increase in its provision for uncertain tax positions.

The Company's Chinese subsidiary has made certain enquiries of the Chinese State Administration of Taxation regarding the potential deductibility of certain stock based compensation for stock options issued by the Chinese subsidiary's parent company, IMAX China Holding, Inc. In addition, Chinese regulatory authorities responsible for capital and exchange controls will need to review and approve the proposed transactions before they can be completed. There may be a requirement for future investment of funds into China in order to secure the deduction. Should the Company proceed, any such future investment would come from existing capital invested in the IMAX China group of companies being redeployed amongst the IMAX China group of companies, including the Chinese subsidiary. The Company is unable to reliably estimate the magnitude of the related tax benefits at this time.

***Equity-Accounted Investments***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. As at September 30, 2016, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2015 - \$1.0 million). The Company's accumulated losses in excess of its equity investment were \$1.4 million as at September 30, 2016. For the nine months ended September 30, 2016, gross revenues, cost of revenue and net loss for these investments were \$0.3 million, \$6.0 million and \$5.6 million, respectively (2015 - \$nil, \$6.4 million

and \$6.2 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$2.5 million for the nine months ended September 30, 2016 compared to \$1.6 million in the nine months ended September 30, 2015.

***Non-Controlling Interests***

The Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the IMAX China IPO as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the nine months ended September 30, 2016, the net income attributable to non-controlling interests of the Company's subsidiaries was \$7.4 million (2015 \$5.0 million).

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

On March 3, 2015, the Company amended and restated the terms of its existing senior secured credit facility (the "Prior Credit Facility") in order to, among other things, eliminate the fixed charge coverage ratio under the Prior Credit Facility and reset certain financial maintenance covenants. The amended and restated facility (the "Credit Facility"), with a scheduled maturity of March 3, 2020, has a maximum borrowing capacity of \$200.0 million, the same maximum borrowing capacity as under the Prior Credit Facility. Certain of the Company's subsidiaries serve as guarantors (the "Guarantors") of the Company's obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the Guarantors.

The terms of the Credit Facility are set forth in the Fourth Amended and Restated Credit Agreement (the "Credit Agreement"), dated March 3, 2015, among the Company, the Guarantors, the lenders named therein, Wells Fargo Bank, National Association ("Wells Fargo"), as agent and issuing lender (Wells Fargo, together with the lenders named therein, the "Lenders") and Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Bookrunner and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company's obligations under the Credit Facility. On February 22, 2016, the Company amended the terms of the Credit Agreement to increase the general restricted payment basket thereunder (which covers, among other things, the repurchase of shares) from \$150.0 million to \$350.0 million in the aggregate after the amendment date.

Total amounts drawn and available under the Credit Facility at September 30, 2016 were \$nil and \$200.0 million, respectively (December 31, 2015: \$nil and \$200.0 million, respectively).

Under the Credit Facility, the effective interest rate for the nine months ended September 30, 2016 was nil, as no amounts were outstanding during the period (2015: nil).

The Credit Facility provides that the Company is required at all times to satisfy a Minimum Liquidity Test (as defined in the Credit Agreement) of at least \$50.0 million. The Company is also required to maintain minimum EBITDA (as defined in the Credit Agreement) of \$100.0 million. The Company is also required to maintain a Maximum Total Leverage Ratio (as defined in the Credit Agreement) of 2.25:1.0, which requirement decreases to (i) 2.0:1.0 on December 31, 2016; and (ii) 1.75:1.0 on December 31, 2017. The Company was in compliance with all of these requirements at September 30, 2016. The Maximum Total Leverage Ratio was 0.21:1 as at September 30, 2016, where Total Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments and was \$28.2 million. EBITDA is calculated as follows:

|                                                                             | <b>For the<br/>Three Months Ended<br/>September 30, 2016</b> | <b>For the<br/>Twelve Months Ended<br/>September 30,<br/>2016<sup>(1)</sup></b> |
|-----------------------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------------|
| <b>EBITDA per Credit Facility:</b><br><i>(In thousands of U.S. Dollars)</i> |                                                              |                                                                                 |
| Net income                                                                  | \$ 4,384                                                     | \$ 53,489                                                                       |
| Add (subtract):                                                             |                                                              |                                                                                 |
| Loss from equity accounted investments                                      | 690                                                          | 3,263                                                                           |

Edgar Filing: IMAX CORP - Form 10-Q

|                                                                                         |           |            |
|-----------------------------------------------------------------------------------------|-----------|------------|
| Provision for income taxes                                                              | 2,551     | 17,279     |
| Interest expense, net of interest income                                                | 99        | 358        |
| Depreciation and amortization, including<br>film asset amortization                     | 11,984    | 45,036     |
| Write-downs, net of recoveries including<br>asset impairments and receivable provisions | 1,654     | 3,700      |
| Stock and other non-cash compensation                                                   | 7,882     | 30,071     |
| EBITDA before non-controlling interests                                                 | 29,244    | 153,196    |
| EBITDA attributable to non-controlling<br>interests <sup>(2)</sup>                      | (4,738)   | (20,006)   |
| EBITDA attributable to common<br>shareholders                                           | \$ 24,506 | \$ 133,190 |

- (1) Ratio of total debt calculated using twelve months ended EBITDA
- (2) The EBITDA calculation specified for purposes of the minimum EBITDA covenant excludes the reduction in EBITDA from the Company's non-controlling interests.

---

**Table of Contents**

***Playa Vista Financing***

On October 6, 2014, IMAX PV Development Inc., a Delaware corporation ( *PV Borrower* ) and wholly-owned subsidiary of the Company, entered into a construction loan agreement with Wells Fargo. The construction loan (the *Playa Vista Construction Loan* ) was used to fund \$22.3 million of the costs of development and construction of the new West Coast headquarters of the Company, located in the Playa Vista neighborhood of Los Angeles, California (the *Playa Vista Project* ).

The total cost of development of the Playa Vista Project was approximately \$54.0 million, with all costs in excess of the Playa Vista Construction Loan provided through funding by the Company.

On October 19, 2015, PV Borrower converted the Playa Vista Construction Loan from a construction loan into a permanent loan ( *Playa Vista Loan* ) pursuant to the terms of the loan documents. Pursuant to the conversion, PV Borrower increased the principal balance of the loan by an additional \$7.7 million, to \$30.0 million. Prior to the conversion, the Playa Vista Construction Loan bore interest at a variable interest rate per annum equal to 2.25% above the 30-day LIBOR rate, and PV Borrower was required to make monthly payments of interest only. However, as a result of the conversion, the interest rate decreased from 2.25% to 2.0% above the 30-day LIBOR rate, and PV Borrower will be required to make monthly payments of combined principal and interest over a 10-year term with a lump sum payment at the end of year 10. The Playa Vista Loan is being amortized over 15 years. The Playa Vista Loan will be fully due and payable on October 19, 2025 (the *Maturity Date* ) and may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Playa Vista Loan is secured by a deed of trust from PV Borrower in favor of Wells Fargo, granting a first lien on and security interest in the Playa Vista property and the Playa Vista Project, including all improvements to be constructed thereon, and other documents evidencing and securing the loan (the *Loan Documents* ). The Loan Documents include absolute and unconditional payment and completion guarantees provided by the Company to Wells Fargo for the performance by PV Borrower of all the terms and provisions of the Playa Vista Loan and an environmental indemnity also provided by the Company.

The Loan Documents contain affirmative, negative and financial covenants (including compliance with the financial covenants of the Company's outstanding revolving senior secured facility with Wells Fargo), agreements, representations, warranties, borrowing conditions, and events of default customary for development projects such as the Playa Vista Project.

Total amount drawn under the Playa Vista Loan as at September 30, 2016 was \$28.2 million (December 31, 2015 \$29.7 million). Under the Playa Vista Loan, the effective interest rate for the three and nine months ended September 30, 2016 was 2.51% and 2.46%, respectively (2015 2.45% and 2.44%, respectively).

***Letters of Credit and Other Commitments***

As at September 30, 2016, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2015 \$nil), under the Credit Facility.

The Company also has a \$10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by Export Development Canada (the *Bank of Montreal Facility* ). The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews. As at September 30, 2016, the Company had

letters of credit and advance payment guarantees outstanding of \$0.1 million under the Bank of Montreal Facility (December 31, 2015 \$0.3 million).

---

**Table of Contents*****Cash and Cash Equivalents***

As at September 30, 2016, the Company's principal sources of liquidity included cash and cash equivalents of \$218.1 million, the Credit Facility, anticipated collection from trade accounts receivable of \$89.2 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of \$23.4 million and payments expected in the next 12 months on existing backlog deals. As at September 30, 2016, the Company did not have any amount drawn on the Credit Facility (remaining availability of \$200.0 million), and the Company had \$28.2 million drawn on the Playa Vista Loan. There were \$nil letters of credit and advance payment guarantees outstanding under the Credit Facility and \$0.1 million under the Bank of Montreal Facility. Cash held outside of Canada as at September 30, 2016 was \$140.1 million (December 31, 2015 \$122.2 million).

During the nine months ended September 30, 2016, the Company's operations provided cash of \$45.3 million which reflects a \$12.5 million increase in inventory primarily due to the anticipated roll-out of its theater systems. The Company used cash of \$161.4 million to repurchase common shares, fund capital expenditures, to build equipment for use in joint revenue sharing arrangements, to purchase other intangible assets, and to purchase property, plant and equipment. Based on management's current operating plan for 2016, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements and to fund DMR agreements with studios. Cash flows from joint revenue sharing arrangements are derived from the theater box-office and concession revenues and the Company invested directly in the roll out of 33 new theater systems under joint revenue sharing arrangements during the nine months ended September 30, 2016.

In 2014, the Company's Board of Directors approved a \$150.0 million share repurchase program for shares of the Company's common stock, which program was amended on April 20, 2016 to increase the aggregate purchase allowance to \$200.0 million. Purchases under the program commenced in 2014, and the program expires June 30, 2017. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares, and the share repurchase program may be suspended or discontinued by the Company at any time. During the nine months ended September 30, 2016, the Company repurchased 3,290,512 common shares under the repurchase program at an average price of \$30.48 per share. The retired shares were purchased for \$100.4 million.

The Company has received an exemption decision issued by the Ontario Securities Commission, dated April 1, 2016, for relief from the formal issuer bid requirements under Canadian securities laws. The exemption decision permits the Company to repurchase up to 10% of its outstanding common shares in any twelve-month period through the facilities of the New York Stock Exchange under repurchase programs that the Company may implement from time to time. The Canadian securities laws regulate an issuer's ability to make repurchases of its own securities.

The Company sought the exemption so that it can make repurchases under its repurchase programs in excess of the maximum allowable in reliance on the existing other published markets exemption from the formal issuer bid requirements available under Canadian securities laws. The other published markets exemption caps the Company's ability to repurchase its securities through the facilities of the NYSE at 5% of the issuer's outstanding securities during any 12-month period.

The conditions of the exemption decision are as follows: (i) any repurchases made in reliance on the exemption decision must be permitted under, and part of repurchase programs established and conducted in accordance with, U.S. securities laws and NYSE rules, (ii) the aggregate number of common shares acquired in reliance on the exemption decision by the Company and any person or company acting jointly or in concert with the Company within any 12 months does not exceed 10% of the outstanding common shares at the beginning of the 12-month period,

(iii) the common shares are not listed and posted for trading on an exchange in Canada, (iv) the exemption decision applies only to the acquisition of common shares by the Company within 36 months of the date of the decision, and (v) prior to purchasing common shares in reliance on the exemption decision, the Company discloses the terms of the exemption decision and the conditions applicable thereto in a press release that is issued on SEDAR and includes such language as part of the news release required to be issued in accordance with the other published markets exemption in respect of any repurchase program that may be implemented by the Company.

The Company believes that cash flow from operations together with existing cash and borrowing available under the Credit Facility will be sufficient to fund the Company's business operations, including its strategic initiatives relating to existing joint revenue sharing arrangements for the next 12 months.

The Company's operating cash flow will be adversely affected if management's projections of future signings for theater systems and film performance, theater installations and film productions are not realized. The Company forecasts its short-term liquidity requirements on a quarterly and annual basis. Since the Company's future cash flows are based on estimates and there may be factors

---

**Table of Contents**

that are outside of the Company's control (see "Risk Factors" in Item 1A in the Company's 2015 Form 10-K), there is no guarantee that the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company's typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

*Operating Activities*

The Company's net cash provided by operating activities is affected by a number of factors, including the proceeds associated with new signings of theater system lease and sale agreements in the year, costs associated with contributing systems under joint revenue sharing arrangements, the box-office performance of films distributed by the Company and/or released to IMAX theaters, increases or decreases in the Company's operating expenses, including research and development, and the level of cash collections received from its customers.

Cash provided by operating activities amounted to \$45.3 million for the nine months ended September 30, 2016. Changes in other non-cash operating assets as compared to December 31, 2015 include: a decrease of \$6.6 million in accounts receivable; an increase of \$1.1 million in financing receivables; an increase of \$12.5 million in inventories; an increase of \$5.1 million in prepaid expenses; and a change in other assets of \$0.9 million which includes an increase of \$1.3 million in other assets, offset by a decrease of \$0.3 million in commissions and other deferred selling expenses, and a decrease of \$0.1 million in insurance recoveries. Changes in other operating liabilities as compared to December 31, 2015 include: a decrease in deferred revenue of \$7.8 million related to amounts relieved from deferred revenue related to theater system installations, offset by backlog payments received in the current period; a decrease in accounts payable of \$6.6 million; and a decrease of \$2.0 million in accrued liabilities.

*Investing Activities*

Net cash used in investing activities amounted to \$38.5 million in nine months ended September 30, 2016, which includes purchases of \$10.0 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$25.5 million and an investment in other intangible assets of \$2.9 million, primarily related to the Company's enterprise resource planning system.

*Financing Activities*

Net cash used in financing activities in the nine months ended September 30, 2016 amounted to \$106.3 million as compared to \$33.6 million provided by financing activities in the nine months ended September 30, 2015. In the nine months ended September 30, 2016, the Company paid \$100.4 million for the repurchase of common shares under the Company's share repurchase program and \$8.4 million to purchase treasury stock for the issuance of restricted share units and options. In addition, the Company paid \$3.0 million of taxes relating to secondary sales and repatriation dividends and \$0.2 million of taxes relating to employee stock award vesting. Furthermore, the Company also made \$1.5 million in repayments under the Playa Vista Loan. These cash outlays were offset by \$7.2 million received from the issuance of common shares resulting from stock option exercises.

*Capital Expenditures*

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, other intangible assets and investments in film assets were \$52.7 million for the nine months ended September 30, 2016 as compared to \$75.1 million for the nine months ended September 30, 2015.



**Table of Contents****CONTRACTUAL OBLIGATIONS**

Payments to be made by the Company under contractual obligations as of September 30, 2016 are as follows:

| <i>(In thousands of U.S. Dollars)</i>      | <b>Total<br/>Obligations</b> | <b>Payments Due by Period</b> |             |             |             |             |                   |
|--------------------------------------------|------------------------------|-------------------------------|-------------|-------------|-------------|-------------|-------------------|
|                                            |                              | <b>2016</b>                   | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>Thereafter</b> |
| Purchase obligations <sup>(1)</sup>        | \$ 31,699                    | \$ 18,591                     | \$ 13,078   | \$ 30       | \$          | \$          | \$                |
| Pension obligations <sup>(2)</sup>         | 19,871                       |                               | 19,871      |             |             |             |                   |
| Operating lease obligations <sup>(3)</sup> | 18,915                       | 2,262                         | 5,248       | 4,501       | 2,350       | 612         | 3,942             |
| Playa Vista Loan <sup>(4)</sup>            | 28,167                       | 500                           | 2,000       | 2,000       | 2,000       | 2,000       | 19,667            |
| Postretirement benefits obligations        | 2,652                        | 130                           | 154         | 168         | 181         | 150         | 1,869             |
|                                            | \$ 101,304                   | \$ 21,483                     | \$ 40,351   | \$ 6,699    | \$ 4,531    | \$ 2,762    | \$ 25,478         |

- (1) The Company's total payments to be made under binding commitments with suppliers and outstanding payments to be made for supplies ordered but yet to be invoiced.
- (2) The SERP assumptions are that Mr. Gelfond will receive a lump sum payment six months after retirement at the end of the current term of his employment agreement (December 31, 2016), although Mr. Gelfond has not informed the Company that he intends to retire at that time, and is currently in discussions regarding an extension of his employment agreement with the Company.
- (3) The Company's total minimum annual rental payments to be made under operating leases, mostly consisting of rent at the Company's property in New York and at the various owned and operated theaters.
- (4) The Playa Vista Loan is fully due and payable on October 19, 2025. The Company is required to make monthly payments of combined principal and interest.

*Pension and Postretirement Obligations*

The Company has an unfunded defined benefit pension plan, the SERP, covering Mr. Gelfond. As at September 30, 2016, the Company had an unfunded and accrued projected benefit obligation of approximately \$19.7 million (December 31, 2015 \$19.5 million) in respect of the SERP.

Pursuant to an employment agreement dated January 1, 2014, the term of Mr. Gelfond's employment was extended through December 31, 2016, although Mr. Gelfond has not informed the Company that he intends to retire at that time, and is currently in discussions regarding an extension of his employment agreement with the Company. Under the terms of the arrangement, no compensation earned beginning in 2011 is to be included in calculating his entitlement under the SERP.

The Company has a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. As at September 30, 2016, the Company had an unfunded benefit obligation of \$1.9 million (December 31, 2015 \$1.8 million).

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler, the Chairman of the Board, upon retirement. As at September 30, 2016, the Company had an unfunded benefit obligation of \$0.8 million (December 31, 2015 \$0.8 million).

## **OFF-BALANCE SHEET ARRANGEMENTS**

There are currently no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Company's financial condition.

**Table of Contents****Item 3. *Quantitative and Qualitative Factors about Market Risk***

The Company is exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. Market risk is the potential change in an instrument's value caused by, for example, fluctuations in interest and currency exchange rates. The Company's primary market risk exposure is the risk of unfavorable movements in exchange rates between the U.S. dollar, the Canadian dollar and the Chinese Yuan Renminbi. The Company does not use financial instruments for trading or other speculative purposes.

**Foreign Exchange Rate Risk**

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In addition, IMAX films generate box office in 74 different countries, and therefore unfavorable exchange rates between applicable local currencies and the U.S. dollar could have an impact on the Company's reported gross box office and revenues. The Company has incoming cash flows from its revenue generating theaters and ongoing operating expenses in China through its majority-owned subsidiary IMAX Shanghai Multimedia Technology Co., Ltd. In Japan, the Company has ongoing Yen-denominated operating expenses related to its Japanese operations. Net Renminbi and Japanese Yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Renminbi, Japanese Yen, Euros and Canadian dollars.

The Company manages its exposure to foreign exchange rate risks through the Company's regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures as well as reduce earnings and cash flow volatility resulting from shifts in market rates.

For the three and nine months ended September 30, 2016, the Company recorded a foreign exchange loss of \$0.2 million and a loss of \$0.1 million as compared to a foreign exchange loss of \$0.5 million and loss of \$1.5 million for the three and nine months ended September 30, 2015, associated with the translation of foreign currency denominated monetary assets and liabilities.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 2016 and 2017. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statements of operations except for derivatives designated and qualifying as foreign currency hedging instruments. All foreign currency forward contracts held by the Company as at September 30, 2016, are designated and qualify as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statements of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The notional value of foreign currency hedging instruments at September 30, 2016 was \$26.9 million (December 31, 2015 \$30.7 million). A loss of \$0.3 million and a gain of \$1.9 million was recorded to Other Comprehensive Income with respect to the depreciation/appreciation in the value of these contracts for the three and nine months ended September 30, 2016 (2015 loss of \$2.3 million and loss of \$5.0 million). A loss of \$0.6 million and a loss of \$2.6 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses for the three and nine months ended September 30, 2016 (2015 loss of \$1.0 million and loss of \$2.2 million). The Company's estimated net amount of the existing gains as at September 30, 2016 is \$0.1 million, which is expected to be reclassified to earnings within the next twelve months. Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging

Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses.

For all derivative instruments, the Company is subject to counterparty credit risk to the extent that the counterparty may not meet its obligations to the Company. To manage this risk, the Company enters into derivative transactions only with major financial institutions.

At September 30, 2016, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros was \$50.8 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2016, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$5.1 million. A significant portion of the Company's selling, general, and administrative expenses is denominated in Canadian dollars. Assuming a 1% change appreciation or depreciation in foreign currency exchange rates at September 30, 2016, the potential change in the amount of selling, general, and administrative expenses would be \$0.1 million for every \$10.0 million in Canadian denominated expenditures.

---

**Table of Contents**

**Interest Rate Risk Management**

The Company's earnings are also affected by changes in interest rates due to the impact those changes have on its interest income from cash, and its interest expense from variable-rate borrowings under the Credit Facility.

As at September 30, 2016, the Company had not drawn down on its Credit Facility (December 31, 2015: \$nil).

As at September 30, 2016, the Company had drawn down \$28.2 million on its Playa Vista Loan (December 31, 2015: \$29.7 million).

The Company's largest exposure with respect to variable rate debt comes from changes in the LIBOR. The Company had variable rate debt instruments representing 12.1% and 11.7% of its total liabilities at September 30, 2016 and December 31, 2015, respectively. If the interest rates available to the Company increased by 10%, the Company's interest expense would increase by approximately \$0.1 million and interest income from cash would increase by approximately \$0.2 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable rate debt and cash balances at September 30, 2016.

**Item 4. Controls and Procedures**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods and that such information is accumulated and communicated to management, including the CEO and Chief Financial Officer (CFO), to allow timely discussions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The Company's management, with the participation of its CEO and its CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as at September 30, 2016 and has concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. The Company will continue to periodically evaluate its disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (the SEC's) rules and forms.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

During the first quarter of 2016, the Company's subsidiary, IMAX China Holding, Inc. (IMAX China), implemented a new enterprise resource planning (ERP) system. The implementation of the new ERP system resulted in material changes to the nature and type of IMAX China's internal controls over financial reporting during the first half of the year. The Company reviewed the implementation effort as well as the impact on its internal controls over financial reporting and where appropriate, is making changes to these controls over financial reporting to address these system changes. The Company expects the transition period to be completed in 2016 as controls evolve under the new system. The Company believes that the internal control changes resulting from the new ERP implementation in China

will improve the overall control environment. There were no other changes in the Company's internal controls over financial reporting during the quarter ended at September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

See note 8 to the accompanying condensed consolidated financial statements in Item 1 for information regarding legal proceedings involving the Company.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors disclosed in Part I, Item 1A Risk Factors in the Company's 2015 Form 10-K. The risks described in the Company's Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**  
**Issuer Purchases of Equity Securities**

The Company's common stock repurchase program activity for the three months ended September 30, 2016 was as follows:

|                                           | Total number of shares<br>purchased | Average price paid<br>per share | Total number of shares<br>publicly announced<br>program <sup>(a)</sup> | Maximum value of<br>shares that may yet be<br>purchased under the<br>program |
|-------------------------------------------|-------------------------------------|---------------------------------|------------------------------------------------------------------------|------------------------------------------------------------------------------|
| July 1 through July 31,<br>2016           |                                     | \$                              |                                                                        | \$ 77,053,384                                                                |
| August 1 through<br>August 31, 2016       |                                     |                                 |                                                                        | \$ 77,053,384                                                                |
| September 1 through<br>September 30, 2016 | 500,000                             | 29.32                           | 500,000                                                                | \$ 62,391,374                                                                |
| Total                                     | 500,000                             | \$ 29.32                        | 500,000                                                                |                                                                              |

- (a) On June 16, 2014, the Company's Board of Directors approved a \$150.0 million share repurchase program for shares of the Company's common stock, which expires June 30, 2017. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares, and the share repurchase program may be suspended or discontinued by the Company at any time. On April 20, 2016, the Company's board of directors approved an incremental \$50.0 million increase to the share repurchase allowance, for an aggregate allowance of

\$200.0 million under the program. All other terms remain unchanged. Purchases under the program commenced during the third quarter of 2014.

The Company did not repurchase any shares in connection with the administration of employee share-based compensation plans during the three months ended September 30, 2016.

**Item 6. Exhibits**

**Exhibit**

| <b>No.</b> | <b>Description</b>                                                                                                      |
|------------|-------------------------------------------------------------------------------------------------------------------------|
| 10.43      | Employment Agreement, dated September 1, 2016 between IMAX Corporation and Greg Foster.                                 |
| 31.1       | Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated October 20, 2016, by Richard L. Gelfond. |
| 31.2       | Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated October 20, 2016, by Patrick McClymont.  |
| 32.1       | Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated October 20, 2016, by Richard L. Gelfond. |
| 32.2       | Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated October 20, 2016, by Patrick McClymont.  |

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**IMAX CORPORATION**

Date: October 20, 2016

By: /s/ PATRICK MCCLYMONT  
Patrick McClymont  
Executive Vice-President & Chief Financial Officer  
(Principal Financial Officer)

Date: October 20, 2016

By: /s/ JEFFREY VANCE  
Jeffrey Vance  
Senior Vice-President, Finance & Controller  
(Principal Accounting Officer)