IMAX CORP
Form 10-Q
July 25, 2018
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**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 June 30, 2018**

**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)**

| Canada | 98-0140269 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 2525 Speakman Drive, Mississauga, Ontario, Canada L5K 1B1 | 902 Broadway, Floor 20 New York, New York, USA 10010 |
| (905) 403-6500 | (212) 821-0100 |

**(Address of principal executive offices, zip code, telephone numbers)**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Exchange on Which Registered |
|---|---|
| Common Shares, no par value | The New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**

**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

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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer , smaller reporting company and emerging growth 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 |
| | | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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** | **Outstanding as of June 30, 2018** |
|---|---|
| Common stock, no par value | 62,521,916 |

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## 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, 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 performance of IMAX DMR films; the signing of theater system agreements; conditions, changes and developments in the commercial exhibition industry; risks related to currency fluctuations; 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 relating to recent consolidation among commercial exhibitors and studios; 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 the Company s intellectual property; general economic, market or business conditions; the failure to convert theater system backlog into revenue; changes in laws or regulations; the failure to fully realize the projected cost savings and benefits from the Company s restructuring initiative; 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.

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**PART I. FINANCIAL INFORMATION**

**Item 1.** ***Financial Statements***


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| The following unaudited Condensed Consolidated Financial Statements are filed as part of this Report: | |
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| Condensed Consolidated Statements of Operations for the three and six month periods ended June 30, 2018 and 2017 | 6 |
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**IMAX CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

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

***(Unaudited)***

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 133,042 | $ 158,725 |
| Accounts receivable, net of allowance for doubtful accounts of $2,348 (December 31, 2017 $1,613) | 113,461 | 130,546 |
| Financing receivables | 125,756 | 129,494 |
| Inventories | 40,705 | 30,788 |
| Prepaid expenses | 9,401 | 7,549 |
| Film assets | 15,193 | 5,026 |
| Property, plant and equipment | 276,129 | 276,781 |
| Other assets | 61,956 | 26,757 |
| Deferred income taxes | 24,386 | 30,708 |
| Other intangible assets | 30,456 | 31,211 |
| Goodwill | 39,027 | 39,027 |
| **Total assets** | **$ 869,512** | **$ 866,612** |
| **Liabilities** | | |
| Bank indebtedness | $ 24,377 | $ 25,357 |
| Accounts payable | 15,027 | 24,235 |
| Accrued and other liabilities | 107,799 | 100,140 |
| Deferred revenue | 110,286 | 113,270 |
| **Total liabilities** | **257,489** | **263,002** |
| **Commitments and contingencies** | | |
| **Non-controlling interests** | **7,578** | **1,353** |
| **Shareholders equity** | | |
| Capital stock common shares no par value. Authorized unlimited number. 62,747,512 issued and 62,521,916 outstanding (December 31, 2017 64,902,201 issued and 64,695,550 outstanding) | 431,003 | 445,797 |
| Less: Treasury stock, 225,596 shares at cost (December 31, 2017 206,651) | (4,636) | (5,133) |
| Other equity | 179,767 | 175,300 |
| Accumulated deficit | (75,908) | (87,592) |
| Accumulated other comprehensive loss | (2,762) | (626) |

| | | |
|---|---|---|
| **Total shareholders equity attributable to common shareholders** | **527,464** | **527,746** |
| Non-controlling interests | 76,981 | 74,511 |
| **Total shareholders equity** | **604,445** | **602,257** |
| **Total liabilities and shareholders equity** | **$ 864,512** | **$ 866,612** |

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

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**IMAX CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

***(Unaudited)***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Revenues** | | | | |
| Equipment and product sales | $ 15,368 | $ 21,334 | $ 34,881 | $ 32,879 |
| Services | 54,785 | 44,603 | 99,531 | 83,447 |
| Rentals | 25,124 | 19,438 | 43,326 | 35,294 |
| Finance income | 3,068 | 2,383 | 5,591 | 4,794 |
| | **98,345** | **87,758** | **183,329** | **156,414** |
| **Costs and expenses applicable to revenues** | | | | |
| Equipment and product sales | 7,549 | 11,453 | 15,521 | 18,917 |
| Services | 23,633 | 21,266 | 43,984 | 41,080 |
| Rentals | 6,759 | 5,580 | 12,728 | 11,187 |
| | **37,941** | **38,299** | **72,233** | **71,184** |
| **Gross margin** | **60,404** | **49,459** | **111,096** | **85,230** |
| Selling, general and administrative expenses (including share-based compensation expense of $6.2 million and $10.7 million for the three and six months ended June 30, 2018 (2017 $6.2 million and $11.0 million, respectively)) | 32,608 | 28,589 | 60,691 | 59,531 |
| Research and development | 3,922 | 5,678 | 7,514 | 10,012 |
| Asset impairments | | 1,225 | | 1,225 |
| Amortization of intangibles | 965 | 779 | 1,857 | 1,380 |
| Receivable provisions, net of recoveries | 355 | 940 | 806 | 1,125 |
| Legal arbitration award | 7,500 | | 7,500 | |
| Exit costs, restructuring charges and associated impairments | 456 | 10,258 | 1,158 | 10,258 |
| **Income from operations** | **14,598** | **1,990** | **31,570** | **1,699** |
| Interest income | 243 | 280 | 490 | 508 |
| Interest expense | (851) | (435) | (1,345) | (890) |
| **Income from operations before income taxes** | **13,990** | **1,835** | **30,715** | **1,317** |
| (Provision for) recovery of income taxes | (3,635) | 238 | (8,088) | 124 |
| Loss from equity-accounted investments, net of tax | (100) | (264) | (305) | (519) |
| **Net income** | **10,255** | **1,809** | **22,322** | **922** |

| | | | | |
|---|---|---|---|---|
| Less: net income attributable to non-controlling interests | (2,630) | (3,521) | (6,192) | (2,559) |
| **Net income (loss) attributable to common shareholders** | **$ 7,625** | **$ (1,712)** | **$ 16,130** | **$ (1,637)** |
| **Net income (loss) per share attributable to common shareholders - basic and diluted:** | | | | |
| Net income (loss) per share basic and diluted | $ 0.12 | $ (0.03) | $ 0.25 | $ (0.02) |

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

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**IMAX CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

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

***(Unaudited)***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Net income** | **$ 10,255** | **$ 1,809** | **$ 22,322** | **$ 922** |
| Unrealized net (loss) gain from cash flow hedging instruments | (679) | 772 | (1,686) | 1,085 |
| Realization of cash flow hedging net (gain) loss upon settlement | (112) | (101) | (332) | 184 |
| Foreign currency translation adjustments | (3,003) | 1,304 | (951) | 1,762 |
| **Other comprehensive (loss) income, before tax** | **(3,794)** | **1,975** | **(2,969)** | **3,031** |
| Income tax benefit (expense) related to other comprehensive (loss) income | 207 | (175) | 528 | (332) |
| Other comprehensive (loss) income, net of tax | (3,587) | 1,800 | (2,441) | 2,699 |
| **Comprehensive income** | **6,668** | **3,609** | **19,881** | **3,621** |
| Less: Comprehensive income attributable to non-controlling interests | (1,667) | (3,935) | (5,887) | (3,119) |
| **Comprehensive income (loss) attributable to common shareholders** | **$ 5,001** | **$ (326)** | **$ 13,994** | **$ 502** |

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

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**IMAX CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

***(Unaudited)***

| | Six Months Ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| **Cash provided by (used in):** | | |
| **Operating Activities** | | |
| Net income | $ 22,322 | $ 922 |
| Adjustments to reconcile net income to cash from operations: | | |
| Depreciation and amortization | 28,034 | 25,354 |
| Write-downs, net of recoveries | 1,686 | 13,155 |
| Change in deferred income taxes | 347 | (3,133) |
| Stock and other non-cash compensation | 11,920 | 12,570 |
| Unrealized foreign currency exchange loss (gain) | 473 | (462) |
| Loss from equity-accounted investments | 106 | 321 |
| Loss on non-cash contribution to equity-accounted investees | 199 | 198 |
| Investment in film assets | (18,219) | (19,589) |
| Changes in other non-cash operating assets and liabilities | (214) | 7,884 |
| **Net cash provided by operating activities** | **46,654** | **37,220** |
| **Investing Activities** | | |
| Purchase of property, plant and equipment | (8,632) | (9,771) |
| Investment in joint revenue sharing equipment | (8,455) | (17,550) |
| Acquisition of other intangible assets | (1,705) | (2,624) |
| Investment in new business ventures | | (1,500) |
| **Net cash used in investing activities** | **(18,792)** | **(31,445)** |
| **Financing Activities** | | |
| Repayment of bank indebtedness | (1,000) | (1,000) |
| Repurchase of common shares | (46,452) | (46,138) |
| Treasury stock purchased for future settlement of restricted share units | (4,636) | (5,412) |
| Taxes withheld and paid on employee stock awards vested | (1,279) | (187) |
| Settlement of restricted share units and options | (1,529) | (14,048) |
| Issuance of subsidiary shares to a non-controlling interest | 6,696 | |
| Common shares issued - stock options exercised | 799 | 14,419 |
| Dividend paid to non-controlling shareholders | (4,623) | |
| Credit facility amendment fees paid | (1,963) | |

| | | |
|---|---|---|
| **Net cash used in financing activities** | **(53,987)** | **(52,366)** |
| Effects of exchange rate changes on cash | 442 | 76 |
| **Decrease in cash and cash equivalents during period** | **(25,683)** | **(46,515)** |
| **Cash and cash equivalents, beginning of period** | **158,725** | **204,759** |
| **Cash and cash equivalents, end of period** | **$ 133,042** | **$ 158,244** |

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

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**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 ).

These condensed consolidated financial statements include the accounts of the Company, 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 ten 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. The majority of these consolidated assets are held by the IMAX Original Film Fund (the Original Film Fund ) and the IMAX Virtual Reality Fund (the VR Fund ) as described in note 17(b). For the other five film production companies which are VIEs, the Company does 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 used the equity method of accounting for these entities. A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statements of operations.

Total assets and liabilities of the Company s consolidated VIEs are as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Total assets | $ 14,756 | $ 7,539 |
| Total liabilities | $ 13,691 | $ 7,178 |

Total assets and liabilities of the VIE entities which the Company does not consolidate are as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Total assets | $ 448 | $ 448 |
| Total liabilities | $ 373 | $ 388 |

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 2017 Annual Report on Form 10-K for the year ended December 31, 2017 ( the 2017 Form 10-K ) which should be consulted for a

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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, 2017, except as noted below.

**2. New Accounting Standards and Accounting Changes**

***Adoption of New Accounting Policies***

The Company adopted several standards including the following material standards on January 1, 2018, which are effective for annual periods ending after December 31, 2017, and for annual and interim periods thereafter.

In 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ( ASC Topic 606 ). The Company adopted 2014-09 and several associated ASUs on January 1, 2018. See note 3 for a further discussion of the Company s adoption of ASC Topic 606, including its 2018 operating results under the new standard.

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

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. As a lessor, the Company has a significant portion of its revenue derived from leases, including its joint revenue sharing arrangements, and while the lessor accounting model is not fundamentally different, the Company continues to evaluate the effect of the standard on this revenue stream. The Company as a lessee, has entered into several leases that under ASC 840 are considered operating leases. The Company has inventoried its leases and continues to review its arrangements to identify any implied leases. The Company s leases are primarily facility leases with various terms remaining. The Company is in the process of determining the rates to be used to discount its future performance obligation liabilities. The Company is currently evaluating the practical expedients offered by the standard and has not yet determined whether it will elect to apply them.

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.

The Company considers the applicability and impact of all recently issued FASB accounting standard codification updates. Accounting standards updates that are not noted above were assessed and determined to be not applicable or not significant to the Company s condensed consolidated financial statements for the period ended June 30, 2018.

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**3. Adoption of ASC Topic 606, Revenue from Contracts with Customers, effective January 1, 2018**

As discussed in note 2, in 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The standard also requires new, expanded disclosures regarding revenue recognition. Several ASUs have been issued since the issuance of ASU 2014-09. These ASUs, which modify certain sections of ASU 2014-09 are intended to promote a more consistent interpretation and application of the principles outlined in the standard.

On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. Prior year amounts are presented in accordance with ASC Topic 605, Revenue Recognition or other applicable standards effective prior to January 1, 2018. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company s open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company s exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts.

The Company s revenues from the sales of projection systems, provision of maintenance services, sale of aftermarket 3D glasses and parts, conversion of film content into the IMAX DMR format, distribution of documentary film content and the provision of post- production services are within the scope of the standard. The Company s joint revenue sharing revenue arrangements, with the exception of those where the title transfers to the customer prior to recognition of the system revenue (hybrid sales arrangements), are not in scope of the standard due to their classification as leases. Similarly, any system revenue transactions classified as sales-type leases are excluded from the provisions of the new standard.

The Company has assessed its performance obligations under its arrangements pursuant to ASC Topic 606 and has concluded that there are no significant differences between the performance obligations required to be units of account under ASC Topic 606 and the deliverables considered to be units of account under ASC Topic 605. Specifically, the Company has concluded that its System Obligation , which consists of a theater system (projector, sound system, screen system and, if applicable, 3D glasses cleaning machine); services associated with the theater system including theater design support, supervision of installation services, and projectionist training; a license to use the IMAX brand to market the theater; 3D glasses; initial maintenance and extended warranty services; and potentially the licensing of films remains unchanged when considered under ASC Topic 606. The Company s performance obligations for its DMR, maintenance, film distribution and aftermarket sales contracts remain similar to those under ASC Topic 605.

The new standard requires the Company to estimate the total consideration, including an estimate of future variable consideration, received in exchange for the goods delivered or services rendered. Certain of the Company s revenue streams will be impacted by the variable consideration provisions of the new standard. The arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. Both of these contract provisions constitute variable consideration under the new standard that, subject to constraints to ensure reversal of revenues do not occur, require estimation and recognition upon transfer of control of the System Obligation to the customer, which is at the earlier of client acceptance of the installation of the system, including projectionist training, and the theater s opening to the public. As this variable consideration extends through the entire term of the arrangement, which typically last 10 years, the Company applies constraints to its estimates and recognizes the variable consideration on a discounted present value basis at recognition. Under the previous standard, these amounts were recognized as reported by exhibitors (or customers) in

future periods.

In certain joint revenue sharing arrangements, specifically the Company s hybrid sales arrangements, the Company s arrangements call for sufficient upfront revenues to cover the cost of the arrangement, with monthly payments calculated based on the theater s net box office earned. Title and control of the projection system transfer to the customer at the point of revenue recognition, which is the earlier of client acceptance of the theater installation, including projectionist training, and theater opening to the public. Under the new revenue recognition standard, the percentage payment is considered variable consideration that must be estimated and recognized at the time of initial revenue recognition. Using box office projections and the Company s history with theater and box office experience in different territories, the Company estimates the amount of percentage payment earned over the life of the arrangement, subject to sufficient constraint such that there is not a risk of significant revenue reversal. Under the previous recognition standard, these amounts were recognized as reported by exhibitors (or customers) in future periods. As a result, the Company has reclassified hybrid sales arrangements to the traditional sales segment since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements.

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The Company s arrangements include a requirement for the provision of maintenance services over the life of the arrangement, subject to a consumer price index increase on renewal each year. Under the new standard, the Company has included the future consideration from the provision of maintenance services in the relative selling price allocation calculation at the inception of the arrangement. Under the previous recognition standard, only the first year s extended warranty and maintenance services included as part of the upfront consideration received by the Company was included in the relative selling price allocation to determine the allocation of consideration between deliverables, while the future years maintenance services were recognized and amortized over each year s renewal term. Except in circumstances where customers prepay the entire term s maintenance arrangement, payments are due to the Company for the years after the extended warranty and maintenance services offered as part of the System Obligation expire. Payments upon renewal each year can be either in arrears or in advance, and can vary in frequency from monthly to annually. At June 30, 2018, $17.0 million of consideration has been deferred in relation to outstanding stand ready performance obligations related to these maintenance services. As the maintenance services are a stand ready obligation, revenue, subject to appropriate constraint, is recognized evenly over the contract term, which is consistent with past treatment. The Company does not expect a significant change in the allocation of consideration between performance obligations to arise as a result of this change. The Company s DMR and Film Distribution revenue streams fall under the variable consideration exemption for sales- or usage-based royalties. While the Company does not hold rights to the intellectual property in the form of the DMR film content, the Company is being reimbursed for the application of its intellectual property in the form of its patented DMR processes used in the creation of new intellectual property in the form of an IMAX DMR version of film. The Company s Film Distribution revenues are strictly from the license of its intellectual property in the form of documentary film content to which the Company holds distribution rights.

The Company s remaining revenue streams are not significantly impacted by the new standard. As the arrangements do not call for variable consideration and recognition of revenues transfer at the time of provision of service or transfer of control of goods as appropriate.

The recognition of variable consideration involves a significant amount of judgment. ASC Topic 606 requires variable consideration to be recognized subject to appropriate constraints to avoid a significant reversal of revenue in future periods. The standard identifies several examples of situations where constraining variable consideration would be appropriate:

- The amount of consideration is highly susceptible to factors outside the entity s influence
- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time
- The Company s experience (or other evidence) with similar types of contracts is limited, or that experience has limited predictive value
- The Company has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances

The Company recorded an increase to opening retained earnings of $27.2 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting ASC Topic 606, with the impact primarily related to revenue from its theater system business. The impact to revenues as a result of applying ASC Topic 606 was an increase of $0.5 million and

$1.2 million for the three and six months ended June 30, 2018.

The following table presents the impacted financial statement line items in the Company s condensed consolidated statement of operations:

| | Three Months Ended June 30, 2018 | | |
|---|---|---|---|
| ***(in thousands of U.S. dollars, except per share amounts)*** | **Pre-adoption of ASC Topic 606** | **ASC Topic 606 Adjustments** | **As reported** |
| Revenues | $ 97,833 | $ 512 | $ 98,345 |
| Provision for income taxes | (3,522) | (113) | (3,635) |
| Net income | 9,856 | 399 | 10,255 |
| Less: net income attributable to non-controlling interests | (2,537) | (93) | (2,630) |
| Net income attributable to common shareholders | 7,319 | 306 | 7,625 |
| Net income per share attributable to common shareholders - basic and diluted | 0.12 | | 0.12 |

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| *(in thousands of U.S. dollars, except per share amounts)* | Six Months Ended June 30, 2018 Pre-adoption of ASC Topic 606 | ASC Topic 606 Adjustments | As reported |
|---|---|---|---|
| Revenues | $ 182,148 | $ 1,181 | $ 183,329 |
| Provision for income taxes | (7,828) | (260) | (8,088) |
| Net income | 21,401 | 921 | 22,322 |
| Less: net income attributable to non-controlling interests | (6,031) | (161) | (6,192) |
| Net income attributable to common shareholders | 15,370 | 760 | 16,130 |
| Net income per share attributable to common shareholders - basic and diluted | 0.24 | 0.01 | 0.25 |

The following table presents the impact of ASC Topic 606 on the Company s revenues by reportable segment:

| | Three Months Ended June 30, 2018 Pre-adoption of ASC Topic 606 | ASC Topic 606 Adjustments | As reported |
|---|---|---|---|
| **Network business** | | | |
| IMAX DMR | $ 36,161 | $ | $ 36,161 |
| Joint revenue sharing arrangements contingent rent[1] | 25,850 | (1,120) | 24,730 |
| IMAX systems contingent rent[1] | 475 | (475) | |
| | 62,486 | (1,595) | 60,891 |
| **Theater business** | | | |
| IMAX systems | | | |
| Sales and sales-type leases[2] | 8,588 | 3,393 | 11,981 |
| Ongoing fees and finance income[3] | 2,828 | 454 | 3,282 |
| Joint revenue sharing arrangements fixed fees[4] | 2,762 | (1,740) | 1,022 |
| Theater system maintenance | 12,335 | | 12,335 |
| Other theater | 2,255 | | 2,255 |
| | 28,768 | 2,107 | 30,875 |
| **New business** | 3,116 | | 3,116 |
| **Other** | | | |
| Film post-production | 1,087 | | 1,087 |

| | | | |
|---|---|---|---|
| Film distribution | 1,273 | | 1,273 |
| Other | 1,103 | | 1,103 |
| | 3,463 | | 3,463 |
| Total | $ 97,833 | $ 512 | $ 98,345 |

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| | Six Months Ended June 30, 2018 | | |
|---|---|---|---|
| | Pre-adoption of ASC Topic 606 | ASC Topic 606 Adjustments | As reported |
| **Network business** | | | |
| IMAX DMR | $ 63,214 | $ | $ 63,214 |
| Joint revenue sharing arrangements contingent rent[1] | 44,381 | (1,788) | 42,593 |
| IMAX systems contingent rent[1] | 1,327 | (1,327) | |
| | 108,922 | (3,115) | 105,807 |
| **Theater business** | | | |
| IMAX systems | | | |
| Sales and sales-type leases[2] | 23,498 | 6,620 | 30,118 |
| Ongoing fees and finance income[3] | 5,431 | 581 | 6,012 |
| Joint revenue sharing arrangements fixed fees[4] | 3,927 | (2,905) | 1,022 |
| Theater system maintenance | 25,047 | | 25,047 |
| Other theater | 3,631 | | 3,631 |
| | 61,534 | 4,296 | 65,830 |
| **New business** | **3,723** | | **3,723** |
| **Other** | | | |
| Film post-production | 4,250 | | 4,250 |
| Film distribution | 1,844 | | 1,844 |
| Other | 1,875 | | 1,875 |
| | 7,969 | | 7,969 |
| Total | $ 182,148 | $ 1,181 | $ 183,329 |

(1) Contingent rent of $1.1 million and $1.8 million, respectively in the three and six months ended June 30, 2018, related to theater systems under hybrid sales arrangements and $0.5 million and $1.3 million, respectively in the three and six months ended June 30, 2018 related to theater systems under sales arrangements was recognized in the Company s transition adjustment.

(2) Variable consideration of $1.7 million and $3.3 million, respectively in the three and six months ended June 30, 2018 relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the respective period and the fixed consideration recognized for theater systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.

(3) Finance income of $0.5 million and $0.6 million, respectively in the three and six months ended June 30, 2018 was recognized on the future consideration related to contracts.

(4) Fixed consideration of $1.7 million and $2.9 million, respectively in the three and six months ended June 30, 2018 related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and sales-type leases.

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Upon adoption of ASC Topic 606 the Company has evaluated its revenue streams by reportable segment and scoped out lease arrangements in accordance with the standard. The following table presents a breakdown of the Company s revenues whereby fixed and variable consideration are subject to the new standard:

| | Three Months Ended June 30, 2018 | | | |
|---|---|---|---|---|
| | Subject to the New Revenue Recognition Standard | | Subject to the Lease Standard | |
| | Fixed consideration | Variable consideration | Lease arrangements | Total |
| **Network business** | | | | |
| IMAX DMR | $ | $ 36,161 | $ | $ 36,161 |
| Joint revenue sharing arrangements contingent rent | | | 24,730 | 24,730 |
| IMAX systems contingent rent | | | | |
| | | 36,161 | 24,730 | 60,891 |
| **Theater business** | | | | |
| IMAX systems | | | | |
| Sales and sales-type leases | 9,874 | 2,107 | | 11,981 |
| Ongoing fees and finance income | 3,282 | | | 3,282 |
| Joint revenue sharing arrangements fixed fees | 1,022 | | | 1,022 |
| Theater system maintenance | 12,335 | | | 12,335 |
| Other theater | 2,255 | | | 2,255 |
| | 28,768 | 2,107 | | 30,875 |
| **New business** | 2,825 | 291 | | 3,116 |
| **Other** | | | | |
| Film post-production | 1,087 | | | 1,087 |
| Film distribution | | 1,273 | | 1,273 |
| Other | | 1,103 | | 1,103 |
| | 1,087 | 2,376 | | 3,463 |
| Total | $ 32,680 | $ 40,935 | $ 24,730 | $ 98,345 |

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| | Six Months Ended June 30, 2018 | | | |
|---|---|---|---|---|
| | Subject to the New Revenue Recognition Standard | | Subject to the Lease Standard | |
| | Fixed consideration | Variable consideration | Lease arrangements | Total |
| **Network business** | | | | |
| IMAX DMR | $ | $ 63,214 | $ | $ 63,214 |
| Joint revenue sharing arrangements contingent rent | | | 42,593 | 42,593 |
| IMAX systems contingent rent | | 63,214 | 42,593 | 105,807 |
| **Theater business** | | | | |
| IMAX systems | | | | |
| Sales and sales-type leases | 25,822 | 4,296 | | 30,118 |
| Ongoing fees and finance income | 6,012 | | | 6,012 |
| Joint revenue sharing arrangements fixed fees | 1,022 | | | 1,022 |
| Theater system maintenance | 25,047 | | | 25,047 |
| Other theater | 3,631 | | | 3,631 |
| | 61,534 | 4,296 | | 65,830 |
| **New business** | 2,825 | 898 | | 3,723 |
| **Other** | | | | |
| Film post-production | 4,250 | | | 4,250 |
| Film distribution | | 1,844 | | 1,844 |
| Other | 50 | 1,825 | | 1,875 |
| | 4,300 | 3,669 | | 7,969 |
| Total | $ 68,659 | $ 72,077 | $ 42,593 | $ 183,329 |

The following table presents the impact from the adoption of ASC Topic 606 on the Company s assets and liabilities in the condensed consolidated balance sheet:

| | Balance at December 31, 2017 | ASC Topic 606 Adjustments | Balance at January 1, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Other Assets | $ 26,757 | $ 34,384 | $ 61,141 |

| | | | |
|---|---|---|---|
| Deferred income taxes | 30,708 | (6,436) | 24,272 |
| **Shareholders equity** | | | |
| Accumulated deficit | (87,592) | 27,213 | (60,379) |
| Non-controlling interests | 74,511 | 735 | 75,246 |

The Company has not experienced any significant true-ups or downs of its transition amounts.

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The following describes the Company s updated revenue recognition policy to reflect the adoption of ASC Topic 606:

*Contracts with Multiple Performance Obligations*

The Company s revenue arrangements with certain customers may involve performance obligations consisting of the delivery of a theater system (projector, sound system, screen system and, if applicable, 3D glasses cleaning machine); services associated with the theater system including theater design support, supervision of installation, and projectionist training; a license to use the IMAX brand; 3D glasses; maintenance and extended warranty services; and licensing of films. The Company evaluates all of the performance obligations in an arrangement to determine which are considered distinct, either individually or in a group, for accounting purposes and which of the deliverables represent separate units of accounting based on the applicable accounting guidance in the Leases Topic of the FASB ASC; the Guarantees Topic of the FASB ASC; and the Revenue Recognition Topic of the FASB. If separate units of accounting are either required under the relevant accounting standards or determined to be applicable under the Revenue Recognition Topic, the total consideration received or receivable in the arrangement is allocated based on the applicable guidance in the above noted standards.

*Theater Systems*

The Company has identified 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 to be, as a group, a distinct performance obligation, and a single unit of accounting (the System Obligation ). When an arrangement does not include all the performance obligations of a System Obligation, the performance obligations of the System Obligation included in the arrangement are considered by the Company to be a grouped distinct performance obligation and a single unit of accounting. The Company is not responsible for the physical installation of the equipment in the customer s facility; however, the Company supervises the installation by the customer. The customer has the right to use the IMAX brand from the date the Company and the customer enter into an arrangement.

The Company s System Obligation arrangements involve either a lease or a sale of the theater system. Consideration for the System Obligation, other than for those delivered pursuant to joint revenue sharing arrangements, consist of upfront or initial payments made before and after the final installation of the theater system equipment and ongoing payments throughout the term of the lease or over a period of time, as specified in the arrangement. The ongoing payments are the greater of an annual fixed minimum amount or a certain percentage of the theater box-office. Amounts received in excess of the annual fixed minimum amounts are considered contingent payments. The Company s arrangements are non-cancellable, unless the Company fails to perform its obligations. In the absence of a material default by the Company, there is no right to any remedy for the customer under the Company s arrangements. If a material default by the Company exists, the customer has the right to terminate the arrangement and seek a refund only if the customer provides notice to the Company of a material default and only if the Company does not cure the default within a specified period.

Consideration is allocated to each unit of accounting based on the unit s relative selling prices. The Company uses vender-specific objective evidence of selling price (VSOE) when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. VSOE is established for the Company s System Obligation, maintenance and extended warranty services and film license arrangements. The Company uses a best estimate of selling price (BESP) for units of accounting that do not have VSOE or third-party evidence of selling price. The Company determines BESP for a deliverable by considering multiple factors including the Company s historical pricing practices, product class, market competition and geography.

*Sales Arrangements*

For arrangements qualifying as sales, the revenue allocated to the System Obligation is recognized in accordance with the Revenue Recognition Topic of the FASB ASC, when all of the following conditions signifying transfer of control have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided there is persuasive evidence of an arrangement, the price is fixed or determinable and collectability is reasonably assured.

The initial revenue recognized consists of the initial payments received and the present value of any future initial payments, fixed minimum ongoing payments and an estimate of future variable consideration (future CPI and additional payments in excess of the minimums in the case of full sale arrangements or a percentage of ongoing box office in the case of hybrid sales arrangements) that have been attributed to this unit of accounting.

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The Company has also agreed, on occasion, to sell equipment under lease or at the end of a lease term. Consideration agreed to for these lease buyouts is included in revenues from equipment and product sales, when persuasive evidence of an arrangement exists, the fees are fixed or determinable, collectability is reasonably assured and control of the theater system passes from the Company to the customer.

Taxes assessed by governmental authorities that are both imposed on and concurrent with the specific revenue-producing transactions and collected by the Company have been excluded from the measurement of the transaction prices discussed above.

*Lease Arrangements*

The Company uses the Leases Topic of FASB ASC to evaluate whether an arrangement is a lease within the scope of the accounting standard. Transactions accounted for under the Leases Topic of FASB ASC are not within the scope of Topic 606. Arrangements not within the scope of the accounting standard are accounted for either as a sales or services arrangement, as applicable.

For lease arrangements, the Company determines the classification of the lease in accordance with the Lease Topic of FASB ASC. A lease arrangement that transfers substantially all of the benefits and risks incident to ownership of the equipment is classified as a sales-type lease based on the criteria established by the accounting standard; otherwise the lease is classified as an operating lease. Prior to commencement of the lease term for the equipment, the Company may modify certain payment terms or make concessions. If these circumstances occur, the Company reassesses the classification of the lease based on the modified terms and conditions.

For sales-type leases, the revenue allocated to the System Obligation is recognized when the lease term commences, which the Company deems to be when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition; (ii) the 3D glasses cleaning machine, if applicable, has been delivered; (iii) projectionist training has been completed; and (iv) the earlier of (a) receipt of the written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided collectability is reasonably assured.

The initial revenue recognized for sales-type leases consists of the initial payments received and the present value of future initial payments and fixed minimum ongoing payments computed at the interest rate implicit in the lease. Contingent payments in excess of the fixed minimum payments are recognized when reported by theater operators, provided collectability is reasonably assured.

For operating leases, initial payments and fixed minimum ongoing payments are recognized as revenue on a straight-line basis over the lease term. For operating leases, the lease term is considered to commence when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and in full working condition; (ii) the 3D glasses cleaning machine, if applicable, has been delivered; (iii) projectionist training has been completed; and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater. Contingent payments in excess of fixed minimum ongoing payments are recognized as revenue when reported by theater operators, provided collectability is reasonably assured.

Revenues from joint revenue sharing arrangements with upfront payments that qualify for classification as sales-type leases are recognized in accordance with the sales and sales-type lease criteria discussed above. Contingent revenues from joint revenue sharing arrangements are recognized as box-office results and concessions revenues are reported by the theater operator, provided collectability is reasonably assured.

*Finance Income*

Finance income is recognized over the term of the sales-type lease or financed sales receivable, provided collectability is reasonably assured. Finance income recognition ceases when the Company determines that the associated receivable is not collectible.

Finance income is suspended when the Company identifies a theater that is delinquent, non-responsive or not negotiating in good faith with the Company. Once the collectability issues are resolved the Company will resume recognition of finance income.

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*Improvements and Modifications*

Improvements and modifications to the theater system after installation are treated as separate revenue transactions, if and when the Company is requested to perform these services. Revenue is recognized for these services when the performance of the services has been completed, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectability is reasonably assured.

*Cost of Equipment and Product Sales*

Theater systems and other equipment subject to sales-type leases and sales arrangements includes the cost of the equipment and costs related to project management, design, delivery and installation supervision services as applicable. The costs related to theater systems under sales and sales-type lease arrangements are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met. In addition, the Company defers direct selling costs such as sales commissions and other amounts related to these contracts until the related revenue is recognized. The Company may have warranty obligations at or after the time revenue is recognized which require replacement of certain parts that do not affect the functionality of the theater system or services. The costs for warranty obligations for known issues are accrued as charges to costs and expenses applicable to revenues-equipment and product sales at the time revenue is recognized based on the Company s past historical experience and cost estimates.

*Cost of Rentals*

For theater systems and other equipment subject to an operating lease or placed in a theater operators venue under a joint revenue sharing arrangement, the cost of equipment and those costs that result directly from and are essential to the arrangement, is included within property, plant and equipment. Depreciation and impairment losses, if any, are included in cost of rentals based on the accounting policy set out in note 2(g) of the Company s Form 10-K. Under the new standard, commissions continue to be deferred and recognized as costs and expenses applicable to revenues-rentals in the month they are earned, which is typically the month of installation.

*Terminations, Consensual Buyouts and Concessions*

The Company enters into theater system arrangements with customers that contain customer payment obligations prior to the scheduled installation of the theater system. During the period of time between signing and the installation of the theater system, which may extend several years, certain customers may be unable to, or may elect not to, proceed with the theater system installation for a number of reasons including business considerations, or the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the arrangement may be terminated under the default provisions of the arrangement or by mutual agreement between the Company and the customer (a consensual buyout ). Terminations by default are situations when a customer does not meet the payment obligations under an arrangement and the Company retains the amounts paid by the customer. Under a consensual buyout, the Company and the customer agree, in writing, to a settlement and to release each other of any further obligations under the arrangement or an arbitrated settlement is reached. Any initial payments retained or additional payments received by the Company are recognized as revenue when the settlement arrangements are executed and the cash is received, respectively. These termination and consensual buyout amounts are recognized in Other revenues.

In addition, the Company could agree with customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX digital theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new

arrangement for the IMAX digital theater system. For all arrangements entered into or modified prior to the date of adoption of the amended FASB ASC 605-25, the Company continues to defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the selling price of the IMAX digital theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed. Under the amended FASB ASC 605-25, for all arrangements entered into or materially modified after the date of adoption, the total arrangement consideration to be received is allocated on a relative selling price basis to the digital upgrade and the termination of the previous theater system. The arrangement consideration allocated to the termination of the existing arrangement is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed.

The Company may offer certain incentives to customers to complete theater system transactions including payment concessions or free services and products such as film licenses or 3D glasses. Reductions in, and deferral of, payments are taken into account in determining the sales price either by a direct reduction in the sales price or a reduction of payments to be discounted in accordance with

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the Leases or Interests Topic of the FASB ASC. Free products and services are accounted for as separate units of accounting. Other consideration given by the Company to customers are accounted for in accordance with the Revenue Recognition Topic of the FASB ASC.

*Maintenance and Extended Warranty Services*

Maintenance and extended warranty services may be provided under a multiple element arrangement or as a separately priced contract. Revenues related to these services are deferred and recognized on a straight-line basis over the contract period and are recognized in Services revenues. Maintenance and extended warranty services includes maintenance of the customer s equipment and replacement parts. Under certain maintenance arrangements, maintenance services may include additional training services to the customer s technicians. All costs associated with this maintenance and extended warranty program are expensed as incurred. A loss on maintenance and extended warranty services is recognized if the expected cost of providing the services under the contracts exceeds the related deferred revenue. As the maintenance services are a stand ready obligation with the cost of providing the service expected to increase throughout the term, revenue is recognized over the term of the arrangement such that increased amounts are recognized in later periods.

*Film Production and IMAX DMR Services*

In certain film arrangements, the Company produces a film financed by third parties whereby the third party retains the copyright and the Company obtains exclusive distribution rights. Under these arrangements, the Company is entitled to receive a fixed fee or to retain as a fee the excess of funding over cost of production (the production fee ). The third parties receive a portion of the revenues received by the Company from distributing the film, which is charged to costs and expenses applicable to revenues-services. The production fees are deferred, and recognized as a reduction in the cost of the film based on the ratio of the Company s distribution revenues recognized in the current period to the ultimate distribution revenues expected from the film. Film exploitation costs, including advertising and marketing are recorded in costs and expenses applicable to revenues-services as incurred.

Revenue from film production services where the Company does not hold the associated distribution rights are recognized in Services revenues when performance of the contractual service is complete, provided there is persuasive evidence of an agreement, the fee is fixed or determinable and collectability is reasonably assured.

Revenues from digitally re-mastering (IMAX DMR) films where third parties own or hold the copyrights and the rights to distribute the film are derived in the form of processing fees for the application of the Company s patented processes calculated as a percentage of box-office receipts generated from the re-mastered films. Since these fees are subject to the sales-based royalty exception, they are recognized as Services revenues when box-office receipts are reported by the third party that owns or holds the related film rights, provided collectability is reasonably assured.

Losses on film production and IMAX DMR services are recognized as costs and expenses applicable to revenues-services in the period when it is determined that the Company s estimate of total revenues to be realized by the Company will not exceed estimated total production costs to be expended on the film production and the cost of IMAX DMR services.

*Film Distribution*

Revenue from the flat-fee licensing of films whose distribution rights are owned by the Company is recognized in Services revenues when persuasive evidence of a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed or determinable and collectability is reasonably assured. When

license fees are based on a percentage of box-office receipts, the revenue is subject to the sales-based royalty exception and is recognized when box-office receipts are reported by exhibitors, provided collectability is reasonably assured. Film exploitation costs, including advertising and marketing, are recorded in costs and expenses applicable to revenues-services as incurred.

*Film Post-Production Services*

Revenues from post-production film services are recognized in Services revenues when performance of the contracted services is complete provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectability is reasonably assured.

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*Other*

The Company recognizes revenue in Services revenues from its owned and operated theaters resulting from box-office ticket and concession sales as tickets are sold, films are shown and upon the sale of various concessions. The sales are cash or credit card transactions with theater goers based on fixed prices per seat or per concession item.

In addition, the Company enters into commercial arrangements with third party theater owners resulting in the sharing of profits and losses which are recognized in Services revenues when reported by such theaters. The Company also provides management services to certain theaters and recognizes revenue over the term of such services.

Revenues on camera rentals are recognized in Rental revenues over the rental period.

Revenue from the sale of 3D glasses is recognized in Equipment and product sales revenue when the 3D glasses have been delivered to the customer.

Other service revenues are recognized in Service revenues when the performance of contracted services is complete.

**4. Financing Receivables**

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

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Gross minimum lease payments receivable | $ 7,961 | $ 8,537 |
| Unearned finance income | (1,026) | (1,147) |
| Minimum lease payments receivable | 6,935 | 7,390 |
| Accumulated allowance for uncollectible amounts | (155) | (155) |
| Net investment in leases | 6,780 | 7,235 |
| Gross financed sales receivables | 157,052 | 162,522 |
| Unearned finance income | (37,237) | (39,341) |
| Financed sales receivables | 119,815 | 123,181 |
| Accumulated allowance for uncollectible amounts | (839) | (922) |
| Net financed sales receivables | 118,976 | 122,259 |
| Total financing receivables | $ 125,756 | $ 129,494 |
| Net financed sales receivables due within one year | $ 25,721 | $ 25,455 |
| Net financed sales receivables due after one year | $ 93,255 | $ 96,804 |

As at June 30, 2018, the financed sale receivables had a weighted average effective interest rate of 8.9% (December 31, 2017 9.1%).

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**5. Inventories**

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Raw materials | $ 25,907 | $ 21,206 |
| Work-in-process | 4,027 | 2,601 |
| Finished goods | 10,771 | 6,981 |
| | $ 40,705 | $ 30,788 |

At June 30, 2018, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to $4.1 million (December 31, 2017 $4.9 million).

During the three and six months ended June 30, 2018, the Company recognized write-downs for excess and obsolete inventory based on current estimates of net realizable value considering future events and conditions of $nil and $nil, respectively (2017 less than $0.1 million and less than $0.1 million, respectively).

**6. Property, Plant and Equipment**

| | As at June 30, 2018 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value |
| Equipment leased or held for use | | | |
| Theater system components | $ 271,303 | $ 113,578 | $ 157,725 |
| Camera equipment | 5,757 | 4,220 | 1,537 |
| | 277,060 | 117,798 | 159,262 |
| Assets under construction | 24,435 | | 24,435 |
| Other property, plant and equipment | | | |
| Land | 8,203 | | 8,203 |
| Buildings | 75,880 | 18,659 | 57,221 |
| Office and production equipment | 45,620 | 25,250 | 20,370 |
| Leasehold improvements | 11,044 | 4,406 | 6,638 |
| | 140,747 | 48,315 | 92,432 |
| | $ 442,242 | $ 166,113 | $ 276,129 |

| | As at December 31, 2017 | | |
|---|---|---|---|
| | | Accumulated | |

| | Cost | Depreciation | Net Book Value |
|---|---|---|---|
| Equipment leased or held for use | | | |
| Theater system components | $ 264,259 | $ 103,922 | $ 160,337 |
| Camera equipment | 5,757 | 3,939 | 1,818 |
| | 270,016 | 107,861 | 162,155 |
| Assets under construction | 23,398 | | 23,398 |
| Other property, plant and equipment | | | |
| Land | 8,203 | | 8,203 |
| Buildings | 74,478 | 17,364 | 57,114 |
| Office and production equipment | 40,442 | 22,164 | 18,278 |
| Leasehold improvements | 10,974 | 3,341 | 7,633 |
| | 134,097 | 42,869 | 91,228 |
| | $ 427,511 | $ 150,730 | $ 276,781 |

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The Company recognized asset impairment charges of $0.8 million in the six months ended June 30, 2018 (2017 $0.6 million) against property, plant and equipment after an assessment of the carrying value of certain assets in light of their future expected cash flows. In 2017, the Company also recognized property, plant and equipment impairment charges of $3.7 million. No such charge was recognized in the six months ended June 30, 2018.

**7. Other Intangible Assets**

| | As at June 30, 2018 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Patents and trademarks | $ 12,592 | $ 8,106 | $ 4,486 |
| Licenses and intellectual property | 21,168 | 8,038 | 13,130 |
| Other | 20,784 | 7,944 | 12,840 |
| | $ 54,544 | $ 24,088 | $ 30,456 |

| | As at December 31, 2017 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Patents and trademarks | $ 12,184 | $ 7,710 | $ 4,474 |
| Licenses and intellectual property | 21,471 | 7,800 | 13,671 |
| Other | 19,529 | 6,463 | 13,066 |
| | $ 53,184 | $ 21,973 | $ 31,211 |

Other intangible assets of $20.8 million are comprised mainly of the Company s investment in an enterprise resource planning system. Fully amortized other intangible assets of $5.9 million are still in use by the Company.

During the six months ended June 30, 2018, the Company acquired $1.7 million in other intangible assets. The weighted average amortization period for these additions was 10 years.

During the three and six months ended June 30, 2018, the Company incurred costs of $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 (2017 less than $0.1 million and $0.1 million, respectively).

As at June 30, 2018, estimated amortization expense for each of the years ended December 31, are as follows:

| | |
|---|---|
| 2018 (six months remaining) | $ 2,507 |
| 2019 | 5,015 |
| 2020 | 5,015 |
| 2021 | 5,015 |

| | |
|---|---|
| 2022 | 5,015 |

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**8. Credit Facility and Other Financing Arrangements**

*Credit Facility*

On June 28, 2018, the Company entered into a Fifth Amended and Restated Credit Agreement (the Credit Agreement ) with Wells Fargo Bank, National Association, as agent, and a syndicate of lenders party thereto. The Credit Agreement expands the Company s revolving borrowing capacity from $200.0 million to $300.0 million, and also contains an uncommitted accordion feature allowing the Company to further expand its borrowing capacity to $440.0 million or greater, depending on the mix of revolving and term loans comprising the incremental facility. The new facility (the new Credit Facility ) matures on June 28, 2023.

Loans under the new Credit Facility will bear interest, at the Company s option, at (i) LIBOR plus a margin ranging from 1.00% to 1.75% per annum; or (ii) the U.S. base rate plus a margin ranging from 0.25% to 1.00% per annum, in each case depending on the Company s Total Leverage Ratio (as defined in the Credit Agreement). In no event will the LIBOR rate be less than 0.00% per annum. The additional fees incurred as part of the new Credit Facility were $2.0 million.

The Credit Agreement requires that the Company maintain a Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) of no greater than 3.25:1. In addition, the Credit Agreement contains customary affirmative and negative covenants for a transaction of this type, including covenants that limit indebtedness, liens, capital expenditures, asset sales, investments and restricted payments, in each case subject to negotiated exceptions and baskets. The Credit Agreement also contains representations, warranties and event of default provisions customary for a transaction of this type.

The Company s obligations under the Credit Facility are guaranteed by certain of the Company s subsidiaries (the Guarantors ), and are secured by first-priority security interests in substantially all of the assets of the Company and the Guarantors.

The Company was in compliance with all of its requirements at June 30, 2018.

Total amounts drawn and available under the Credit Facility at June 30, 2018 were $nil and $300.0 million, respectively (December 31, 2017 $nil and $200.0 million, respectively). Subsequent to June 30, 2018, the Company borrowed $30.0 million under the Credit Facility to fully repay the Playa Vista Loan, referred to below, as well as fund working capital requirements.

As at June 30, 2018, the Company did not have any advance payment guarantees outstanding (December 31, 2017 $nil), under the Credit Facility.

*Working Capital Loan*

Subsequent to June 30, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. ( IMAX Shanghai ), the Company s majority-owned subsidiary in China, entered into an unsecured revolving facility for up to RMB 200.0 million (approximately USD $30.0 million) to fund ongoing working capital requirements.

*Playa Vista Financing*

In 2014, IMAX PV Development Inc., a wholly-owned subsidiary of the Company ( PV Borrower ), entered into a loan agreement with Wells Fargo to principally fund the costs of development and construction of the Company s new West

Coast headquarters, located in the Playa Vista neighborhood of Los Angeles, California (the Playa Vista Loan ).

At inception, the Playa Vista Loan was fully drawn at $30.0 million and bore interest at a variable rate per annum equal to 2.0% above the 30-day LIBOR rate. The Playa Vista Loan was to be fully due and payable on October 19, 2025 (the Maturity Date ), and could be prepaid at any time without premium, but with all accrued interest and other applicable payments.

As at June 30, 2018, bank indebtedness includes the following:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Playa Vista Loan | $ 24,667 | $ 25,667 |
| Deferred charges on debt financing | (290) | (310) |
| | $ 24,377 | $ 25,357 |

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Total amounts drawn under the loan at June 30, 2018 was $24.7 million (December 31, 2017 $25.7 million). The effective interest rate for the three and six months ended June 30, 2018 was 4.02% and 3.86%, respectively (2017 3.08% and 2.97%, respectively).

Subsequent to June 30, 2018, the Company extinguished the Playa Vista Loan in its entirety by borrowing under its Credit Facility.

*Wells Fargo Foreign Exchange Facility*

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. The settlement risk on its foreign currency forward contracts was $0.6 million at June 30, 2018, as the notional value exceeded the fair value of the forward contracts. As at June 30, 2018, the Company has $43.4 million in notional value of such arrangements outstanding.

*Bank of Montreal Facility*

As at June 30, 2018, the Company has available a $10.0 million facility (December 31, 2017 $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 June 30, 2018, the Company has outstanding letters of credit and advance payment guarantees outstanding of $0.1 million (December 31, 2017 $nil), under the Bank of Montreal Facility.

**9. Commitments, Contingencies and Guarantees**

***Commitments***

In the ordinary course of business, the Company enters into contractual agreements with third parties that include non-cancellable payment obligations, for which it is liable in future periods. These arrangements can include terms binding the Company to minimum payments and/or penalties if it terminates the agreement for any reason other than an event of default as described by the agreement.

The Company has a minimum commitment of $2.7 million toward the development, production, post-production and marketing related to certain film and new content initiatives. As of June 30, 2018, the Company has spent $2.7 million, and does not expect to spend any additional funds during the remainder of the year.

***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. 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 sought damages for alleged unpaid royalties, damages and other fees under the license and consulting agreements, and the Panel also permitted 3DMG to advance new damage theories. The ICDR held a final hearing in July and October 2017, the parties submitted final, post-hearing briefs in December 2017, and the ICDR held closing oral arguments in March 2018. On July 11, 2018, the ICDR issued a Partial Final Award that found for 3DMG on certain claims and for the Company on other claims. As part of the Partial Final

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Award, the ICDR awarded damages in favor of 3DMG in the amount of $8.8 million, which is inclusive of approximately $1.8 million in pre-award interest. The ICDR also set a schedule for briefing by the parties on the only claim remaining in the arbitration, which is the possible shifting of attorney fees and expenses. A charge of $7.5 million was recorded in the period to the Legal arbitration award financial statement line item, reflecting current expectations of final settlement of the matter.

(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 and on June 10, 2013, the Bombay High Court ruled that it had jurisdiction over the proceeding filed by E-City. The Company appealed that ruling to the Supreme Court of India, and on March 10, 2017, the Supreme Court set aside the Bombay High Court s judgement and dismissed E-City s petition. On March 29, 2017, the Company filed an Execution Application in the Bombay High Court seeking to enforce the ICC award against E-City and several related parties. That matter is currently pending. The Company has also taken steps to enforce the ICC final award outside of India. In December 2011, the Ontario Superior Court of Justice issued an order recognizing the final award and requiring E-City to pay the Company $30,000 to cover the costs of the application, and in October 2015, the New York Supreme Court recognized the Canadian judgment and entered it as a New York judgment. The Company intends to continue pursuing its rights and seeking to enforce the award, although no assurances can be given with respect to the ultimate outcome.

(c) In March 2013, IMAX (Shanghai), received notice from the Shanghai office of the General Administration of Customs ( Customs Authority ) that it had been selected for a customs audit (the Audit ). In the course of the Audit, the Customs Authority discovered the underpayment by IMAX Shanghai of the freight and insurance portion of the customs duties and taxes applicable to the importation of certain IMAX theater systems during the period from October 2011 through March 2013. Though IMAX Shanghai s importation agent accepted responsibility for the error giving rise to the underpayment, the matter was transferred first to the Anti-Smuggling Bureau (the ASB ) of the Customs Authority and then to the Third Division of Shanghai People s Procuratorate for further review. During the year ended December 31, 2017, at the request of the ASB, IMAX Shanghai paid approximately $0.15 million to the ASB to satisfy the amount owing as a result of the underpayment. Given that the amount of the underpayment exceeds RMB 200,000 (the applicable ASB threshold), the Company has been advised that the matter may be treated as a criminal rather than as an administrative matter. During the year ended December 31, 2017, IMAX Shanghai recorded an estimate of $0.3 million in respect of fines that it believes are likely to result from the matter. IMAX Shanghai has been advised that the range of potential penalties is between three and five times the underpayment depending on whether the matter is assessed as criminal or administrative; however, the actual amount of any fines or other penalties remains unknown and the Company cautions that these actual fines or other penalties maybe be greater or less than the amount accrued or the expected range.

(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. 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 sought to recover from the Company. The Company asserted a counterclaim against Giencourt for breach of contract and sought to recover lost profits in excess of $24.0 million under the agreements.

Subsequently, in December 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 panel held a final hearing with closing arguments in October 2016. On February 7, 2017, the panel issued a Partial Final Award and on July 21, 2017, the panel issued a Final Award (collectively, the Award ), which held that the parties had reached a binding settlement, and therefore the panel did not reach the merits of the dispute. The Company strongly disputes that discussions about a potential resolution of this matter amounted to an enforceable settlement. In October 2017, the Company filed a petition to vacate the arbitration award in the United States Court for the Southern District of Florida on various grounds, including that the panel exceeded its jurisdiction. The petition is still pending. At this time, the Company is unable to determine the amounts that it may owe pursuant to the Award, or the timing of any such payments, and therefore no assurances can be given with respect to the ultimate outcome of the matter.

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(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 Company s accrual for product warranties, that was recorded as part of accrued and other liabilities in the condensed consolidated balance sheets was $0.2 million and $0.1 million at June 30, 2018 and December 31, 2017, respectively.

*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. In addition, the Company has entered into indemnification agreements with each of its directors in order to effectuate the foregoing. 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 sheets as at June 30, 2018 and December 31, 2017, with respect to this indemnity.

*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.

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**10. 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 $0.5 million and $1.2 million for the three and six months ended June 30, 2018 (2017 $0.8 million and $1.1 million, respectively).

Film exploitation costs, including advertising and marketing, totaled $7.3 million and $12.6 million for the three and six months ended June 30, 2018 (2017 $4.1 million and $6.6 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 $0.5 million and $0.6 million for the three and six months ended June 30, 2018 (2017 $0.4 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 $0.6 million and $0.7 million for the three and six months ended June 30, 2018 (2017 $0.4 million and $0.7 million, respectively).

***(b) Foreign Exchange***

Included in selling, general and administrative expenses for the three and six months ended June 30, 2018 is a loss of $1.0 million and a loss of $1.1 million, respectively (2017 gain of $0.2 million and gain of $0.2 million, respectively), for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 16(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.

The Company has signed joint revenue sharing agreements with 39 exhibitors for a total of 1,192 theater systems, of which 738 theaters were operating as at June 30, 2018, 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 3.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Revenue Equipment and product sales and Rentals and for the three and six months

ended June 30, 2018 amounted to $25.7 million and $43.6 million, respectively (2017 $20.3 million and $36.0 million, respectively).

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*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 box-office receipts of the film, which in recent years has averaged approximately 12.5% outside of Greater China and a lower percentage for certain films within Greater China. The Company does not typically hold distribution rights or the copyright to these films.

For the six months ended June 30, 2018, the majority of IMAX DMR revenue was earned from the exhibition of 33 IMAX DMR films (2017 33) throughout the IMAX theater network.

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 six months ended June 30, 2018 amounted to $36.1 million and $63.2 million, respectively (2017 $27.8 million and $51.2 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.

As at June 30, 2018, the Company has two significant co-produced film arrangements which represent the VIE total assets balance of $14.8 million and liabilities balance of $13.7 million and three other co-produced film arrangements, the terms of which are similar. The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) of the Company s 2017 Form 10-K, and in note 3.

For the three and six months ended June 30, 2018, amounts totaling a recovery of less than $0.1 million and expense of $0.2 million, respectively (2017 expense of $0.2 million and $0.7 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.

As at June 30, 2018, the Company is participating in one significant co-produced television arrangement. This arrangement is not a VIE.

For the three and six months ended June 30, 2018, revenues of less than $0.1 million and $0.4 million, respectively (2017 $nil and $nil, respectively) and costs and expenses applicable to revenues of less than $0.1 million and $0.5 million, respectively (2017 $0.8 million and $0.8 million, respectively) attributable to this collaborative arrangement have been recorded in Revenue Services and Costs and expenses applicable to Revenues Services, respectively.

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**11. Condensed Consolidated Statements of Cash Flows Supplemental Information**

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

| | Six Months Ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| Decrease (increase) in: | | |
| Accounts receivable | $ 16,212 | $ (1,881) |
| Financing receivables | 3,192 | 3,065 |
| Inventories | (9,916) | 810 |
| Prepaid expenses | (1,852) | (2,829) |
| Other assets | (444) | (191) |
| Increase (decrease) in: | | |
| Accounts payable | (9,161) | 1,816 |
| Accrued and other liabilities | 4,709 | (16,267) |
| Deferred revenue | (2,954) | 23,361 |
| | $ (214) | $ 7,884 |

(b) Cash payments made on account of:

| | Six Months Ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| Income taxes | $ 8,224 | $ 13,625 |
| Interest | $ 561 | $ 395 |

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

| | Six Months Ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| Film assets | $ 8,053 | $ 8,347 |
| Property, plant and equipment | | |
| Joint revenue sharing arrangements | 10,040 | 8,596 |
| Other property, plant and equipment | 6,376 | 5,674 |
| Other intangible assets | 2,398 | 2,030 |
| Other assets | 612 | 446 |
| Deferred financing costs | 555 | 261 |

| | | |
|---|---|---|
| | $ 28,034 | $ 25,354 |

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Accounts receivable | $ 706 | $ 2,164 |
| Property, plant and equipment [1][3] | 506 | 4,273 |
| Joint revenue sharing arrangements [1] | 336 | |
| Financing receivables | 100 | 186 |
| Other intangible assets | 38 | |
| Film assets [2][3] | | 4,963 |
| Other assets [3] | | 1,522 |
| Inventories | | 47 |
| | $ 1,686 | $ 13,155 |

(1) The Company recognized asset impairment charges of $0.8 million (2017 $0.6 million) against property, plant and equipment after an assessment of the carrying value of certain assets in light of their future expected cash flows.

(2) The Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period and revised expectations for future revenues based on the latest information available. In the six months ended June 30, 2017, an impairment of $4.6 million was recorded based on the carrying value of these documentary films as compared to the related estimated future box office and revenues that would ultimately be generated by these films. No such impairment was recognized in the six months ended June 30, 2018.

(3) In 2017, as a result of the Company s restructuring activities, certain long-lived assets were deemed to be impaired as the Company s exit from certain activities limited the future revenue associated with these assets. The Company recognized film impairment charges of $0.3 million, property, plant and equipment charges of $3.7 million and other asset charges of $1.5 million. See note 18 for additional details.

(e) Significant non-cash investing and financing activities are comprised of the following:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Net accruals related to: | | |
| Purchases of property, plant and equipment | $ 500 | $ 1,293 |
| Investment in joint revenue sharing arrangements | (20) | (4,612) |
| Acquisition of other intangible assets | (23) | 74 |

| | | |
|---|---|---|
| | $ 457 | $ (3,245) |

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**12. 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 June 30, 2018, 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 June 30, 2018, the Company had net deferred income tax assets after valuation allowance of $24.4 million (December 31, 2017 $30.7 million), which consists of a gross deferred income tax asset of $24.6 million (December 31, 2017 $30.9 million), against which the Company is carrying a $0.2 million valuation allowance (December 31, 2017 $0.2 million).

For the quarter ended June 30, 2018, the Company recorded a provision for income taxes of $3.6 million. Included in the provision for income taxes was $0.4 million related to its provision for uncertain tax positions and a $0.5 million provision related to stock-based compensation costs recognized in the period as the tax deduction was less than the cumulative book expense recorded.

On December 22, 2017, the SEC issued Staff Accounting Bulletin ( SAB 118 ), which provides guidance on accounting for tax effects of the Tax Act when a company does not have all the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effect of the changes in the Tax Act. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate to be included in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately before the enactment of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. While the Company is able to make reasonable estimates of the impact of the reduction in corporate rate and other changes in the legislation the final impact of the Tax Act may differ from these estimates, due to, among other things, changes in interpretations and assumptions, additional guidance that may be issued by the I.R.S., and actions the Company may take.

The effect of the provisional re-measurement on deferred taxes due to the Tax Reform was reflected entirely in 2017. As of December 31, 2017, the Company was able to determine a reasonable estimate of the effects of tax reform and recorded that estimate as a provisional amount. The provisional re-measurement of the deferred tax assets and liabilities resulted in a $9.3 million discrete tax provision for the year. The provisional re-measurement amount may change as data becomes available allowing more accurate scheduling of the deferred tax assets and liabilities.

In addition, the Tax Act also included a number of other changes. The Company continues to monitor the impact of the Tax Act during the measurement period, which can range up to one-year, due to, among other things, further refinement of the Company s calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Act. No further changes have been reported as of June 30, 2018.

As a result, no U.S. income taxes have been provided for any undistributed foreign earnings, or any additional outside basis differences inherent in these foreign entities, as the Company is a Canadian corporation and these amounts continue to be indefinitely reinvested in foreign operations which are owned directly or indirectly.

The Company has not provided Canadian taxes on cumulative earnings of non-Canadian affiliates and associated companies that have been reinvested indefinitely. Taxes are provided for earnings of non-Canadian affiliates and associated companies when the Company determines that such earnings are no longer indefinitely reinvested.

Cash held outside of North America as at June 30, 2018 was $121.3 million (December 31, 2017 $119.4 million), of which $44.7 million was held in the People s Republic of China ( PRC ) (December 31, 2017 $32.6 million). The Company s intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay

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these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be $8.2 million.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Unrealized change in cash flow hedging instruments | $ 178 | $ 26 | $ 441 | $ (56) |
| Realized change in cash flow hedging instruments upon settlement | 29 | (201) | 87 | (276) |
| | $ 207 | $ (175) | $ 528 | $ (332) |

**13. Capital Stock**

***(a) Stock-Based Compensation***

Compensation costs recorded in the condensed consolidated statements of operations for the Company s stock-based compensation plans were $6.8 million and $11.6 million for the three and six months ended June 30, 2018, respectively (2017 $6.9 million and $12.1 million, respectively). The following reflects the stock-based compensation expense recorded to the respective financial statement line items:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Cost and expenses applicable to revenues | $ 398 | $ 382 | $ 732 | $ 740 |
| Selling, general and administrative expenses | 6,242 | 6,236 | 10,659 | 10,998 |
| Research and development | 116 | 171 | 212 | 315 |
| Exit costs, restructuring charges and associated impairments | | 73 | (19) | 73 |
| | $ 6,756 | $ 6,862 | $ 11,584 | $ 12,126 |

The following reflects a breakdown of the Company s stock-based compensation expense by each plan type:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Stock options | $ 1,361 | $ 1,012 | $ 2,750 | $ 2,366 |

| | | | | |
|---|---|---|---|---|
| Restricted Share Units | 4,805 | 5,096 | 8,020 | 8,482 |
| China Long Term Incentive Plan Restricted Share Units | 537 | 244 | 720 | 412 |
| China Options | 53 | 381 | 94 | 631 |
| China Cash Settled Share-Based Payments | | 129 | | 235 |
| | $ 6,756 | $ 6,862 | $ 11,584 | $ 12,126 |

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*Stock Option Summary*

The following table summarizes certain information in respect of option activity under the Company s Stock Option Plan ( SOP ) and IMAX Amended and Restated Long Term Incentive Plan ( IMAX LTIP ) for the six months ended June 30:

| | Number of Shares | | Weighted Average Exercise Price Per Share | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Options outstanding, beginning of period | 5,082,100 | 5,190,542 | $ 29.31 | $ 28.35 |
| Granted | 878,629 | 679,030 | 22.06 | 32.16 |
| Exercised | | (658,341) | | 21.90 |
| Forfeited | (147,307) | (40,336) | 30.77 | 32.01 |
| Expired | (470,752) | (22,269) | 31.77 | 37.08 |
| Options outstanding, end of period | 5,342,670 | 5,148,626 | 27.86 | 29.61 |
| Options exercisable, end of period | 3,708,881 | 3,895,973 | 28.68 | 28.87 |

*Restricted Share Units ( RSU ) Summary*

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

| | Number of Awards | | Weighted Average Grant Date Fair Value Per Share | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| RSUs outstanding, beginning of period | 995,329 | 1,124,180 | $ 32.68 | $ 33.01 |
| Granted | 591,296 | 420,467 | 20.92 | 31.62 |
| Vested and settled | (335,308) | (252,567) | 31.02 | 30.06 |
| Forfeited | (53,029) | (49,047) | 31.33 | 32.14 |
| RSUs outstanding, end of period | 1,198,288 | 1,243,033 | 27.40 | 33.16 |

*Issuer Purchases of Equity Securities*

In 2017, the Company s Board of Directors approved a new $200.0 million share repurchase program for shares of the Company s common stock. The share repurchase program expires on June 30, 2020. 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 six months ended June 30, 2018, the Company repurchased 1,500,465 and 2,154,689 common shares, respectively (2017 1,736,150 and 1,736,150, respectively) at an average price of $22.01 and $21.54 per share, respectively (2017 $26.57 and $26.57 per share, respectively).

The total number of shares purchased during the three and six months ended June 30, 2018 does not include any shares purchased in the administration of employee share-based compensation plans (which amounted to nil and 300,000, respectively (2017 235,412 and 604,036, respectively) common shares, at an average price of $nil and $20.55 per share, respectively (2017 $31.96 and $32.32 per share, respectively)).

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***(b) Net Income (Loss) Per Share***

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Net income (loss) applicable to common shareholders | $ 7,625 | $ (1,712) | $ 16,130 | $ (1,637) |
| *Weighted average number of common shares (000 s):* | | | | |
| Issued and outstanding, beginning of period | 63,956 | 66,573 | 64,696 | 66,160 |
| Weighted average number of shares repurchased, net of shares issued, during the period | (642) | (780) | (765) | (84) |
| Weighted average number of shares used in computing basic income per share | 63,314 | 65,793 | 63,931 | 66,076 |
| Assumed exercise of stock options and RSUs, net of shares assumed repurchased | 112 | 199 | 75 | 472 |
| Weighted average number of shares used in computing diluted income per share | 63,426 | 65,992 | 64,006 | 66,548 |

The calculation of diluted earnings per share for the three and six months ended June 30, 2018 excludes 5,696,638 and 5,810,623 shares, respectively (2017 4,533,449 and 2,984,596 shares, respectively) that are issuable upon the vesting of 442,331 and 556,316 RSUs, respectively (2017 746,739 and 513,977 RSUs, respectively) and the exercise of 5,254,307 and 5,254,307 stock options, respectively (2017 3,786,710 and 2,470,619 stock options, respectively), as the impact would be antidilutive.

***(c) Shareholders Equity Attributable to Common Shareholders***

The following summarizes the movement of Shareholders Equity attributable to common shareholders for the six months ended June 30, 2018:

| | |
|---|---|
| Balance as at December 31, 2017 | $ 527,746 |
| Adjustments to capital stock: | |
| Average carrying value of repurchased and retired common shares | (14,794) |
| Share held in treasury | 497 |
| Adjustments to other equity: | |
| Employee stock options granted | 2,843 |
| RSUs granted | 8,740 |
| RSUs vested | (7,915) |
| | 799 |

| | | |
|---|---|---|
| Cash received from the issuance of common shares in excess of par value | | |
| Adjustments to accumulated deficit: | | |
| Net income attributable to common shareholders | | 16,130 |
| Adoption of ASC Topic 606, Revenue from Contracts with Customers | | 27,213 |
| Common shares repurchased and retired | | (31,659) |
| Adjustments to accumulated other comprehensive loss: | | |
| Unrealized net loss from cash flow hedging instruments | | (1,686) |
| Realization of cash flow hedging net gain upon settlement | | (332) |
| Foreign currency translation adjustments | | (646) |
| Tax effect of movement in other comprehensive loss | | 528 |
| Balance as at June 30, 2018 | $ | 527,464 |

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**14. Segmented Information**

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.

The Company s reportable segments are organized under four primary groups identified by nature of product sold or service provided: (1) Network Business, representing variable revenue generated by box office results and which includes the reportable segment of IMAX DMR and contingent rent from the joint revenue sharing arrangements and IMAX systems segments (effective January 1, 2018, the Company no longer includes hybrid joint revenue sharing arrangements, which take the form of a sale, in the joint revenue sharing arrangement reportable segment. These arrangements are now reflected under the IMAX systems segment of Theater Business); (2) Theater Business, representing revenue generated by the sale and installation of theater systems and maintenance services, primarily related to the IMAX Systems and Theater System Maintenance reportable segments, and also includes hybrid (fixed and contingent) revenues and upfront installation costs from sales arrangements previously reported in the joint revenue sharing arrangements segment and after-market sales of projection system parts and 3D glasses from the other segment; (3) New Business, which includes content licensing and distribution fees associated with the Company s original content investments, virtual reality initiatives, and other business initiatives that are in the development and/or start-up phase, and (4) Other; which includes the film post-production and distribution segments and certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items from the other segment. The Company is presenting information at a disaggregated level to provide more relevant information to readers, as permitted by the standard. On January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers, and all the related amendments on a prospective basis, refer to note 3 for additional information. In addition, refer to Item 2 of the Company s Form 10-Q for additional information regarding the four primary groups mentioned above.

Transactions between the film production 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.

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Revenue**[1] | | | | |
| Network business | | | | |
| IMAX DMR | $ 36,161 | $ 27,757 | $ 63,214 | $ 51,166 |
| Joint revenue sharing arrangements contingent rent[2] | 24,730 | 18,896 | 42,593 | 34,130 |
| IMAX systems contingent rent[2] | | 790 | | 1,478 |
| | 60,891 | 47,443 | 105,807 | 86,774 |
| Theater business | | | | |
| IMAX systems[2] | 15,263 | 18,738 | 36,130 | 28,265 |
| Joint revenue sharing arrangements fixed fees[2] | 1,022 | 1,408 | 1,022 | 1,878 |
| Theater system maintenance | 12,335 | 10,904 | 25,047 | 21,949 |
| Other theater | 2,255 | 1,699 | 3,631 | 3,864 |
| | 30,875 | 32,749 | 65,830 | 55,956 |
| New business | 3,116 | 1,311 | 3,723 | 2,591 |
| Other | | | | |
| Film post-production | 1,087 | 4,149 | 4,250 | 7,220 |
| Film distribution | 1,273 | 938 | 1,844 | 1,450 |
| Other | 1,103 | 1,168 | 1,875 | 2,423 |
| | 3,463 | 6,255 | 7,969 | 11,093 |
| Total | $ 98,345 | $ 87,758 | $ 183,329 | $ 156,414 |
| **Gross Margin** | | | | |
| Network business | | | | |
| IMAX DMR[3] | $ 24,280 | $ 16,998 | $ 43,063 | $ 34,466 |
| Joint revenue sharing arrangements contingent rent[2][3] | 18,621 | 13,668 | 31,362 | 23,920 |
| IMAX systems contingent rent[2] | | 790 | | 1,478 |
| | 42,901 | 31,456 | 74,425 | 59,864 |
| Theater business | | | | |
| IMAX systems[2][3] | 10,133 | 12,263 | 24,425 | 18,004 |
| Joint revenue sharing arrangements fixed fees[2][3] | 246 | 176 | 246 | 264 |
| Theater system maintenance | 5,088 | 4,434 | 11,292 | 8,683 |
| Other theater | 563 | 405 | 517 | 834 |
| | 16,030 | 17,278 | 36,480 | 27,785 |
| New business | 1,906 | (1,183) | 436 | (1,520) |

| | | | | |
|---|---|---|---|---|
| Other | | | | |
| Film post-production | (150) | 2,425 | 1,535 | 3,525 |
| Film distribution[3] | (237) | (427) | (1,476) | (4,190) |
| Other | (46) | (90) | (304) | (234) |
| | (433) | 1,908 | (245) | (899) |
| Total | $ 60,404 | $ 49,459 | $ 111,096 | $ 85,230 |

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(1) The Company s largest customer represented 18.7% and 18.0% of total revenues for the three and six months ended June 30, 2018, respectively (2017 15.1% and 15.8%, respectively).

(2) On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company s open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company s exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts. Refer to note 3 for additional information.

(3) IMAX DMR segment margins include marketing costs of $6.5 million and $10.6 million for the three and six months ended June 30, 2018, respectively (2017 $4.7 million and $7.3 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of $1.0 million and $1.2 million for the three and six months ended June 30, 2018, respectively (2017 $0.8 million and $1.2 million, respectively). IMAX systems segment margins include marketing and commission costs of $0.5 million and $1.2 million for the three and six months ended June 30, 2018, respectively (2017 $0.8 million and $1.1 million, respectively). Film distribution segment margins include marketing expense of $0.8 million and $2.0 million for the three and six months ended June 30, 2018, respectively (2017 a recovery of $0.6 million and a recovery of $0.7 million, respectively).

***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.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Revenue** | | | | |
| United States | $ 38,081 | $ 26,511 | $ 65,713 | $ 51,706 |
| Greater China | 23,341 | 32,982 | 51,487 | 51,572 |
| Asia (excluding Greater China) | 11,371 | 7,514 | 20,601 | 15,944 |
| Western Europe | 9,050 | 6,942 | 19,312 | 12,756 |
| Latin America | 4,856 | 3,780 | 6,335 | 5,434 |
| Canada | 3,444 | 3,030 | 6,010 | 6,313 |
| Russia & the CIS | 2,346 | 2,471 | 4,336 | 5,654 |
| Rest of the World | 5,856 | 4,528 | 9,535 | 7,035 |
| Total | $ 98,345 | $ 87,758 | $ 183,329 | $ 156,414 |

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.

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**15. 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:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Projected benefit obligation: | | |
| Obligation, beginning of period | $ 19,003 | $ 19,580 |
| Interest cost | 211 | 427 |
| Actuarial gain | | (1,004) |
| Obligation, end of period and unfunded status | $ 19,214 | $ 19,003 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Interest cost | $ 105 | $ 107 | $ 211 | $ 213 |
| Pension expense | $ 105 | $ 107 | $ 211 | $ 213 |

No contributions are expected to be made for the SERP during the remainder of 2018. The Company expects interest costs of $0.2 million to be recognized as a component of net periodic benefit cost during the remainder of 2018.

The accumulated benefit obligation for the SERP was $19.2 million at June 30, 2018 (December 31, 2017 $19.0 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:

| | |
|---|---|
| 2018 (six months remaining) | $ |
| 2019 | |
| 2020 | 20,076 |
| 2021 | |
| 2022 | |
| Thereafter | |

| | |
|---|---|
| | $ 20,076 |

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, 2019), although Mr. Gelfond has not informed the Company that he intends to retire at that time.

***(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 six months ended June 30, 2018, the Company contributed and expensed an aggregate of $0.3 million and $0.6 million, respectively (2017 $0.3 million and $0.6 million, respectively) to its Canadian defined contribution plan and an aggregate of $0.1 million and $0.3 million, respectively (2017 $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.

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***(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 June 30, 2018 is $0.7 million (December 31, 2017 $0.7 million). The Company has expensed less than $0.1 million and less than $0.1 million for the three and six months ended June 30, 2018, respectively (2017 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:

| | |
|---|---|
| 2018 (six months remaining) | $ 24 |
| 2019 | 26 |
| 2020 | 33 |
| 2021 | 37 |
| 2022 | 40 |
| Thereafter | 550 |
| Total | $ 710 |

***(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 June 30, 2018 is $1.6 million (December 31, 2017 $1.7 million). The Company has expensed less than $0.1 million and less than $0.1 million for the three and six months ended June 30, 2018, respectively (2017 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:

| | |
|---|---|
| 2018 (six months remaining) | $ 89 |
| 2019 | 107 |
| 2020 | 84 |
| 2021 | 109 |
| 2022 | 97 |
| Thereafter | 1,130 |
| Total | $ 1,616 |

***(e) Deferred Compensation Retirement Plan***

The Company maintains a deferred compensation plan ( the Retirement Plan ) covering Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company. The Company has agreed to make a total contribution of $3.2 million pursuant to a schedule set forth in Mr. Foster s employment agreement. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, and will vest in 25% increments on July 2 of 2019, 2022, 2025 and 2027, but will vest in full if Mr. Foster s employment terminates under specified circumstances, including if the Company terminates his employment without cause, if he resigns for good reason, or if the Company does not offer to renew Mr. Foster s employment on terms substantially similar to those set forth in his current employment agreement and, as a result, Mr. Foster incurs a separation from service. As at June 30, 2018, the Company had an unfunded benefit obligation recorded of $1.3 million (December 31, 2017 $1.0 million). The Company recognized an expense of $0.2 million and $0.4 million for the three and six months ended June 30, 2018, respectively (2017 recovery of $0.1 million and an expense of $0.1 million, respectively).

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**16. 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:

| | As at June 30, 2018 | | As at December 31, 2017 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Level 1 | | | | |
| Cash and cash equivalents[1] | $ 133,042 | $ 133,042 | $ 158,725 | $ 158,725 |
| Level 2 | | | | |
| Net financed sales receivable[2] | $ 118,976 | $ 118,923 | $ 122,259 | $ 122,918 |
| Net investment in sales-type leases [2] | 6,780 | 6,842 | 7,235 | 7,409 |
| Convertible loan receivable[2] | 1,500 | 1,500 | 1,500 | 1,500 |
| Equity securities[3] | 2,014 | 2,014 | 2,016 | 2,016 |
| Foreign exchange contracts designated forwards[3] | (593) | (593) | 1,425 | 1,425 |
| Borrowings under the Playa Vista Loan[1] | (24,667) | (24,667) | (25,667) | (25,667) |

(1) Recorded at cost, which approximates fair value.
(2) Estimated based on discounting future cash flows at currently available interest rates with comparable terms.
(3) Value determined using quoted prices in active markets.

There were no significant transfers between Level 1 and Level 2 during the three and six months ended June 30, 2018 or 2017. 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 three and six months ended June 30, 2018.

***(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.

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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.

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

| | As at June 30, 2018 | | | As at December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Minimum Lease Payments | Financed Sales Receivables | Total | Minimum Lease Payments | Financed Sales Receivables | Total |
| In good standing | $ 5,746 | $ 115,399 | $ 121,145 | $ 6,265 | $ 118,060 | $ 124,325 |
| Credit Watch | 584 | 3,112 | 3,696 | 568 | 2,926 | 3,494 |
| Pre-approved transactions | 605 | 423 | 1,028 | 557 | 1,003 | 1,560 |
| Transactions suspended | | 881 | 881 | | 1,192 | 1,192 |
| | $ 6,935 | $ 119,815 | $ 126,750 | $ 7,390 | $ 123,181 | $ 130,571 |

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.

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

| | As at June 30, 2018 | | As at December 31, 2017 | |
|---|---|---|---|---|
| | Recorded Investment | Related Allowance | Recorded Investment | Related Allowance |
| Net investment in leases | $ | $ | $ | $ |
| Net financed sales receivables | 881 | (739) | 1,192 | (922) |
| Total | $ 881 | $ (739) | $ 1,192 | $ (922) |

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.

The Company s aged financing receivables are as follows:

| | As at June 30, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Accrued and Current | 30-89 Days | 90+ Days | Billed Financing Receivables | Related Unbilled Recorded Investment | Total Recorded Investment | Related Allowances | Recorded Investment Net of Allowances |
| Net investment in leases | $ 154 | $ 57 | $ 423 | $ 634 | $ 6,301 | $ 6,935 | $ (155) | $ 6,780 |
| Net financed sales receivables | 2,822 | 1,600 | 4,039 | 8,461 | 111,354 | 119,815 | (839) | 118,976 |
| Total | $ 2,976 | $ 1,657 | $ 4,462 | $ 9,095 | $ 117,655 | $ 126,750 | $ (994) | $ 125,756 |

| | As at December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Accrued and Current | 30-89 Days | 90+ Days | Billed Financing Receivables | Related Unbilled Recorded Investment | Total Recorded Investment | Related Allowances | Recorded Investment Net of Allowances |
| Net investment in leases | $ 103 | $ 74 | $ 376 | $ 553 | $ 6,837 | $ 7,390 | $ (155) | $ 7,235 |
| | 3,285 | 1,399 | 3,763 | 8,447 | 114,734 | 123,181 | (922) | 122,259 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net financed sales receivables | | | | | | | | |
| Total | $ 3,388 | $ 1,473 | $ 4,139 | $ 9,000 | $ 121,571 | $ 130,571 | $ (1,077) | $ 129,494 |

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

| | As at June 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accrued and Current | 30-89 Days | 90+ Days | Billed Financing Receivables | Related Unbilled Recorded Investment | Related Allowance | Recorded Investment Past Due and Accruing |
| Net investment in leases | $ 37 | $ 41 | $ 423 | $ 501 | $ 1,262 | $ | $ 1,763 |
| Net financed sales receivables | 729 | 894 | 3,942 | 5,565 | 25,455 | | 31,020 |
| Total | $ 766 | $ 935 | $ 4,365 | $ 6,066 | $ 26,717 | $ | $ 32,783 |

| | As at December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accrued and Current | 30-89 Days | 90+ Days | Billed Financing Receivables | Related Unbilled Recorded Investment | Related Allowance | Recorded Investment Past Due and Accruing |
| Net investment in leases | $ 68 | $ 70 | $ 376 | $ 514 | $ 2,287 | $ | $ 2,801 |
| Net financed sales receivables | 1,165 | 743 | 3,363 | 5,271 | 27,430 | | 32,701 |
| Total | $ 1,233 | $ 813 | $ 3,739 | $ 5,785 | $ 29,717 | $ | $ 35,502 |

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:

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| | For the Three Months Ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With an allowance recorded: | | | | | |
| Net investment in leases | $ | $ | $ | $ | $ |
| Net financed sales receivables | 869 | 12 | (739) | 930 | |
| With no related allowance recorded: | | | | | |
| Net investment in leases | | | | | |
| Net financed sales receivables | | | | | |
| Total: | | | | | |
| Net investment in leases | $ | $ | $ | $ | $ |
| Net financed sales receivables | $ 869 | $ 12 | $ (739) | $ 930 | $ |

| | For the Three Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With an allowance recorded: | | | | | |
| Net investment in leases | $ | $ | $ | $ | $ |
| Net financed sales receivables | 427 | | (427) | 463 | |
| With no related allowance recorded: | | | | | |
| Net investment in leases | | | | | |
| Net financed sales receivables | | | | | |
| Total: | | | | | |
| Net investment in leases | $ | $ | $ | $ | $ |
| Net financed sales receivables | $ 427 | $ | $ (427) | $ 463 | $ |

| | For the Six Months Ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| Recorded investment for which there is a related allowance: | | | | | |
| Net investment in leases | $ | $ | $ | $ | $ |
| Net financed sales receivables | 869 | 12 | (739) | 991 | |
| Recorded investment for which there is no related allowance: | | | | | |
| Net investment in leases | | | | | |
| Net financed sales receivables | | | | | |
| Total recorded investment in impaired loans: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Net investment in leases | $ | $ | $ | $ | $ |
| Net financed sales receivables | $ 869 | $ 12 | $ (739) | $ 991 | $ |

| | For the Six Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | **Recorded Investment** | **Unpaid Principal** | **Related Allowance** | **Average Recorded Investment** | **Interest Income Recognized** |
| Recorded investment for which there is a related allowance: | | | | | |
| Net investment in leases | $ | $ | $ | $ | $ |
| Net financed sales receivables | 427 | | (427) | 494 | |
| Recorded investment for which there is no related allowance: | | | | | |
| Net investment in leases | | | | | |
| Net financed sales receivables | | | | | |
| Total recorded investment in impaired loans: | | | | | |
| Net investment in leases | $ | $ | $ | $ | $ |
| Net financed sales receivables | $ 427 | $ | $ (427) | $ 494 | $ |

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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:

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2018 | |
|---|---|---|---|---|
| | Net Investment in Leases | Net Financed Sales Receivables | Net Investment in Leases | Net Financed Sales Receivables |
| Allowance for credit losses: | | | | |
| Beginning balance | $ 155 | $ 922 | $ 155 | $ 922 |
| Charge-offs | | (183) | | (183) |
| Recoveries | | | | |
| Provision | | 100 | | 100 |
| Ending balance | $ 155 | $ 839 | $ 155 | $ 839 |
| Ending balance: individually evaluated for impairment | $ 155 | $ 839 | $ 155 | $ 839 |
| Financing receivables: | | | | |
| Ending balance: individually evaluated for impairment | $ 6,935 | $ 119,815 | $ 6,935 | $ 119,815 |

| | Three Months Ended June 30, 2017 | | Six Months Ended June 30, 2017 | |
|---|---|---|---|---|
| | Net Investment in Leases | Net Financed Sales Receivables | Net Investment in Leases | Net Financed Sales Receivables |
| Allowance for credit losses: | | | | |
| Beginning balance | $ 672 | $ 494 | $ 672 | $ 494 |
| Charge-offs | (351) | (67) | (351) | (67) |
| Recoveries | | | | |
| Provision | | | | |
| Ending balance | $ 321 | $ 427 | $ 321 | $ 427 |
| Ending balance: individually evaluated for impairment | $ 321 | $ 427 | $ 321 | $ 427 |
| Financing receivables: | | | | |
| Ending balance: individually evaluated for impairment | $ 6,698 | $ 113,329 | $ 6,698 | $ 113,329 |

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***(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. In addition, because IMAX films generate box office in 79 different countries, unfavourable exchange rates between applicable local currencies, and the U.S. dollar affect the Company s reported gross box-office and revenues, further impacting the Company s results of operations. 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 June 30, 2018 (the Foreign Currency Hedges ), with settlement dates throughout 2018 and 2019. 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 cash flow hedging instruments. For foreign currency cash flow 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.

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:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Derivatives designated as hedging instruments: | | |
| Foreign exchange contracts Forwards | $ 43,440 | $ 35,170 |

Fair value of derivatives in foreign exchange contracts:

| | Balance Sheet Location | June 30, 2018 | December 31, 2017 |
|---|---|---|---|
| Derivatives designated as hedging instruments: | | | |
| Foreign exchange contracts | | | |
| Forwards | Other assets | $ 149 | $ 1,447 |

| | | |
|---|---|---|
| Accrued and other liabilities | (742) | (22) |
| | $ (593) | $ 1,425 |

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Derivatives in Foreign Currency Hedging relationships are as follows:

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| Foreign exchange contracts Forwards | Derivative (Loss) Gain Recognized in OCI (Effective Portion) | $ (679) | $ 772 | $ (1,686) | $ 1,085 |

| | Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| Foreign exchange contracts Forwards | Selling, general and administrative expenses | $ 112 | $ 101 | $ 332 | $ (184) |

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| Foreign exchange contracts Forwards | Derivative Gain (Loss) Recognized In and Out of OCI (Effective Portion) | $ | $ (33) | $ 46 | $ (80) |

The Company s estimated net amount of the existing losses as at June 30, 2018 is $0.2 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 June 30, 2018, the equity method of accounting is being utilized for an investment with a carrying value of $nil (December 31, 2017 $nil). The Company s accumulated losses in excess of its equity investment were $2.2 million as at June 30, 2018, and are classified in Accrued and other liabilities. For the three months ended June 30, 2018, gross revenues, cost of revenue and net loss for the Company s investment was $1.0 million, $0.8 million and $0.4 million, respectively (2017 $0.2 million, $0.9 million and $0.7 million, respectively). For the six months ended June 30, 2018, gross revenues, cost of revenue and net loss for the Company s investment was $1.5 million, $1.7 million and $1.0 million, respectively (2017 $0.5 million, $1.8 million and $1.4 million, respectively) The Company has determined it is not the primary beneficiary of this VIE, and therefore this entity has not been consolidated. In a prior year, the Company issued a convertible loan of $1.5 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 meet the criteria for classification as a debt security under the FASB ASC 320 and is recorded at a fair value of $nil at June 30, 2018 (December 31, 2017 $nil). This investment was classified as an equity investment.

Furthermore, the Company has an investment of $1.0 million (December 31, 2017 $1.0 million) in the shares of an exchange traded fund. This investment is also classified as an equity investment.

As at June 30, 2018, the Company held investments with a total value of $3.5 million in the preferred shares of enterprises which meet the criteria for classification as an equity security under FASB ASC 325, carried at historical cost, net of impairment charges. The carrying value of these equity security investments was $1.0 million at June 30, 2018 (December 31, 2017 $1.0 million).

The total carrying value of investments in new business ventures at June 30, 2018 is $3.5 million (December 31, 2017 $3.5 million) and is recorded in Other assets.

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**17. Non-Controlling Interests**

***(a) IMAX China Non-Controlling Interest***

The Company indirectly owns approximately 67.93% of IMAX China Holding, Inc. ( IMAX China ), whose shares trade on the Hong Kong Stock Exchange. IMAX China 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 six months ended June 30, 2018:

| | |
|---|---|
| Balance as at December 31, 2017 | $ 74,511 |
| Retained earnings impact resulting from the adoption of ASC Topic 606, Revenue from Contracts with Customers | 735 |
| Net income | 6,663 |
| Other comprehensive loss | (305) |
| Dividends paid to non-controlling shareholders | (4,623) |
| Balance as at June 30, 2018 | $ 76,981 |

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

The Company s Original Film Fund was established in 2014 to co-finance a portfolio of 10 original large-format films. The initial investment in the Original 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 has contributed $9.0 million to the Original Film Fund since 2014, and has reached its maximum contribution. The Company sees the Original Film Fund as a self-perpetuating vehicle designed to generate a continuous, steady flow of high-quality documentary content. As at June 30, 2018, the Original Film Fund invested $19.7 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 Company also established its VR Fund among the Company, its subsidiary IMAX China and other strategic investors to help finance the creation of interactive VR content experiences for use across all VR platforms, including in the pilot IMAX VR Centers. The VR Fund recently helped finance the production of one interactive VR experience, which debuted exclusively in the pilot IMAX VR Centers in November 2017 before being made available to other VR platforms. The VR Fund continues to finance other productions of interactive VR experiences as part of its ongoing activities. As at June 30, 2018, the Company invested $4.0 million toward the development of VR content.

The following summarizes the movement of the non-controlling interest in temporary equity, in the Company s subsidiary for the six months ended June 30, 2018:

| | |
|---|---|
| Balance as at December 31, 2017 | $ 1,353 |
| Issuance of subsidiary shares to non-controlling interests | 6,696 |
| Net loss | (471) |

| | |
|---|---|
| Balance as at June 30, 2018 | $ 7,578 |

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**18. Exit costs, restructuring charges and associated impairments**

The Company recognized the following charges in its condensed consolidated statements of operations for the three and six months ended June 30:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Restructuring charges | $ 456 | $ 4,705 | $ 1,158 | $ 4,705 |
| Asset impairments | | 5,553 | | 5,553 |
| | $ 456 | $ 10,258 | $ 1,158 | $ 10,258 |

***(a) Restructuring charges***

In June 2017, the Company implemented a cost reduction plan with the goal of increasing profitability, operating leverage and free cash flow. The cost reduction plan included the exit from certain non-core businesses or initiatives, as well as a one-time reduction in workforce. Restructuring charges are comprised of employee severance costs including benefits and stock-based compensation, costs of consolidating facilities and contract termination costs. Restructuring charges are based upon plans that have been committed to by the Company, but may be refined in subsequent periods. These charges are recognized pursuant to FASB ASC 420. A liability for a cost associated with an exit or disposal activity is recognized and measured at its fair value in the condensed consolidated statement of operations in the period in which the liability is incurred. When estimating the value of facility restructuring activities, assumptions are applied regarding estimated sub-lease payments to be received, which can differ from actual results.

In connection with the Company s restructuring initiatives, the Company incurred $0.5 million and $1.2 million in restructuring charges for the three and six months ended June 30, 2018 (2017 $4.7 million and $4.7 million, respectively). A summary of the restructuring costs by reporting groups identified by nature of product sold, or service provided as disclosed in note 14 recognized during the three and six months ended June 30, 2018, are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| IMAX DMR | $ 231 | $ 548 | $ 611 | $ 548 |
| Corporate | 132 | 1,942 | 332 | 1,942 |
| Theater system maintenance | 93 | 738 | 215 | 738 |
| IMAX systems | | 440 | | 440 |
| New business | | 403 | | 403 |
| Joint revenue sharing arrangements | | 59 | | 59 |
| Film post-production | | 19 | | 19 |
| Other | | 556 | | 556 |
| | $ 456 | $ 4,705 | $ 1,158 | $ 4,705 |

The Company does not expect to recognize any additional restructuring charges during the remainder of 2018.

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The following table sets forth a summary of restructuring accrual activities for the six months ended June 30, 2018:

| | Employee Severance and Benefits |
|---|---|
| Balance as at December 31, 2017 | $ 2,221 |
| Restructuring charges | 1,158 |
| Cash payments | (2,158) |
| Balance as at June 30, 2018 | $ 1,221 |

***(b) Associated Impairments***

As a result of the cost reduction plan discussed above, the Company recognized costs associated with the retirement of certain long-lived assets pursuant to the FASB ASC 410-20, Asset retirement and environmental obligations and ASC 360-10, Property, plant and equipment . The following impairments for the six months ended June 30, 2017 are a direct result of the exit activities described in (a) above.

| | |
|---|---|
| Film assets | $ 335 |
| Property, plant and equipment | 3,696 |
| Other assets | 1,522 |
| | $ 5,553 |

In the three and six months ended June 30, 2018, the Company did not recognize any exit costs or associated impairments.

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**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 a result, IMAX s network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 1,410 IMAX theater systems (1,314 commercial multiplexes, 12 commercial destinations, 84 institutional) operating in 79 countries as of June 30, 2018. This compares to 1,257 theater systems (1,154 commercial multiplexes, 13 commercial destinations, 90 institutional) operating in 75 countries as of June 30, 2017.

The Company s core business consists of:

- the Digital Re-Mastering ( DMR ) of films into the IMAX format for exhibition in the IMAX theater network in exchange for a certain percentage of contingent box office receipts from both studios and exhibitors; and

- the provision of IMAX premium theater systems ( IMAX theater systems ) to exhibitor customers through sales, long-term leases or joint revenue sharing arrangements.

IMAX theater systems are based on proprietary and patented technology developed over the course of the Company s 50-year history and combine:

- the ability to exhibit content that has undergone IMAX DMR conversion, 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;

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

a license to the globally recognized IMAX brand.

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 theater 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. The Company released 60 IMAX DMR films in 2017 and expects to release a similar number of IMAX DMR films in 2018.

As one of the world s leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. The Company recently introduced IMAX with Laser, the Company s next-generation laser projection system designed for IMAX theaters in commercial multiplexes. The Company believes that IMAX with Laser delivers increased resolution, sharper and brighter images, deeper contrast as well as the widest range of colors available to filmmakers today. The Company further believes that IMAX with Laser can help facilitate the next major lease renewal and upgrade cycle for the global commercial IMAX network.

To that end, in connection with the roll-out of IMAX with Laser, the Company announced binding letters of intent with Cineworld Group PLC ( Cineworld ) and AMC Entertainment Holdings, Inc. ( AMC ) to renew and upgrade significant portions of their IMAX network with the Company s new laser system.

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Under the Cineworld letter of intent, Cineworld has agreed to install 55 IMAX with Laser systems across various sites in the United States and Europe operated by Cineworld or its subsidiary, Regal Entertainment Group. Of the 55 systems, 26 will be new IMAX theaters, 15 will be upgrades to existing IMAX theaters, and 14 will be upgrades to backlog commitments, in each case for 12-year lease terms. The specific sites, and the particular mix of deal types for the 55 systems, will be agreed to by the parties. The systems are expected to be installed between 2018 and 2022.

Under the letter of intent with AMC, AMC has agreed to upgrade 87 of its highest performing IMAX theaters in the United States to IMAX with Laser. All 87 IMAX with Laser theaters will operate under a joint revenue sharing arrangement with renewed 12-year lease terms. The specific locations will be agreed to by the parties, and the systems are expected to be installed between 2018 and 2022.

In addition, Cineworld and AMC will be undertaking a complete renovation in all the locations described above with several additional movie-going enhancements. Specifically, all of the IMAX with Laser theaters will be upgraded to incorporate the Company s 12-channel immersive sound, and will feature newly refurbished luxury seating and redesigned branding and entryways. The Company believes that IMAX with Laser experience will help ensure that *The* IMAX *Experience*® remains the premium cinematic experience of choice.

On July 12, 2018, the Company announced an additional agreement for 20 IMAX with Laser systems with Les Cinémas Pathé Gaumont ( Pathé ) under hybrid joint revenue sharing agreements, to be installed in locations across Europe. These theaters will also incorporate the Company s 12-channel immersive sound system. Of the 20 systems, Pathé will upgrade 11 theaters currently in operation, with renewed 10-year lease terms, replace seven theater systems currently in backlog and add two new locations. The systems are expected to be installed between 2018 and 2023. This transaction represents the industry s first multi-territory, all-laser IMAX cinema circuit.

**SOURCES OF REVENUE**

The primary revenue sources for the Company can be categorized into four main groups: network business, theater business, new business and other.

The network business includes variable revenues that are primarily derived from film studios and exhibitors. Under the Company s DMR arrangements, the Company provides DMR services to studios in exchange for a percentage of contingent box office receipts. Under joint revenue sharing arrangements, the Company provides IMAX theater systems to exhibitors and also receives a percentage of contingent box office receipts.

The theater business includes revenues that are primarily derived from theater exhibitors through either a sale or sales-type lease arrangement for IMAX theater systems. Sales and sales-type lease arrangements typically require fixed upfront and annual minimum payments. The theater business side also includes fixed revenues that are required under the Company s hybrid theater systems from the joint revenue sharing arrangements segment. The arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. In addition, theater exhibitors also pay for associated maintenance, extended warranty services and the provision of aftermarket parts of its system components, and these revenues are included in the theater business.

New business includes revenue from content licensing and distribution fees associated with the Company s original content investments, virtual reality initiatives, IMAX Home Entertainment and other business initiatives that are in the development and/or start-up phase.

The Company also derives a small portion of other revenues from the film studios for provision of film production services, operation of its owned and operated theaters and camera rentals.

The Company believes that separating the fixed price revenues from the variable sources of revenue, as well as isolating its non-core new business initiatives, provides greater transparency into the Company s performance.

On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) , utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company has not experienced any significant true-ups or downs of its transition amounts. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. As such, the current presentation of the Company s sources of revenues is not consistent with that of the prior year comparative period.

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**Network Business: Digital Re-Mastering (IMAX DMR) and Joint Revenue Sharing Arrangements**

*Digital Re-Mastering (IMAX DMR)*

The Company has developed a proprietary technology, known as IMAX DMR, to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in IMAX theaters. 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. In a typical IMAX DMR film arrangement, the Company receives a percentage, which in recent years has averaged approximately 12.5%, of net box office receipts, defined as gross box office receipts less applicable sales taxes, of any commercial films released outside of Greater China in return for converting them to the IMAX DMR format and distributing them through the IMAX theater network. Within Greater China, the Company receives a lower percentage of box office receipts for certain Hollywood films.

IMAX films also 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 select 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 projecting the film in a larger aspect ratio. For example, Marvel s *Avengers: Infinity War,* which was released in April 2018, was shot in its entirety using IMAX cameras, and the Untitled *Avengers Sequel* is also expected to be filmed entirely with IMAX cameras. In addition, in July 2018, *Ant-Man and the Wasp* and *Mission: Impossible Fallout* will be released with select scenes specifically formatted for IMAX screens, and in October 2018, *First Man* will be released with select scenes filmed using IMAX cameras.

The original soundtrack of a film to be released to the IMAX theater network is re-mastered for the IMAX 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 an optimal listening position.

The Company believes that the growth in international box office remains an important driver of future growth for the Company. To support continued 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 (particularly in China). During 2017, 22 local language IMAX DMR films, including 15 in China, three in Russia, three in Japan and one in India were released to the IMAX theater network. During the six months ended June 30, 2018, six local language IMAX DMR films, including five in China and one in India, 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 2018 and beyond.

In addition to the 24 IMAX DMR films released to the IMAX theater network during the six months ended June 30, 2018, 21 additional IMAX DMR films have been announced so far to be released in the remainder of 2018:

*Ant-Man and the Wasp: The* IMAX *Experience* (Walt Disney Studios, July 2018);

*Dying to Survive: The* IMAX *Experience* (Beijing Culture, July 2018);

*Hidden Man: The* IMAX *Experience* (Maoyan, July 2018);

*Skyscraper: The* IMAX *Experience* (Universal Pictures, July 2018, select international markets);

*Mamma Mia! Here We Go Again: The* IMAX *Experience* (Universal Pictures, July 2018);

*The Equalizer 2: The* IMAX *Experience* (Sony Pictures, July 2018);

*Mission: Impossible Fallout: The* IMAX *Experience* (Paramount Pictures, July 2018);

*Detective Dee: The Four Heavenly Kings: The* IMAX *Experience* (Huayi Bros., July 2018);

*Hello Mr. Billionaire: The* IMAX *Experience* (New Classics, July 2018);

*Along with the Gods 2: The* IMAX *Experience* (Lotte, August 2018, Korea and select international markets);

*The Meg: The* IMAX *Experience* (Warner Bros. Pictures, August 2018);

*The Nun: The* IMAX *Experience* (Warner Bros. Pictures, September 2018);

*The Predator: The* IMAX *Experience* (20th Century Fox, September 2018);

*Venom: The* IMAX *Experience* (Sony Pictures Entertainment, October 2018);

*First Man: The* IMAX *Experience* (Universal Pictures, October 2018);

*Fantastic Beasts: The Crimes of Grindelwald: The* IMAX *Experience* (Warner Bros. Pictures, November 2018);

*Thugs of Hindustan: The* IMAX *Experience* (Yash Raj Films, November 2018, India and select international markets);

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*Ralph Breaks the Internet: The* IMAX *Experience* (Walt Disney Studios, December 2018, select international markets);

*Mortal Engines: The* IMAX *Experience* (Universal Pictures, December 2018);

*Alita: Battle Angel: The* IMAX *Experience* (20th Century Fox, December 2018); and

*Aquaman: The* IMAX *Experience* (Warner Bros. Pictures, December 2018).

In April 2018, the Company released an IMAX original production, *Pandas*, in conjunction with Panda Productions.

To date, the Company has announced the following 17 titles to be released in 2019 to the IMAX theater network:

*Ad Astra: The* IMAX *Experience* (20th Century Fox, January 2019);

*Glass: The* IMAX *Experience* (Universal Pictures and Disney Studios, January 2019);

*X-Men: Dark Phoenix: The* IMAX *Experience* (20th Century Fox, February 2019);

*How to Train Your Dragon: The Hidden World: The* IMAX *Experience* (Universal Pictures, March 2019);

*Captain Marvel: The* IMAX *Experience* (Walt Disney Studios, March 2019);

*Shazam!: The* IMAX *Experience* (Warner Bros. Pictures, April 2019);

*Avengers 4: The* IMAX *Experience* (Walt Disney Studios, April 2019);

*Godzilla: King of Monsters: The* IMAX *Experience* (Warner Bros. Pictures, May 2019);

*Toy Story 4: The* IMAX *Experience* (Walt Disney Studios, June 2019);

*Spider-Man: Far From Home: The* IMAX *Experience* (Sony Pictures, July 2019);

*Lion King: The* IMAX *Experience* (Walt Disney Studios, July 2019);

*The New Mutants: The* IMAX *Experience* (20th Century Fox, August 2019);

*Artemis Fowl: The* IMAX *Experience* (Walt Disney Studios, August 2019);

*IT: Chapter 2: The* IMAX *Experience* (TBD, September 2019);

*Wonder Woman 1984: The* IMAX *Experience* (Warner Bros. Pictures, November 2019);

*Frozen 2: The* IMAX *Experience* (Walt Disney Studios, November 2019); and

*Star Wars: Episode IX: The* IMAX *Experience* (Walt Disney Studios, December 2019).

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 theater network in 2018 will be similar to the 60 IMAX DMR films released to the IMAX theater network in 2017.

*Joint Revenue Sharing Arrangements Contingent Rent*

The Company provides IMAX theater systems to certain of its exhibitor 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 an IMAX theater system to a customer 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, as would be required under a sales or sales-type lease arrangement (which is discussed below under Theater Business ). 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 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.

Hybrid joint revenue sharing arrangements that take the form of leases report their fixed revenues in the Company s theater business operations, while the contingent box office receipts are included in the Company s network business operations in the period they are earned. Hybrid joint revenue sharing arrangements that take the form of sales arrangements, which occur when title is transferred to the customer at transfer of control of the system, record their fixed revenues and an estimate of the ongoing contingent box office revenue

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in the Company s theater business operations at the point of revenue recognition. Adjustments to the estimated contingent rent flow through theater business operations as they occur over the life of the contracts.

Under the 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. 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 June 30, 2018, the Company had 738 theaters in operation under joint revenue sharing arrangements, a 10.0% increase as compared to the 671 joint revenue sharing arrangements open as at June 30, 2017. The Company also had contracts in backlog for an additional 454 theaters under joint revenue sharing arrangements as at June 30, 2018.

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.

*IMAX Systems Contingent Rent*

Prior to the adoption of the new revenue recognition standard, the Company s sales and sales type lease arrangements include contingent rent in excess of fixed minimum ongoing payments. This contingent rent, which is included in the Company s network business operations, is recognized after the fixed minimum amount per annum is exceeded as driven by box office performance. Contingent payments in excess of fixed minimum ongoing payments of sales or sales type lease arrangements are recognized as revenue when reported by theater operators, provided collectability is reasonably assured. In addition, contingent rent includes amounts realized for changes in rent and maintenance payments which are indexed to a local consumer price index. Effective January 1, 2018, upon adoption of the new revenue recognition standard, the recognition of contingent rent on an ongoing basis, as discussed above, will only continue for the Company s sales type lease arrangements. Contingent rent on sales arrangements is estimated and recognized with the revenue attributable to the System Obligation.

**Theater Business: IMAX Systems, Theater System Maintenance and Fixed Fees from Joint Revenue Sharing Arrangements**

*IMAX Systems*

The Company also 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 is a fixed minimum amount per annum. 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. Certain maintenance and extended warranty services are provided to the customer for a separate fixed annual fee.

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.

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Under hybrid joint revenue sharing arrangements that take the form of sales arrangements, title and control of the projection system transfer to the customer at the point of revenue recognition, which is the earlier of client acceptance of the theater installation, including projectionist training, and theater opening to the public. Under the new revenue recognition standard, the percentage payment is considered variable consideration that must be estimated and recognized at the time of initial revenue recognition. Using box office projections and the Company s history with theater and box office experience in different territories, the Company estimates the amount of percentage payment earned over the life of the arrangement, subject to sufficient constraint such that there is not a risk of significant revenue reversal. Under the previous recognition standard, these amounts were recognized as reported by exhibitors (or customers) in future periods. As a result, the Company has reclassified hybrid sales arrangements to the traditional sales segment since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements.

*Joint Revenue Sharing Arrangements Fixed Fees*

As discussed in joint revenue sharing arrangements above, under a hybrid joint revenue sharing arrangement that takes the form of a lease arrangement, 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 straight sale transaction. These fixed upfront payments are included in the Company s theater business operations.

*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.

*Other Theater Revenues*

Additionally, the Company generates revenues from the sale of after-market parts and 3D glasses.

Revenues from theater business arrangements are recognized at a different time from when cash is collected. See note 3 Adoption of ASC Topic 606, Revenue from Contracts with Customers, effective January 1, 2018 in the accompanying condensed consolidated financial statements in Item 1 for the Company s revenue recognition policy.

**New Business**

In recent years, the Company has been exploring new lines of business outside of its core business, with a focus on investments in alternative location-based entertainment experiences, and original content.

*Virtual Reality*

The Company continues to pilot a premium, location-based virtual reality ( VR ) offering focused on delivering immersive, multi-dimensional experiences to branded VR centers ( IMAX VR Centers ). Pilot IMAX VR Centers are located in a stand-alone venue and in several multiplexes and are retrofitted with proprietary VR pods that permit interactive, moveable VR experiences.

Since 2017, the Company has opened six pilot IMAX VR centers, including its flagship pilot IMAX VR Center in Los Angeles (along with two in New York City, one in Toronto, one in Manchester, England, one in Shanghai, China and

one in Bangkok, Thailand). Although the Company continues to evaluate its pilot VR strategy, at this time it has no intentions to open any additional IMAX VR Centers and closed its location in Shanghai on June 30, 2018 and one of its locations in New York on July 2, 2018.

The Company also established a VR fund (the VR Fund ) among the Company, its subsidiary IMAX China and other strategic investors to help finance the creation of interactive VR content experiences for use across all VR platforms, including in the pilot IMAX VR Centers. The VR Fund recently helped finance the production of one interactive VR experience, which debuted exclusively in the pilot IMAX VR Centers in November 2017 before being made available to other VR platforms.

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*Original Content*

In 2017, the Company partnered with Marvel Television Inc. ( Marvel ) and Disney|ABC Television Group to co-produce and premiere theatrically the television series *Marvel s Inhumans* in IMAX theaters. The first two episodes of the series ran worldwide in IMAX theaters for two weeks in September 2017 and subsequently the series premiered on the ABC network in the U.S. and across other networks internationally.

The Company continues to believe that the IMAX network serves as a valuable platform to launch and distribute original content, especially during shoulder periods. However, the Company does not expect to make meaningful direct investments in original content going forward.

The Company has also created two film funds to help finance the production of original content. The Company is forming the IMAX China Film Fund (the China Film Fund ) with its subsidiary IMAX China Holding Inc. ( IMAX China ), its partner CMC and several other large investors to help fund Mandarin language commercial films. The China Film Fund, which is expected initially to be capitalized with over $80.0 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 China-CMC controlled greenlight committee.

In addition, the Company s IMAX Original Film Fund (the Original Film Fund ) was established in 2014 to co-finance a portfolio of 10 original large format films. 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 has contributed $9.0 million to the Original Film Fund since 2014, and has reached its maximum contribution. The Company sees the Original Film Fund as a self-perpetuating vehicle designed to generate a continuous, steady flow of high-quality documentary content. As at June 30, 2018, the Original Film Fund has invested $19.7 million toward the development of original films.

*IMAX Home Entertainment*

The Company established a joint venture with TCL Multimedia Technology Holding Limited ( TCL ) to design, develop, manufacture and sell a premium home theater system. The joint venture has signed agreements with end users for the sale of more than 170 premium home theater systems, and has signed agreements with distributors for the sale of more than 470 home theater systems. The Company does not intend to invest significant capital into the joint venture going forward, and instead expects any additional funding to be provided through third party capital.

**Other**

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.

The Company also provides film post-production and quality control services for large-format films (whether produced internally or externally), and digital post-production services.

The Company derives a small portion of its revenues from other sources. As at June 30, 2018, the Company had two owned and operated IMAX theaters (December 31, 2017 two 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 four 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.

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**IMAX Theater Network and Backlog**

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

| | 2018 Theater Network Base | | | | 2017 Theater Network Base | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial Multiplex | Commercial Destination | Institutional | Total | Commercial Multiplex | Commercial Destination | Institutional | Total |
| United States | 367 | 4 | 33 | 404 | 354 | 4 | 39 | 397 |
| Canada | 39 | 2 | 7 | 48 | 37 | 2 | 7 | 46 |
| Greater China[1] | 552 | | 17 | 569 | 443 | | 17 | 460 |
| Asia (excluding Greater China) | 103 | 1 | 3 | 107 | 95 | 2 | 3 | 100 |
| Western Europe | 93 | 4 | 10 | 107 | 77 | 4 | 10 | 91 |
| Russia & the CIS | 57 | | | 57 | 57 | | | 57 |
| Latin America[2] | 44 | | 12 | 56 | 40 | | 12 | 52 |
| Rest of the World | 59 | 1 | 2 | 62 | 51 | 1 | 2 | 54 |
| Total | 1,314 | 12 | 84 | 1,410 | 1,154 | 13 | 90 | 1,257 |

(1) Greater China includes China, Hong Kong, Taiwan and Macau.
(2) Latin America includes South America, Central America and Mexico.

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 2,855 IMAX theaters worldwide from 1,314 commercial multiplex IMAX theaters operating as of June 30, 2018. The Company believes that the majority of its future growth will come from international markets. As at June 30, 2018, 67.9% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 64.8% as at June 30, 2017. Revenues and gross box office derived from outside the United States and Canada continue 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 2017 Form 10-K.

Greater China continues to be the Company s second-largest market, measured by revenues, with approximately 28% of overall revenues generated from the Company s China operations in the six months ended June 30, 2018. As at June 30, 2018, the Company had 569 theaters operating in Greater China (552 commercial multiplexes, 17 institutional) with an additional 319 theaters in backlog that are scheduled to be installed in Greater China by 2022. The Company s backlog in Greater China represents 50.2% of the Company s current backlog. The Company s largest single international partnership is in China with Wanda Film, ( Wanda ). Wanda s total, commitment to the Company is for 359 theater systems in Greater China (of which 343 theater systems are under the parties joint revenue sharing arrangement). 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 2017 Form 10-K.

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

| | 2018 IMAX Commercial Multiplex Theater Network | | | | |
|---|---|---|---|---|---|
| | Traditional JRSA | Hybrid JRSA | Total JRSA | Sale / Sales-type lease | Total |
| Domestic Total (United States & Canada) | 274 | 5 | 279 | 127 | 406 |
| International: | | | | | |
| Greater China | 275 | 82 | 357 | 195 | 552 |
| Asia (excluding Greater China) | 29 | 1 | 30 | 73 | 103 |
| Western Europe | 36 | 22 | 58 | 35 | 93 |
| Russia & the CIS | | | | 57 | 57 |
| Latin America | | | | 44 | 44 |
| Rest of the World | 14 | | 14 | 45 | 59 |
| International Total | 354 | 105 | 459 | 449 | 908 |
| Worldwide Total | 628 | 110 | 738 | 576 (1) | 1,314 |

| | 2017 IMAX Commercial Multiplex Theater Network | | | | |
|---|---|---|---|---|---|
| | Traditional JRSA | Hybrid JRSA | Total JRSA | Sale / Sales-type lease | Total |
| Domestic Total (United States & Canada) | 267 | 4 | 271 | 120 | 391 |
| International: | | | | | |
| Greater China | 215 | 70 | 285 | 158 | 443 |
| Asia (excluding Greater China) | 34 | 20 | 54 | 41 | 95 |
| Western Europe | 25 | 21 | 46 | 31 | 77 |
| Russia & the CIS | | | | 57 | 57 |
| Latin America | | | | 40 | 40 |
| Rest of the World | 13 | 2 | 15 | 36 | 51 |
| International Total | 287 | 113 | 400 | 363 | 763 |
| Worldwide Total | 554 | 117 | 671 | 483 | 1,154 |

(1) Includes 35 theater systems which were previously classified under joint revenue sharing arrangements hybrid sales arrangements. See Critical Accounting Policies and Estimates for further details of the adoption impact of ASC Topic 606 on the Company s revenues.

As at June 30, 2018, 279 (2017 271) of the 738 (2017 671) theaters under joint revenue sharing arrangements in operation, or 37.8% (2017 40.4%), were located in the United States and Canada, with the remaining 459 (2017 400) or 62.2% (2017 59.6%) of arrangements being located in international markets.

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*Sales Backlog*

The Company s current sales backlog is as follows:

| | June 30, 2018 | | June 30, 2017 | |
|---|---|---|---|---|
| | Number of Systems | Dollar Value *(in thousands)* | Number of Systems | Dollar Value *(in thousands)* |
| Sales and sales-type lease arrangements | 181 (1) | $ 250,742 (2) | 174 | $ 219,087 |
| Joint revenue sharing arrangements | | | | |
| Hybrid lease arrangements | 115 | 61,484 | 137 | 72,585 |
| Traditional arrangements | 339 (3) | 7,638 (4) | 269 | 8,969 (4) |
| | 635 (5) | $ 319,864 | 580 (6) | $ 300,641 |

(1) Includes 22 hybrid sales theater systems which were previously classified under joint revenue sharing arrangements hybrid sales arrangements.

(2) Includes a variable consideration estimate of $17.4 million in accordance with the new revenue standard. See Critical Accounting Policies and Estimates for further details of the adoption impact of ASC Topic 606 on the Company s revenues.

(3) Includes 49 theater systems where the customer has the option to convert from a joint revenue sharing arrangement to a sales arrangement.

(4) Reflects contractual upfront payments. Future contingent payments are not reflected as these are based on negotiated shares of box office results.

(5) Includes 75 new laser projection system configurations and 101 upgrades of existing locations to laser projection system configurations (99 of the 101 upgrades are for the new next generation laser projection system configurations).

(6) Includes 24 new laser projection system configurations and four upgrades of existing locations to laser projection system configurations.

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 term. These arrangements also include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds; however, it excludes amounts allocated to maintenance and extended warranty revenues. 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.

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

| | 2018 IMAX Theater Backlog | | | | |
|---|---|---|---|---|---|
| | Traditional JRSA | Hybrid JRSA | JRSA | Sale / Lease | Total |
| Domestic Total (United States & Canada) | 155 | 3 | 158 | 7 | 165 |
| International: | | | | | |
| Greater China | 142 | 108 | 250 | 69 | 319 |
| Asia (excluding Greater China) | 5 | | 5 | 44 | 49 |
| Western Europe | 31 | 4 | 35 | 10 | 45 |
| Russia & the CIS | | | | 19 | 19 |
| Latin America | 2 | | 2 | 13 | 15 |
| Rest of the World | 4 | | 4 | 19 | 23 |
| International Total | 184 | 112 | 296 | 174 | 470 |
| Worldwide Total | 339 | 115 | 454 | 181 [1] | 635 [2] |

| | 2017 IMAX Theater Backlog | | | | |
|---|---|---|---|---|---|
| | Traditional JRSA | Hybrid JRSA | JRSA | Sale / Lease | Total |
| Domestic Total (United States & Canada) | 43 | 3 | 46 | 12 | 58 |
| International: | | | | | |
| Greater China | 179 | 112 | 291 | 90 | 381 |
| Asia (excluding Greater China) | 5 | 14 | 19 | 19 | 38 |
| Western Europe | 37 | 6 | 43 | 7 | 50 |
| Russia & the CIS | | | | 17 | 17 |
| Latin America | | | | 14 | 14 |
| Rest of the World | 5 | 2 | 7 | 15 | 22 |
| International Total | 226 | 134 | 360 | 162 | 522 |
| Worldwide Total | 269 | 137 | 406 | 174 | 580 |

(1) Includes 22 theater systems which were previously classified under joint revenue sharing arrangements hybrid sales arrangements. See Critical Accounting Policies and Estimates for further details of the adoption impact of ASC Topic 606 on the Company s revenues.

(2)

Includes 56 new next generation laser projection system configurations and 99 upgrades of existing locations to laser projection system configurations.

Approximately 74.0% of IMAX theater system arrangements in backlog as at June 30, 2018 are scheduled to be installed in international markets (2017 90.0%).

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The following reflects the Company s signings and installations:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Theater System Signings:** | | | | |
| Full new sales and sales-type lease arrangements | 9 | 14 | 24 | 50 |
| New traditional joint revenue sharing arrangements | 31 | 31 | 53 | 31 |
| New hybrid joint revenue sharing lease arrangements | | 47 | 8 | 49 |
| Total new theaters | 40 | 92 | 85 | 130 |
| Upgrades of IMAX theater systems | 98 (1) | 3 | 98 (1) | 4 |
| Total theater signings | 138 | 95 | 183 | 134 |

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Theater System Installations:** | | | | |
| Full new sales and sales-type lease arrangements | 9 | 12 | 22 | 17 |
| New traditional joint revenue sharing arrangements | 19 | 18 | 22 | 26 |
| New hybrid joint revenue sharing lease arrangement | 2 | 3 | 2 | 4 |
| Total new theaters | 30 | 33 | 46 | 47 |
| Upgrades of IMAX theater systems | 1 | 1 | 1 | 2 |
| Total theater installations | 31 | 34 | 47 | 49 |

(1) Includes 97 theater systems related to existing AMC and Regal theaters, (82 and 15, respectively) to be upgraded to the next generation laser projection system on new 12-year lease terms.

The Company anticipates that it will install approximately 155 new theater systems (excluding upgrades) in 2018. 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.

**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 consolidated financial statements requires management to make estimates and judgments under its accounting policies that affect the financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes.

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 2017 Form 10-K.

On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company s open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company s exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts.

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The Company s revenues from the sales of projection systems, provision of maintenance services, sale of aftermarket 3D glasses and parts, conversion of film content into the IMAX DMR format, distribution of documentary film content and the provision of post- production services are within the scope of the standard. The Company s joint revenue sharing revenue arrangements, with the exception of those where the title transfers to the customer prior to recognition of the system revenue (hybrid sales arrangements), are not in scope of the standard due to their classification as leases. Similarly, any system revenue transactions classified as sales-type leases are excluded from the provisions of the new standard.

The Company has assessed its performance obligations under its arrangements pursuant to ASC Topic 606 and has concluded that there are no significant differences between the performance obligations required to be units of account under ASC Topic 606 and the deliverables considered to be units of account under ASC Topic 605. Specifically, the Company has concluded that its System Obligation , which consists of a theater system (projector, sound system, screen system and, if applicable, 3D glasses cleaning machine); services associated with the theater system including theater design support, supervision of installation services, and projectionist training; a license to use the IMAX brand to market the theater; 3D glasses; initial maintenance and extended warranty services; and potentially the licensing of films remains unchanged when considered under ASC Topic 606. The Company s performance obligations for its DMR, maintenance, film distribution and aftermarket sales contracts remain similar to those under ASC Topic 605.

The new standard requires the Company to estimate the total consideration, including an estimate of future variable consideration, received in exchange for the goods delivered or services rendered. Certain of the Company s revenue streams will be impacted by the variable consideration provisions of the new standard. The arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. Both of these contract provisions constitute variable consideration under the new standard that, subject to constraints to ensure reversal of revenues do not occur, require estimation and recognition upon of transfer of control of the System Obligation to the customer, when control transfers, which is at the earlier of client acceptance of the installation of the system, including projectionist training, and the theater s opening to the public. As this variable consideration extends through the entire term of the arrangement, which typically last 10 years, the Company applies constraints to its estimates and recognizes the variable consideration on a discounted present value basis at recognition. Under the previous standard, these amounts were recognized as reported by exhibitors (or customers) in future periods.

In certain joint revenue sharing arrangements, specifically the Company s hybrid sales arrangements, the Company s arrangements call for sufficient upfront revenues to cover the cost of the arrangement, with monthly payments calculated based on the theater s net box office earned. Title and control of the projection system transfer to the customer at the point of revenue recognition, which is the earlier of client acceptance of the theater installation, including projectionist training, and theater opening to the public. Under the new revenue recognition standard, the percentage payment is considered variable consideration that must be estimated and recognized at the time of initial revenue recognition. Using box office projections and the Company s history with theater and box office experience in different territories, the Company estimates the amount of percentage payment earned over the life of the arrangement, subject to sufficient constraint such that there is not a risk of significant revenue reversal. Under the previous recognition standard, these amounts were recognized as reported by exhibitors (or customers) in future periods. As a result, the Company has reclassified hybrid sales arrangements to the traditional sales segment since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements.

The Company s arrangements include a requirement for the provision of maintenance services over the life of the arrangement, subject to a consumer price index increase on renewal each year. Under the new standard, the Company

has included the future consideration from the provision of maintenance services in the relative selling price allocation calculation at the inception of the arrangement. Under the previous recognition standard, only the first year s extended warranty and maintenance services included as part of the upfront consideration received by the Company was included in the relative selling price allocation to determine the allocation of consideration between deliverables, while the future years maintenance services were recognized and amortized over each year s renewal term. As the maintenance services are a stand ready obligation, revenue is recognized evenly over the contract term, which is consistent with past treatment. The Company does not expect a significant change in the allocation of consideration between performance obligations to arise as a result of this change.

The Company s DMR and Film Distribution revenue streams fall under the variable consideration exemption for sales- or usage-based royalties. While the Company does not hold rights to the intellectual property in the form of the DMR film content, the Company is being reimbursed for the application of its intellectual property in the form of its patented DMR processes used in the creation of new intellectual property in the form of an IMAX DMR version of film. The Company s Film Distribution revenues are strictly from the license of its intellectual property in the form of documentary film content to which the Company holds distribution rights.

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The Company s remaining revenue streams are not significantly impacted by the new standard. As the arrangements do not call for variable consideration and recognition of revenues transfer at the time of provision of service or transfer of control of goods as appropriate.

*Constraints on the Recognition of Variable Consideration*

The recognition of variable consideration involves a significant amount of judgment. ASC Topic 606 requires variable consideration to be recognized subject to appropriate constraints to avoid a significant reversal of revenue in future periods. The standard identifies several examples of situations where constraining variable consideration would be appropriate:

- The amount of consideration is highly susceptible to factors outside the entity s influence
- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time
- The Company s experience (or other evidence) with similar types of contracts is limited, or that experience has limited predictive value
- The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances

The Company s significant streams of variable consideration relate to indexed increases to its sales arrangements minimum payments and additional payments in excess of the minimum payments, and to its hybrid sales arrangements percentage payment of box office over the term of the arrangement.

Increases to payments indexed to a consumer price index are outside of the Company s control, but the movement in the rates are historically well documented and economic trends in inflation are easily accessible. The Company has applied a most likely amount estimate to each of the contracts subject to an indexed increase. These estimated amounts are present valued back to the recognition date, or date of transition as appropriate, using the customer s implied borrowing rate.

Additional payments in excess of minimum payments and payments based on a percentage of box office over the term are driven by the acceptance of film content in future periods that is outside of the Company s direct influence. The Company tracks numerous performance statistics for theater performance in regions worldwide and applies its understanding of theater markets to develop a most likely amount estimate for each theater impacted by these provisions. Performance projections are discounted by reducing projections by a percentage factor for theaters with no or limited historical experience. In cases where direct historical experience can be observed, average experience, eliminating significant outliers, is used. Amounts are then discounted back to the recognition date, or date of transition, as appropriate using a risk-weighted rate.

**Impact of Recently Issued Accounting Pronouncements**

Please see notes 2 and 3 to the condensed consolidated financial statements in Item 1 for information regarding the Company s recent changes in accounting policies and the impact of all recently issued accounting pronouncements.

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**NON-GAAP FINANCIAL MEASURES**

In this report, the Company presents certain data which are not recognized under U.S. GAAP and are considered non-GAAP financial measures under U.S. Securities and Exchange Commission rules. Specifically, the Company presents the following non-GAAP financial measures as supplemental measures of its performance:

- Adjusted net income;
- Adjusted net income per diluted share;
- Adjusted net income attributable to common shareholders;
- Adjusted net income attributable to common shareholders per diluted share; and
- EBITDA, adjusted EBITDA per Credit Facility and adjusted EBITDA per Credit Facility excluding *Marvel s Inhumans* .

The Company presents adjusted net income and adjusted net income per diluted share, which excludes stock-based compensation and non-recurring exit costs, restructuring charges and associated impairments, legal arbitration award and the related tax impact of these adjustments, because it believes that they are important supplemental measures of the Company s comparable controllable operating performance. Although stock-based compensation is an important aspect of the Company s employee and executive compensation packages, it is mostly a non-cash expense and is excluded from certain internal business performance measures, and the Company wants to ensure that its investors fully understand the impact of its stock-based compensation (net of any related tax impact) and non-recurring charges 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. Without the presentation of these adjusted presentation measures the Company believes it 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, its stock-based compensation, and non-recurring exit costs, restructuring charges and associated impairments and legal arbitration award (net of any related tax impact) in determining net income attributable to common shareholders.

Management uses these measures for internal reporting and forecasting purposes in order 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. The Company s non-GAAP measures should be considered in addition to, and not as a substitute for, or superior to, net income and net income attributable to common shareholders and other measures of financial performance reported in accordance with U.S. GAAP.

In addition, management uses EBITDA , as such term is defined in the Company s credit agreement (and which is referred to herein as Adjusted EBITDA per Credit Facility , as the credit agreement includes additional adjustments beyond interest, taxes, depreciation and amortization) to evaluate, assess and benchmark the Company s operational

results. The Company believes that Adjusted EBITDA per Credit Facility presents relevant and useful information widely used by analysts, investors and other interested parties in the Company s industry. Accordingly, the Company is disclosing this information to permit a more comprehensive analysis of its operating performance and to provide additional information with respect to the Company s ability to comply with its credit agreement requirements. EBITDA is defined as net income with adjustments for depreciation and amortization, interest income (expense)-net, and income tax provision (benefit). Adjusted EBITDA per Credit Facility is defined as EBITDA plus adjustments for loss from equity accounted investments, stock and other non-cash compensation, exit costs, restructuring charges and associated impairments; legal arbitration award and adjusted EBITDA attributable to non-controlling interests.

The Company also employs the metric Adjusted EBITDA per Credit Facility excluding *Marvel s Inhumans* , which is defined and discussed under Credit Facility in this Item 7. However, the Company cautions that EBITDA, Adjusted EBITDA per Credit Facility and Adjusted EBITDA per Credit Facility excluding *Marvel s Inhumans* are non-GAAP measures and should not be construed as substitutes for net income, operating income or other operating performance measures that are determined in accordance with U.S. GAAP. In addition, EBITDA, Adjusted EBITDA per Credit Facility and Adjusted EBITDA per Credit Facility excluding *Marvel s Inhumans* might not be comparable to similarly titled measures used by other companies.

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**RESULTS OF OPERATIONS**

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 systems);
- film performance and the securing of new film projects (particularly IMAX DMR films);
- revenue and gross margins from the Company s segments;
- earnings from operations as adjusted for unusual items that the Company views as non-recurring;
- 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*;
- the success of new business initiatives; and
- short- and long-term cash flow projections.

Management, including the Company s CEO, who is the Company s Chief Operating Decision Maker ( CODM ) (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. The Company has the following eight reportable segments: IMAX DMR; joint revenue sharing arrangements; IMAX systems; theater system maintenance; other; new business; film distribution; and film post-production. The Company is presenting the following information at a disaggregated level to provide more relevant information to readers, as permitted by the standard, and adjusted for the adoption of the new revenue recognition standard:

**Network Business**

The IMAX DMR segment consists of variable revenues from studios for the conversion of films into the IMAX DMR format generated by the box office results from the exhibition of those films in the

IMAX theater network.

Joint revenue sharing arrangements contingent rent, consists of variable rent revenues from box office exhibited in IMAX theaters in exchange for the provision of IMAX theater projection system equipment to exhibitors. This excludes fixed hybrid revenues and upfront installation costs from the Company s hybrid joint revenue sharing arrangements, which are included in theater business. Effective January 1, 2018, the Company no longer includes hybrid joint revenue sharing arrangements which take the form of a sale under the joint revenue sharing arrangement reportable segment. These arrangements are now reflected under the IMAX systems segment of Theater Business.

IMAX systems contingent rent, consists of variable payments from the Company s sales-type leases in excess of certain fixed minimum ongoing payments, under arrangements in the IMAX systems segment, which are recognized when reported by theater operators, provided collectability is reasonably assured.

**Theater Business**

The IMAX systems segment consists of the design, manufacture and installation of IMAX theater projection system equipment under sales or sales-type lease arrangements for fixed upfront and ongoing consideration (including ongoing fees and finance income) and contingent rent on sales arrangements.

Joint revenue sharing arrangements fixed fee, consists of fixed hybrid revenues and upfront installation costs from the joint revenue sharing arrangements segment for all arrangements which take the form of a lease.

The theater system maintenance segment consists of the provision of IMAX theater projection system equipment maintenance services to the IMAX theater network and the associated costs of those services.

Other theater includes after-market sales of IMAX theater projection system parts and 3D glasses from the other segment.

**New Business**

The new business segment consists of content licensing and distribution fees associated with the Company s original content investments, VR initiatives, IMAX Home Entertainment, and other new business initiatives that are in the development and/or start-up phase.

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**Other**

The film distribution segment consists of revenues and costs associated with the distribution of documentary films for which the Company has distribution rights.

The film post-production segment consists of the provision of film post-production, and their associated costs.

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

The Company s Management s Discussion and Analysis ( MD&A ) of Financial Condition and Results of Operations has been organized by the Company into four primary groups Network Business, Theater Business, New Business and Other. Each of the Company s reportable segments, as identified above, has been classified into one of these broader groups for purposes of MD&A discussion. The Company believes that this approach is consistent with how the CODM reviews the financial performance of the business and makes strategic decisions regarding resource allocation and investments to meet long-term business goals. Management believes that a discussion and analysis based on these groups is significantly more relevant and useful to readers, as the Company s condensed consolidated statements of operations captions combine results from several segments.

**Three Months Ended June 30, 2018 versus Three Months Ended June 30, 2017**

The Company reported net income of $10.3 million, which calculates to $0.16 per basic and diluted share, for the second quarter of 2018 as compared to net income of $1.8 million, or of $0.03 per basic and diluted share for the second quarter of 2017.

Net income for the second quarter of 2018 includes a $6.8 million charge, or $0.10 per diluted share (2017 $6.8 million or $0.10 per diluted share), for stock-based compensation and a $0.5 million charge, or $0.01 per diluted share, for exit costs, restructuring charges and associated impairments (2017 $10.3 million, or $0.15 per diluted share) and a $7.5 million charge, or $0.12 per diluted share, for a legal arbitration award related to one of the Company s litigation matters from 2006 (2017 $nil and $nil).

Adjusted net income, which consists of net income excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments, the legal arbitration award and the related tax impact of these adjustments, was $21.7 million, or $0.34 per diluted share, for the second quarter of 2018 as compared to adjusted net income of $13.5 million, or $0.20 per diluted share, for the second quarter of 2017.

The Company reported a net income attributable to common shareholders of $7.6 million, or a $0.12 per basic and diluted share for the second quarter of 2018 (2017 net loss of $1.7 million, or a loss of $0.03 per basic and diluted share).

Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments, the legal arbitration award, and the related tax impact of these adjustments, was $19.0 million, or $0.30 per diluted share, for the second quarter of 2018 as compared to adjusted net income attributable to common shareholders of $9.6 million, or $0.15 per diluted share, for the second quarter of 2017.

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:

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| *(In thousands of U.S. dollars, except per share amounts)* | Three Months Ended June 30, 2018 | | Three Months Ended June 30, 2017 | |
|---|---|---|---|---|
| | Net Income | Diluted EPS | Net Income | Diluted EPS |
| Reported net income | $ 10,255 | $ 0.16 | $ 1,809 | $ 0.03 |
| Adjustments: | | | | |
| Stock-based compensation | 6,756 | 0.10 | 6,793 | 0.10 |
| Exit costs, restructuring charges and associated impairments | 456 | 0.01 | 10,258 | 0.15 |
| Legal arbitration award | 7,500 | 0.12 | | |
| Tax impact on items listed above | (3,228) | (0.05) | (5,382) | (0.08) |
| Adjusted net income | 21,739 | 0.34 | 13,478 | 0.20 |
| Net income attributable to non-controlling interests (1) | (2,630) | (0.04) | (3,521) | (0.05) |
| Stock-based compensation (net of tax of less than $0.1 million and less than $0.1 million, respectively) (1) | (147) | | (153) | |
| Exit costs, restructuring charges and associated impairments (net of tax of less than $0.1 million) (1) | | | (168) | |
| Adjusted net income attributable to common shareholders | $ 18,962 | $ 0.30 | $ 9,636 | $ 0.15 |
| Weighted average diluted shares outstanding | | 63,426 | | 65,992 |

(1) Reflects amounts attributable to non-controlling interests.

The following table sets forth the breakdown of revenue and gross margin by nature for the three months ended June 30:

| *(In thousands of U.S. dollars)* | | Revenue | | Gross Margin | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| **Network business** | | | | | |
| IMAX DMR | | $ 36,161 | $ 27,757 | $ 24,280 | $ 16,998 |
| Joint revenue sharing arrangements | contingent rent | 24,730 | 18,896 | 18,621 | 13,668 |
| IMAX systems | contingent rent | | 790 | | 790 |
| | | 60,891 | 47,443 | 42,901 | 31,456 |
| **Theater business** | | | | | |
| IMAX systems | | | | | |
| Sales and sales-type leases(1) | | 11,981 | 16,125 | 6,899 | 9,724 |
| Ongoing fees and finance income(2) | | 3,282 | 2,613 | 3,234 | 2,539 |
| Joint revenue sharing arrangements | fixed fees | 1,022 | 1,408 | 246 | 176 |
| Theater system maintenance | | 12,335 | 10,904 | 5,088 | 4,434 |
| Other theater | | 2,255 | 1,699 | 563 | 405 |
| | | 30,875 | 32,749 | 16,030 | 17,278 |

| | | | | |
|---|---|---|---|---|
| **New business** | 3,116 | 1,311 | 1,906 | (1,183) |
| **Other** | | | | |
| Film distribution and post-production | 2,360 | 5,087 | (387) | 1,998 |
| Other | 1,103 | 1,168 | (46) | (90) |
| | 3,463 | 6,255 | (433) | 1,908 |
| | $ 98,345 | $ 87,758 | $ 60,404 | $ 49,459 |

(1) Includes initial payments and the present value of fixed minimum payments from equipment, sales and sales-type lease transactions, and in 2018, includes the present value of estimates of variable consideration from equipment sales transactions.
(2) Includes rental income from operating leases and finance income.

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On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. As it is the first quarter after transition, the Company has not experienced any significant true up of its transition amounts. See note 3 Adoption of ASC Topic 606, Revenue from Contracts with Customers, effective January 1, 2018 in the accompanying condensed consolidated financial statements in Item 1 for the Company s revenue recognition policy. The following table presents the impacted financial statement line items in the Company s condensed consolidated statement of operations:

| | Three Months Ended June 30, 2018 | | |
|---|---|---|---|
| *(in thousands of U.S. dollars, except per share amounts)* | Pre-adoption of ASC Topic 606 | ASC Topic 606 Adjustments | As reported |
| Revenues | $ 97,833 | $ 512 | $ 98,345 |
| Provision for income taxes | (3,522) | (113) | (3,635) |
| Net income | 9,856 | 399 | 10,255 |
| Less: net income attributable to non-controlling interests | (2,537) | (93) | (2,630) |
| Net income attributable to common shareholders | 7,319 | 306 | 7,625 |
| Net income per share attributable to common shareholders - basic and diluted | 0.12 | | 0.12 |

The following table presents the impact of ASC Topic 606 on the Company s revenues by reportable segment:

| | Three Months Ended June 30, 2018 | | |
|---|---|---|---|
| | Pre-adoption of ASC Topic 606 | ASC Topic 606 Adjustments | As reported |
| **Network business** | | | |
| IMAX DMR | $ 36,161 | $ | $ 36,161 |
| Joint revenue sharing arrangements contingent rent[1] | 25,850 | (1,120) | 24,730 |
| IMAX systems contingent rent[1] | 475 | (475) | |
| | 62,486 | (1,595) | 60,891 |
| **Theater business** | | | |
| IMAX systems | | | |
| Sales and sales-type leases[2] | 8,588 | 3,393 | 11,981 |
| Ongoing fees and finance income[3] | 2,828 | 454 | 3,282 |
| Joint revenue sharing arrangements fixed fees[4] | 2,762 | (1,740) | 1,022 |
| Theater system maintenance | 12,335 | | 12,335 |
| Other theater | 2,255 | | 2,255 |

| | | | |
|---|---|---|---|
| | 28,768 | 2,107 | 30,875 |
| **New business** | 3,116 | | 3,116 |
| **Other** | | | |
| Film post-production | 1,087 | | 1,087 |
| Film distribution | 1,273 | | 1,273 |
| Other | 1,103 | | 1,103 |
| | 3,463 | | 3,463 |
| Total | $ 97,833 | $ 512 | $ 98,345 |

(1) Contingent rent of $1.1 million related to theater systems under hybrid sales arrangements and $0.5 million related to theater systems under sales arrangements was recognized in the Company s transition adjustment.

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(2) Variable consideration of $1.7 million relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the quarter and the fixed consideration recognized for theater systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.
(3) Finance income of $0.5 million was recognized on the future consideration related to contracts.
(4) Fixed consideration of $1.7 million related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and Sales-type leases.

***Revenues and Gross Margin***

The Company s revenues for the second quarter of 2018 increased 12.1% to $98.3 million from $87.8 million in second quarter of 2017, largely due to the performance of its network business segment. The gross margin across all segments in the second quarter of 2018 was $60.4 million, or 61.4% of total revenue, compared to $49.5 million, or 56.4% of total revenue in the second quarter of 2017.

***Network Business***

Gross box office generated by IMAX DMR films increased by 27.4% to $342.6 million in the second quarter of 2018 from $268.9 million in the second quarter of 2017. The increase is attributable to stronger film performance in comparison to the prior year period. In the second quarter of 2018, gross box office was generated primarily by the exhibition of 14 films (10 new and 4 carryovers), as compared to 16 films (11 new and 5 carryovers) exhibited in the second quarter of 2017.

Network business revenue increased by 28.3% to $60.9 million in the second quarter of 2018 from $47.4 million in the second quarter of 2017, due to stronger film performance. The gross margins experienced by the Company s network business in the second quarter of 2018 was $42.9 million, or 70.5% of network business revenue, compared to $31.5 million, or 66.3% in the second quarter of 2017. The Company s network business performance is impacted by box office performance, as well as other factors including the timing of a film release to the IMAX theater network, the commercial success of the film, the Company s take rates under its DMR and joint revenue sharing arrangements, and the distribution window for the exhibition of films in the IMAX theater network. Other factors impacting performance include fluctuations in the value of foreign currencies versus the U.S. dollar and potential currency devaluations.

IMAX DMR revenues increased by 30.3% to $36.2 million in the second quarter of 2018 from $27.8 million in the second quarter of 2017, which reflects stronger box office performance than the comparative period, coupled with continued growth in the IMAX theater network. IMAX DMR gross margins were stronger at $24.3 million in the second quarter of 2018 as compared to $17.0 million in the second quarter of 2017. Margin is a function of the costs associated with the respective films exhibited in the period, and can vary particularly with respect to marketing expenses.

Contingent rent revenues from joint revenue sharing arrangements increased to $24.7 million in the second quarter of 2018 from $18.9 million in the second quarter of 2017, largely due to stronger box office performance and continued network growth. The Company ended the second quarter of 2018 with 738 theaters operating under joint revenue sharing arrangements, as compared to 671 theaters at the end of the second quarter of 2017, an increase of 10.0%. Gross box office generated by the joint revenue sharing arrangements was 24.6% higher at $179.0 million in the second quarter of 2018 from $143.7 million in the second quarter of 2017.

The gross margin from joint revenue sharing arrangements increased to $18.6 million in the second quarter of 2018 from $13.7 million in the second quarter of 2017. Included in the calculation of gross margin for the second quarter of

2018 were certain advertising, marketing and commission costs primarily associated with new theater launches of $1.1 million, as compared to $0.8 million during the second quarter of 2017.

Contingent rent revenue from IMAX systems consists of variable payments received in excess of the fixed minimum ongoing payments which are primarily driven by box office performance reported by theater operators. On January 1, 2018, the Company adopted ASC Topic 606, in accordance with the updated revenue recognition policy as discussed in note 3 of the accompanying condensed consolidated financial statements in Item 1. Contingent rent revenue is no longer recognized over the time period of the contract for theater systems under sales arrangements, therefore the Company expects this revenue stream to be minimal on a go-forward basis. Contingent rent revenue of $0.8 million was recognized in the second quarter of 2017.

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***Theater Business***

The primary drivers of this line of business are theater system installations and the Company s maintenance contracts that accompany each theater installation. For the second quarter of 2018, theater business revenue decreased $1.8 million, or 5.7%, to $30.9 million as compared to the second quarter of 2017. The decrease in theater business revenue in 2018 as compared to 2017 was primarily due to:

3 fewer installations of system under sales and sales-type lease arrangements;

1 fewer system contracted as a hybrid joint revenue sharing lease arrangement; and

a decrease in system upgrade revenue; partially offset by

1 geographic relocation of a theater system under a sales arrangement.

Theater business gross margin decreased 7.2% to $16.0 million in the second quarter of 2018 as compared to $17.3 million in the second quarter of 2017, primarily due to a decrease in installations of systems under sales and sales-type leases.

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 for June 30 is outlined in the table below:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number of Systems | Revenue | Number of Systems | Revenue |
| New IMAX digital theater systems installed and recognized | | | | |
| Sales and sales-types lease arrangements[1] | 9 | $ 11,096 | 12 | $ 14,738 |
| Joint revenue sharing arrangements hybrid[2] | 2 | 1,044 | 3 | 1,409 |
| Total new theater systems | 11 | 12,140 | 15 | 16,147 |
| IMAX digital theater system upgrades installed and recognized | | | | |
| Sales and sales-types lease arrangements | | | 1 | 1,297 |
| Total upgraded theater systems | | | 1 | 1,297 |
| Total theater systems installed and recognized | 11 | $ 12,140 | 16 | $ 17,444 |

(1) Upon adoption of the new revenue recognition standard, the arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. As a result of including an estimate of variable consideration upon recognition of a theater system under a sales arrangement, the revenues presented for the quarter ended June 30, 2018, are $1.7 million higher than under the prior revenue recognition standard.

(2) Upon adoption of the new revenue recognition standard, the Company has reclassified hybrid sales arrangements to sales arrangements since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements. On a go forward basis, this arrangement type will only reflect hybrid lease arrangements.

The average revenue per full, new theater system under a sales and sales-type lease arrangement 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 full, new theater system under a sales and sales-type lease arrangement was $1.2 million for the second quarter of 2018, which was consistent with the second quarter of 2017.

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Theater system maintenance revenue increased 13.1% to $12.3 million in the second quarter of 2018 from $10.9 million in the second quarter of 2017. Theater system maintenance gross margin was $5.1 million in the second quarter of 2018 versus $4.4 million in the second quarter of 2017. 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.

Ongoing fees and finance income was $3.3 million in the second quarter of 2018 compared to $2.6 million in the second quarter of 2017. Gross margin for ongoing fees and finance income increased to $3.2 million in the second quarter of 2018 from $2.5 million in the second quarter of 2017. The costs associated with ongoing fees are minimal as it usually consists of depreciation on the Company s theaters under operating lease agreements and/or marketing.

Other theater revenue increased to $2.3 million in the second quarter of 2018 as compared to $1.7 million in the second quarter of 2017. Other theater revenue primarily includes revenue generated from the Company s after-market sales of projection system parts and 3D glasses. The gross margin recognized from other theater revenue was $0.6 million in the second quarter of 2018 as compared to $0.4 million in the second quarter of 2017.

***New Business***

Revenue earned from the Company s new business initiatives was $3.1 million and the new business segment experienced gross margin of $1.9 million in the second quarter of 2018, as compared to revenue of $1.3 million and a margin loss of $1.2 million in the second quarter of 2017. The increase in revenue is related to the final contractual payment owed to IMAX related to the previously announced IMAX VR camera, as compared to the prior year comparative period.

The Company is evaluating its new business initiatives separately from its core business as the nature of its activities is separate and distinct from its ongoing operations and as a result views it helpful to discuss items beyond that of gross margin. The Company recognized net income from its new business initiatives for the second quarter of 2018 of $1.6 million, which includes amortization of $1.2 million and an equity loss of $0.1 million. In addition, selling, general and administration costs of $0.2 million and research and development costs of less than $0.1 million are included in the calculation of net income. In the prior year comparative period, a loss of $7.2 million was recognized, which includes amortization of $0.4 million, restructuring charges and associated impairments of $3.4 million and an equity loss of $0.3 million, selling, general and administrative expenses of $0.4 million and research and development costs of $2.1 million.

***Other***

Film distribution and post-production revenues was $2.4 million in the second quarter of 2018 and $5.1 million in the second quarter of 2017. Film distribution and post-production gross margin was a loss of $0.4 million in the second quarter of 2018 as compared to a gross margin of $2.0 million in the second quarter of 2017, primarily due to lower revenue from original films in the second quarter of 2018. In 2017, the Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period, and subsequently revised expectations for future revenues, resulting in an impairment charge of $1.2 million. There were no such charges incurred in the second quarter of 2018.

Other revenue decreased to $1.1 million in the second quarter of 2018, as compared to $1.2 million in the second quarter of 2017. Other revenue primarily includes revenue generated from the Company s theater operations and camera rental business. The decrease in revenue is primarily the result of a decrease in camera revenues in the second

quarter of 2018, as compared to the prior year comparative period.

The gross margin recognized from other revenue was a loss of less than $0.1 million in the second quarter of 2018 as compared to a loss of $0.1 million in the second quarter of 2017.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased to $32.6 million in the second quarter of 2018, as compared to $28.6 million in the second quarter of 2017, primarily as a result of normalizing the Company s marketing spending. Selling, general and administrative expenses excluding the impact of stock-based compensation were $26.4 million in the second quarter of 2018, as compared to $22.4 million in the second quarter of 2017.

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The following reflects the significant items impacting selling, general and administrative expenses for the second quarter of 2018 and 2017:

| | 2018 | 2017 | 2018 versus 2017 | |
|---|---|---|---|---|
| Staff costs | $ 15,960 | $ 15,476 | $ 484 | 3.1% |
| Stock-based compensation | 6,242 | 6,236 | 6 | 0.1% |
| Marketing | 3,031 | 1,133 | 1,898 | 167.5% |
| Foreign exchange | 1,018 | (222) | 1,240 | (558.6)% |
| Other general corporate expenditures | 6,357 | 5,966 | 391 | 6.6% |
| Total | $ 32,608 | $ 28,589 | $ 4,019 | 14.1% |

Staff costs presented above are related to the Company s core business and include salaries and benefits.

Other general corporate expenditures include professional fees, travel and entertainment. Selling, general and administrative expenses also includes asset impairment charges and write-offs, if any, and miscellaneous items, other than interest.

***Research and Development Expenses***

Research and development expenses decreased to $3.9 million in the second quarter of 2018, as compared to $5.7 million in the second quarter of 2017. The decrease is primarily due to lower spending on new business initiatives compared to the second quarter of 2017.

The Company intends for additional research and development to continue through 2018, as the Company continues to support the development and roll-out of IMAX with Laser, the Company s next generation laser-based projection system, which is targeted primarily for screens in commercial multiplexes. A significant portion of the Company s research and development efforts over the past several years have been focused on IMAX with Laser, which the Company believes delivers increased resolution, sharper and brighter images, deeper contrast as well as the widest range of colors available to filmmakers today. The Company expects that research and development expense will decrease in 2019, following the initial roll-out of IMAX with Laser.

The Company also intends to continue research and development in other areas considered important to the Company s continued commercial success, including further improving the reliability of its projectors, developing more IMAX cameras, enhancing the Company s image quality, expanding the applicability of the Company s digital technology, in both theater and home entertainment, improvements to the DMR process and the ability to deliver DMR releases digitally to its theater network, without the requirement for hard drives.

***Asset impairments***

During the second quarter of 2017, the Company identified and wrote off $1.2 million pertaining to a certain loan that is no longer considered collectible. No such charge was recognized in the current year comparative period.

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

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of $0.4 million in the second quarter of 2018 as compared to a net provision of $0.9 million in the second quarter of 2017.

The Company s accounts receivables and financing receivables are subject to credit risk, as a result of geographical location, exchange rate fluctuations, and other unforeseeable financial difficulties. 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.

***Interest Income and Expense***

Interest income was $0.2 million in the second quarter of 2018 as compared to $0.3 million in the second quarter of 2017.

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Interest expense was $0.9 million in the second quarter of 2018 as compared to $0.4 second quarter of 2017. Included in interest expense is the amortization of deferred finance costs in the amount of $0.4 million in the second quarter of 2018 as compared to $0.2 million in the second quarter of 2017. Included in this amount is $0.3 million of deferred finance costs relating to the prior Credit Facility written off as a result of the new Credit Facility. 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.

***Legal arbitration award***

In the second quarter of 2018, the Company recorded a charge of $7.5 million for a legal arbitration award related to one of the Company s litigation matters from 2006. For additional information, refer to note 9(a) in Item 1 of the Company s Form 10-Q.

***Exit costs, restructuring charges and associated impairments***

Exit costs, restructuring charges and associated impairments were $0.5 million in the second quarter of 2018 which is comprised of employee severance costs. In the second quarter of 2017, an expense of $10.3 million was recognized which was comprised of employee severence costs, costs of consolidating facilities and contract termination costs totalled $4.7 million. Associated impairments related to certain exit activities were $5.6 million.

***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, including the impact of the Tax Cuts and Jobs Act (the Tax Act ), 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 June 30, 2018, the Company had a gross deferred income tax asset of $24.6 million, against which the Company is carrying a $0.2 million valuation allowance. For the three months ended June 30, 2018, the Company recorded an income tax provision of $3.6 million, which included a provision of $0.4 million related to its provision for uncertain tax positions. In addition, included in the provision for income taxes was a $0.5 million provision related to stock-based compensation costs recognized in the period as the tax deduction was less than the cumulative book expense recorded.

The Company s Chinese subsidiary has made inquiries 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. 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 June 30, 2018, the equity method of accounting is being utilized for an investment with a carrying value of $nil (December 31, 2017 $nil). The Company s accumulated losses in excess of its equity investment were $2.2 million as at June 30, 2018. For the three months ended June 30, 2018, gross revenues, cost of revenue and net loss for these investments were $1.0 million, $0.8 million and $0.4 million, respectively (2017 $0.2 million, $0.9 million and $0.7 million, respectively). The Company recorded its proportionate share of the net loss which amounted to $0.1 million second quarter of 2018, compared to a net loss of $0.3 million experienced in the second quarter of 2017.

***Non-Controlling Interests***

The Company s condensed consolidated financial statements include a non-controlling interest in the net income of IMAX China as well as the impact of non-controlling interests in its subsidiaries created for the Original Film Fund and VR Content Fund activity. For the three months ended June 30, 2018, the net income attributable to non-controlling interests of the Company s subsidiaries was $2.6 million (2017 $3.5 million).

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**Six Months Ended June 30, 2018 versus Six Months Ended June 30, 2017**

The Company reported net income of $22.3 million, or $0.35 per basic and diluted share, for the six months ended June 30, 2018 as compared to net income of $0.9 million, or $0.01 per basic and diluted share for the six months ended June 30, 2017.

Net income for the six months ended June 30, 2018 includes a $11.6 million charge, or $0.18 per diluted share (2017 $12.1 million or $0.18 per diluted share), for stock-based compensation, a $1.2 million charge, or $0.02 per diluted share for exit costs, restructuring charges and associated impairments (2017 $10.3 million, or $0.15 per diluted share) and a $7.5 million charge, or $0.12 per diluted share, for a legal arbitration award related to one of the Company s litigation matters from 2006 (2017 $nil and $nil).

Adjusted net income, which consists of net income excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments, the legal arbitration award and the related tax impact, was $38.8 million, or $0.61 per diluted share, for the six months ended June 30, 2018 as compared to adjusted net income of $16.5 million, or $0.24 per diluted share, for the six months ended June 30, 2017.

The Company reported net income attributable to common shareholders of $16.1 million, or $0.25 per basic and diluted share for the six months ended June 30, 2018 (2017 net loss of $1.6 million, or a loss of $0.02 per basic and diluted share).

Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments, the legal arbitration award and the related tax impact, was $32.4 million, or $0.51 per diluted share, for the six months ended June 30, 2018 as compared to adjusted net income attributable to common shareholders of $13.5 million, or $0.20 per diluted share, for the six months ended June 30, 2017.

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:

| *(In thousands of U.S. dollars, except per share amounts)* | **Six Months Ended June 30, 2018** | | **Six Months Ended June 30, 2017** | |
|---|---|---|---|---|
| | **Net Income** | **Diluted EPS** | **Net Income** | **Diluted EPS** |
| Reported net income | $ 22,322 | $ 0.35 | $ 922 | $ 0.01 |
| Adjustments: | | | | |
| Stock-based compensation | 11,603 | 0.18 | 12,057 | 0.18 |
| Exit costs, restructuring charges and associated impairments | 1,158 | 0.02 | 10,258 | 0.15 |
| Legal arbitration award | 7,500 | 0.12 | | |
| Tax impact on items listed above | (3,787) | (0.06) | (6,723) | (0.10) |
| Adjusted net income | 38,796 | 0.61 | 16,514 | 0.24 |
| Net income attributable to non-controlling interests [(1)] | (6,192) | (0.10) | (2,559) | (0.04) |
| Stock-based compensation (net of tax of $0.1 million and $0.1 million, respectively) [(1)] | (204) | | (281) | |

| | | | | |
|---|---|---|---|---|
| Exit costs, restructuring charges and associated impairments (net of tax of less than $0.1 million) [1] | | | (168) | |
| Adjusted net income attributable to common shareholders | $ 32,400 | $ 0.51 | $ 13,506 | $ 0.20 |
| Weighted average diluted shares outstanding | | 64,006 | | 66,548 |

(1) Reflects amounts attributable to non-controlling interests.

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The following table sets forth the breakdown of revenue and gross margin by nature for the six months ended June 30:

| *(In thousands of U.S. dollars)* | Revenue | | Gross Margin | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Network Business** | | | | |
| IMAX DMR | $ 63,214 | $ 51,166 | $ 43,063 | $ 34,466 |
| Joint revenue sharing arrangements - contingent rent | 42,593 | 34,130 | 31,362 | 23,920 |
| IMAX systems - contingent rent | | 1,478 | | 1,478 |
| | 105,807 | 86,774 | 74,425 | 59,864 |
| **Theater Business** | | | | |
| IMAX systems | | | | |
| Sales and sales-type leases[1] | 30,118 | 23,067 | 18,508 | 12,944 |
| Ongoing fees and finance income[2] | 6,012 | 5,198 | 5,917 | 5,060 |
| Joint revenue sharing arrangements fixed fees | 1,022 | 1,878 | 246 | 264 |
| Theater system maintenance | 25,047 | 21,949 | 11,292 | 8,683 |
| Other theater | 3,631 | 3,864 | 517 | 834 |
| | 65,830 | 55,956 | 36,480 | 27,785 |
| **New Business** | 3,723 | 2,591 | 436 | (1,520) |
| **Other** | | | | |
| Film distribution and post-production | 6,094 | 8,670 | 59 | (665) |
| Other | 1,875 | 2,423 | (304) | (234) |
| | 7,969 | 11,093 | (245) | (899) |
| | $ 183,329 | $ 156,414 | $ 111,096 | $ 85,230 |

(1) Includes initial payments and the present value of fixed minimum payments from equipment, sales and sales-type lease transactions, and in 2018, includes the present value of estimates of variable consideration from equipment sales transactions.

(2) Includes rental income from operating leases and finance income.

On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. As it is the first quarter after transition, the Company has not experienced any significant true up of its transition amounts. See note 3 Adoption of ASC Topic 606, Revenue from Contracts with Customers, effective January 1, 2018 in the accompanying condensed consolidated financial statements in Item 1 for the Company s revenue recognition policy. The following table presents the impacted financial statement line items in the Company s condensed consolidated statement of operations:

| | Six Months Ended June 30, 2018 | | |
|---|---|---|---|
| ***(in thousands of U.S. dollars, except per share amounts)*** | **Pre-adoption of ASC Topic 606** | **ASC Topic 606 Adjustments** | **As reported** |
| Revenues | $ 182,148 | $ 1,181 | $ 183,329 |
| Provision for income taxes | (7,828) | (260) | (8,808) |
| Net income | 21,401 | 921 | 22,322 |
| Less: net income attributable to non-controlling interests | (6,031) | (161) | (6,192) |
| Net income attributable to common shareholders | 15,370 | 760 | 16,130 |
| Net income per share attributable to common shareholders - basic and diluted | 0.24 | 0.01 | 0.25 |

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The following table presents the impact of ASC Topic 606 on the Company s revenues by reportable segment:

| | Six Months Ended June 30, 2018 | | |
|---|---|---|---|
| | Pre-adoption of ASC Topic 606 | ASC Topic 606 Adjustments | As reported |
| **Network business** | | | |
| IMAX DMR | $ 63,214 | $ | $ 63,214 |
| Joint revenue sharing arrangements contingent rent[1] | 44,381 | (1,788) | 42,593 |
| IMAX systems contingent rent[1] | 1,327 | (1,327) | |
| | 108,922 | (3,115) | 105,807 |
| **Theater business** | | | |
| IMAX systems | | | |
| Sales and sales-type leases[2] | 23,498 | 6,620 | 30,118 |
| Ongoing fees and finance income[3] | 5,431 | 581 | 6,012 |
| Joint revenue sharing arrangements fixed fees[4] | 3,927 | (2,905) | 1,022 |
| Theater system maintenance | 25,047 | | 25,047 |
| Other theater | 3,631 | | 3,631 |
| | 61,534 | 4,296 | 65,830 |
| **New business** | 3,723 | | 3,723 |
| **Other** | | | |
| Film post-production | 4,250 | | 4,250 |
| Film distribution | 1,844 | | 1,844 |
| Other | 1,875 | | 1,875 |
| | 7,969 | | 7,969 |
| Total | $ 182,148 | $ 1,181 | $ 183,329 |

(1) Contingent rent of $1.8 million related to theater systems under hybrid sales arrangements and $1.3 million related to theater systems under sales arrangements was recognized in the Company s transition adjustment.

(2) Variable consideration of $3.3 million relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the quarter and the fixed consideration recognized for theater systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.

(3) Finance income of $0.6 million was recognized on the future consideration related to contracts.
(4) Fixed consideration of $2.9 million related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and Sales-type leases.

***Revenues and Gross Margin***

The Company s revenues for the six months ended June 30, 2018 increased by 17.2% to $183.3 million from $156.4 million for the six months ended June 30, 2017, primarily due to an increase in revenues from the Company s network business and theater business segments. The gross margin across all segments in the six months ended June 30, 2018 was $111.1 million, or 60.6% of total revenue, compared to $85.2 million, or 54.5% of total revenue in the six months ended June 30, 2017.

***Network Business***

Gross box office generated by IMAX DMR films increased 22.4% to $588.8 million in the six months ended June 30, 2018 from $481.0 million in the six months ended June 30, 2017. In the six months ended June 30, 2018, gross box office was generated primarily by the exhibition of 33 films (24 new and 9 carryovers), as compared to 33 films (23 new and 10 carryovers) exhibited in the six months ended June 30, 2017.

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Network business revenue increased by 21.9% to $105.8 million in the six months ended June 30, 2018 from $86.8 million in the six months ended June 30, 2017, due to stronger film performance. The gross margins experiences by the Company s network business in the six months ended June 30, 2018 was $74.4 million, or 70.3% of network business revenue, compared to $59.9 million, or 69.0% in the six months ended June 30, 2017. The Company s network business performance is impacted by box office performance, as well as other factors including the timing of a film release to the IMAX theater network, the commercial success of the film, the Company s take rates under its DMR and joint revenue sharing arrangements, and the distribution window for the exhibition of films in the IMAX theater network. Other factors impacting performance include fluctuations in the value of foreign currencies versus the U.S. dollar and potential currency devaluations.

IMAX DMR revenues increased 23.5% to $63.2 million in the six months ended June 30, 2018 from $51.2 million in the six months ended June 30, 2017, due to stronger gross box office performance. The gross margin from the IMAX DMR segment was $43.1 million and $34.5 million in the six months ended June 30, 2018 and 2017, respectively. Margin is a function of the costs associated with the respective films exhibited in the period, and can vary particularly with respect to marketing expenses.

Contingent rent revenues from joint revenue sharing arrangements increased to $42.6 million in the six months ended June 30, 2018 from $34.1 million in the six months ended June 30, 2017 largely due to stronger box office performance and continued network growth. The Company ended the current period with 738 theaters operating under joint revenue sharing arrangements, as compared to 671 theaters at the end of the six months ended June 30, 2017, an increase of 10.0%. Gross box office generated by the joint revenue sharing arrangements was 21.0% higher at $314.0 million in the six months ended June 30, 2018 from $259.5 million in the six months ended June 30, 2017.

The gross margin from joint revenue sharing arrangements increased by 31.1% to $31.4 million in the six months ended June 30, 2018 from $23.9 million in the six months ended June 30, 2017. Included in the calculation of gross margin for the six months ended June 30, 2018 were certain advertising, marketing and commission costs primarily associated with new theater launches of $1.2 million, as compared to $1.2 million during the six months ended June 30, 2017.

Contingent rent revenue from IMAX systems consists of variable payments received in excess of the fixed minimum ongoing payments which are primarily driven by box office performance reported by theater operators. On January 1, 2018, the Company adopted ASC Topic 606, in accordance with the updated revenue recognition policy as discussed in note 3 of the accompanying condensed consolidated financial statements in Item 1. Contingent rent revenue is no longer recognized over the time period of the contract for theater systems under sales arrangements, therefore the Company expects this revenue stream to be minimal on a go-forward basis. Contingent rent revenue of $1.5 million was recognized in the six months ended June 30, 2017.

***Theater Business***

The primary drivers of this line of business are theater system installations and the Company s maintenance contract that accompany each theater installation. In the six months ended June 30, 2018, theater business revenue increased $9.8 million, or 17.6% to $65.8 million as compared to $56.0 million in six months ended June 30, 2017. The increase in theater business revenue is primarily due to:

5 more installations systems under sales and sales-type lease arrangements; and

1 geographic relocation of a theater system under a sales arrangement; partially offset by

2 fewer theater systems contracted as a hybrid joint revenue sharing lease arrangement; and

2 fewer installations of a system upgrade.

Theater business gross margin increased 31.3% to $36.5 million in the six months ended June 30, 2018, as compared to $27.8 million in the six months ended June 30, 2017, primarily due to an increase in installations of systems under sales and sales-type leases.

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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 arrangement (see discussion below) installations by theater system configuration is outlined in the table below:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number of Systems | Revenue | Number of Systems | Revenue |
| New IMAX digital theater systems installed and recognized | | | | |
| Sales and sales-types lease arrangements[1] | 22 | $ 29,080 | 17 | $ 20,192 |
| Joint revenue sharing arrangements hybrid[2] | 2 | 1,044 | 4 | 1,896 |
| Total new theater systems | 24 | 30,124 | 21 | 22,088 |
| IMAX digital theater system upgrades installed and recognized | | | | |
| Sales and sales-types lease arrangements | | | 2 | 2,636 |
| Total upgraded theater systems | | | 2 | 2,636 |
| Total theater systems installed and recognized | 24 | $ 30,124 | 23 | $ 24,724 |

(1) Upon adoption of the new revenue recognition standard, the arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. As a result of including an estimate of variable consideration upon recognition of a theater system under a sales arrangement, the revenues presented for the six months ended June 30, 2018, are $3.3 million higher than under the prior revenue recognition standard.

(2) Upon adoption of the new revenue recognition standard, the Company has reclassified hybrid sales arrangements to sales arrangements since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements. On a go forward basis, this arrangement type will only reflect hybrid lease arrangements.

The average revenue per full, new theater system under a sales and sales-type lease arrangement 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 full, new theater system under a sales and sales-type lease arrangement was $1.3 million for the six months ended June 30, 2018, as compared to $1.2 million in the six months ended June 30, 2017. The average revenue per full, new theater system under a sales and sales-type lease arrangement varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor s location or other various factors. The higher average value is driven by the recognition of variable consideration at the time of recognition versus over the term of the arrangement.

Theater system maintenance revenue increased 14.1% to $25.0 million in the six months ended June 30, 2018 from $21.9 million in the six months ended June 30, 2017. Theater system maintenance gross margin was $11.3 million in the six months ended June 30, 2018 versus $8.7 million in the six months ended June 30, 2017. 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.

Ongoing fees and finance income was $6.0 million in the six months ended June 30, 2018 compared to $5.2 million in the six months ended June 30, 2017. Gross margin for ongoing rent and finance income increased to $5.9 million in the six months ended June 30, 2018 from $5.1 million in the six months ended June 30, 2017. The costs associated with ongoing fees are minimal as it usually consists of depreciation on the Company s theaters under operating lease agreements and/or marketing.

Other theater revenue decreased to $3.6 million in the six months ended June 30, 2018 as compared to $3.9 million in the six months ended June 30, 2017. Other theater revenue primarily includes revenue generated from the Company s after-market sales of projection

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system parts and 3D glasses. The gross margin recognized from other theater revenue was $0.5 million in the six months ended June 30, 2018 as compared to $0.8 million in the six months ended June 30, 2017.

***New Business***

Revenue earned from the Company s new business initiatives was $3.7 million and the new business segment experienced gross margin of $0.4 million in the six months ended June 30, 2018, as compared to $2.6 million and a margin loss of $1.5 million in the six months ended June 30, 2017. The increase in revenue is mainly related to the final contractual payment owed to IMAX related to the previously announced IMAX VR camera, compared to the six months ended June 30, 2017, and the performance of the Company s other new business initiatives, as compared to the prior year comparative period.

The Company is evaluating its new business initiatives separately from its core business as the nature of its activities is separate and distinct from its ongoing operations and as a result views it helpful to discuss items beyond that of gross margin. The Company recognized a net loss before tax from its new business initiatives for the six months ended June 30, 2018 of $0.9 million, which includes amortization of $1.9 million, income tax of $0.1 million and an equity loss of $0.3 million. In addition, the loss includes selling, general and administrative costs of $0.9 million and research and development costs of $0.2 million. In the prior year comparative period, a net loss of $9.9 million, which includes amortization of $0.8 million, restructuring charges and associated impairments of $3.4 million, an equity loss of $0.5 million, selling, general and administrative expenses of $1.1 million and research and development costs of $3.5 million.

***Other***

Film distribution and post-production revenues was $6.1 million in the six months ended June 30, 2018 versus $8.7 million in the six months ended June 30, 2017, primarily due to a decrease in film distribution revenue from IMAX original films. Film distribution and post-production gross margin was of $0.1 million in the six months ended June 30, 2018 as compared to a loss of $0.7 million in the six months ended June 30, 2017, primarily due to a charge of $4.6 million against film assets in the six months ended June 30, 2017. In 2017, the Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period, and subsequently revised expectations for future revenues, resulting in an impairment charge of $1.2 million. There were no such charges incurred in the six months ended June 30, 2018.

Other revenue decreased to $1.9 million in the six months ended June 30, 2018, as compared to $2.4 million in the six months ended June 30, 2017. Other revenue primarily includes revenue generated from the Company s theater operations and camera rental business. The decrease in revenue is primarily the result of a decrease in camera revenues in the six months ended June 30, 2018, as compared to the prior year comparative period.

The gross margin recognized from other revenue was a loss of $0.3 million in the six months ended June 30, 2018, as compared to loss of $0.2 million in the six months ended June 30, 2017.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased to $60.7 million in the six months ended June 30, 2018, as compared to $59.5 million in the six months ended June 30, 2017, due to the Company s cost-savings initiatives, primarily as a result of normalizing the Company s marketing spending. Selling, general and administrative expenses excluding the impact of stock-based compensation were $50.0 million in the six months ended June 30, 2018, as compared to $48.5 million in the six months ended June 30, 2017.

The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year comparative period:

| | 2018 | 2017 | 2018 versus 2017 | |
|---|---|---|---|---|
| Staff costs | $ 29,982 | $ 32,005 | $ (2,023) | (6.3)% |
| Stock-based compensation | 10,659 | 10,998 | (339) | (3.1)% |
| Marketing | 4,444 | 2,635 | 1,809 | 68.7% |
| Foreign exchange | 1,080 | (192) | 1,272 | (662.5)% |
| Other general corporate expenditures | 14,526 | 14,085 | 441 | 3.1% |
| Total | $ 60,691 | $ 59,531 | $ 1,160 | 1.9% |

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Staff costs presented above are related to the Company s core business and include salaries and benefits.

Other general corporate expenditures include professional fees, travel and entertainment. Selling, general and administrative expenses also includes asset impairment charges and write-offs, if any, and miscellaneous items, other than interest.

***Research and Development***

Research and development expenses decreased to $7.5 million in the six months ended June 30, 2018 compared to $10.0 million in the six months ended June 30, 2017. The decrease is primarily due to lower spending on new business initiatives compared to the six months ended June 30, 2017.

The Company intends for additional research and development to continue through 2018, as the Company continues to support the development and roll-out of IMAX with Laser, the Company s next generation laser-based projection system, which is targeted primarily for screens in commercial multiplexes. A significant portion of the Company s research and development efforts over the past several years have been focused on IMAX with Laser, which the Company believes delivers increased resolution, sharper and brighter images, deeper contrast as well as the widest range of colors available to filmmakers today. The Company expects that research and development expense will decrease in 2019, following the initial roll-out of IMAX with Laser.

The Company also intends to continue research and development in other areas considered important to the Company s continued commercial success, including further improving the reliability of its projectors, developing more IMAX cameras, enhancing the Company s image quality, expanding the applicability of the Company s digital technology in both theater and home entertainment, improvements to the DMR process and the ability to deliver DMR releases digitally to its theater network, without the requirement for hard drives.

***Asset impairments***

During the six months ended June 30, 2017, the Company identified and wrote off $1.2 million pertaining to a certain loan that is no longer considered collectible. No such charge was recognized in the current year comparative period.

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

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of $0.8 million in the six months ended June 30, 2018 as compared to a net provision of $1.1 million in the six months ended June 30, 2017.

The Company s accounts receivables and financing receivables are subject to credit risk, as a result of geographical location, exchange rate fluctuations, and other unforeseeable financial difficulties. 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.

***Interest Income and Expense***

Interest income was $0.5 million in the six months ended June 30, 2018, as compared to $0.5 million in the six months ended June 30, 2017.

Interest expense was $1.3 million in the six months ended June 30, 2018, as compared to $0.9 million in the six months ended June 30, 2017. Included in interest expense is the amortization of deferred finance costs in the amount of $0.6 million in the six months ended June 30, 2018 as compared to $0.3 million in the six months ended June 30, 2017. Included in this amount is $0.3 million of deferred finance costs relating to the prior Credit Facility written off as a result of the new Credit Facility. 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.

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***Legal arbitration award***

In the six months ended June 30, 2018, the Company recorded a charge of $7.5 million for a legal arbitration award related to one of the Company s litigation matters from 2006. For additional information, refer to note 9(a) in Item 1 of the Company s Form 10-Q.

***Exit costs, restructuring charges and associated impairments***

Exit costs, restructuring charges and associated impairments were $1.2 million in the six months ended June 30, 2018 which is comprised of employee severance costs. In the six months ended June 30, 2017 an expense of $10.3 million was recognized. Restructuring charges for the six months ended June 30, 2017 comprised of employee severence costs, costs of consolidating facilities and contract termination costs totalled $4.7 million. Associated impairments related to certain exit activities were $5.6 million.

***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, including the impact of the Tax Act, 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 June 30, 2018, the Company had a gross deferred income tax asset of $24.6 million, against which the Company is carrying a $0.2 million valuation allowance. For the six months ended June 30, 2018, the Company recorded an income tax provision of $8.1 million, which included a provision of $0.5 million related to its provision for uncertain tax positions. In addition, included in the provision for income taxes was a $1.2 million provision related to stock-based compensation costs recognized in the period as the tax deduction was less than the cumulative book expense recorded.

The Company s Chinese subsidiary has made inquiries 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. 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 June 30, 2018, the equity method of accounting is being utilized for an investment with a carrying value of $nil (December 31, 2017 $nil). The Company s accumulated losses in excess of its equity investment were $2.2 million as at June 30, 2018. For the six months ended June 30, 2018, gross revenues, cost of revenue and net loss for the Company s investments were $1.5 million, $1.7 million and $1.0 million, respectively (2017 $0.5 million, $1.8 million and $1.4 million, respectively). The Company recorded its proportionate share of the net loss which amounted to $0.3 million six months ended June 30, 2018, compared to $0.5 million experienced in the six months

ended June 30, 2017.

***Non-Controlling Interests***

The Company s condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China as well as the impact of a non-controlling interest in its subsidiary created for the Original Film Fund activity. For the six months ended June 30, 2018, the net income attributable to non-controlling interests of the Company s subsidiaries were $6.2 million (2017 $2.6 million).

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**LIQUIDITY AND CAPITAL RESOURCES**

On June 28, 2018, the Company entered into a Fifth Amended and Restated Credit Agreement (the Credit Agreement ) with Wells Fargo Bank, National Association, as agent, and a syndicate of lenders party thereto. The Credit Agreement expands the Company s revolving borrowing capacity from $200.0 million to $300.0 million, and also contains an uncommitted accordion feature allowing the Company to further expand its borrowing capacity to $440.0 million or greater, depending on the mix of revolving and term loans comprising the incremental facility. The new facility (the Credit Facility ) matures on June 28, 2023.

The Company s obligations under the Credit Agreement are guaranteed by certain of the Company s subsidiaries (the Guarantors ), and are secured by first-priority security interests in substantially all the assets of the Company and the Guarantors.

At closing, the Company did not have any amounts drawn under the new Credit Facility. Subsequent to June 30, 2018, the Company borrowed under the Credit Facility to repay outstanding term loan debt in connection with its Playa Vista headquarters. In addition, the Company intends to use the proceeds under the facility to finance ongoing working capital requirements and for other general corporate purposes. The Credit facility, coupled with recurring cash generated by the Company s theater network, is expected to provide enhanced flexibility as the Company continues with the global expansion of its business and pursues other avenues to increase shareholder value.

Total amounts drawn and available under the Credit Facility at June 30, 2018 were $nil and $300.0 million, respectively (December 31, 2017 $nil and $200.0 million, respectively). Subsequent to June 30, 2018, the Company borrowed $30.0 million under the Credit Facility to fully repay the Playa Vista Loan, as well as fund working capital requirements.

The Credit Facility provides that the Company is required at all times to maintain a Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) of no greater than 3.25:1.0. The Company was in compliance with this requirement at June 30, 2018. The Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) was 0.00:1 as at June 30, 2018, where Total Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments net of up to $75.0 million in unrestricted cash and cash equivalents outside of the People s Republic of China ( PRC ), and was $nil. Adjusted EBITDA per Credit Facility is calculated as follows:

| **Adjusted EBITDA per Credit Facility:** ***(In thousands of U.S. Dollars)*** | **For the Three Months Ended June 30, 2018** | **For the Twelve Months Ended June 30, 2018[(1)]** |
|---|---|---|
| Net income | $ 10,255 | $ 33,918 |
| Add (subtract): | | |
| Provision for income taxes | 3,635 | 25,002 |
| Interest expense, net of interest income | 608 | 1,388 |
| Depreciation and amortization, including film asset amortization | 14,513 | 69,488 |
| EBITDA | $ 29,011 | $ 129,796 |

| | | | | |
|---|---|---|---|---|
| Stock and other non-cash compensation | | 6,779 | | 23,141 |
| Write-downs, net of recoveries including asset impairments and receivable provisions | | 650 | | 18,099 |
| Exit costs, restructuring charges and associated impairments | | 456 | | 7,074 |
| Legal arbitration award | | 7,500 | | 7,500 |
| Loss from equity accounted investments | | 100 | | 489 |
| Adjusted EBITDA before non-controlling interests | $ | 44,496 | $ | 186,099 |
| Adjusted EBITDA attributable to non-controlling interests[(2)] | | (5,014) | | (24,404) |
| Adjusted EBITDA per Credit Facility | $ | 39,482* | $ | 161,695* |
| Adjusted EBITDA per Credit Facility, excluding impact from *Marvel s Inhumans* | $ | 39,489* | $ | 148,930* |

* Adjusted EBITDA per Credit Facility of $39.5 million and $161.7 million for the three and twelve months ended June 30, 2018 respectively, includes the impact of the Company s investment in *Marvel s Inhumans* , which resulted in a less than $0.1 million and $12.2 million loss, respectively. However, as permitted by the Credit Facility, this loss was offset by addbacks of $nil and $13.3 million for amortization and by addbacks of $nil and $11.7 million for impairment charges relating to the investment, in each case for the three and twelve months ended June 30, 2018, respectively. The net effect of these addbacks was to increase Adjusted EBITDA per Credit Facility by less than $0.1 million and $12.8 million for the three and twelve months ended June 30, 2018, respectively. This investment

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represents the Company s first foray into a commercial television property, and therefore the Adjusted EBITDA per Credit Facility metric presented above may not be reflective of the Company s typical operational activity. Further, the Company does not yet know whether it will make similar investments in the future. As a result, the Company is also presenting Adjusted EBITDA per Credit Facility excluding the impact of *Marvel s Inhumans* to better facilitate comparisons to prior and future periods.

(1) Senior Secured Net Leverage Ratio calculated using twelve months ended Adjusted EBITDA per Credit Facility.
(2) The Adjusted EBITDA per Credit Facility calculation includes the reduction in Adjusted EBITDA per Credit Facility from the Company s non-controlling interests.

***Playa Vista Financing***

In 2014, IMAX PV Development Inc., ( PV Borrower ) a wholly-owned subsidiary of the Company, entered into a loan agreement with Wells Fargo to principally fund the costs of development and construction of the Company s new West Coast headquarters, located in the Playa Vista neighborhood of Los Angeles, California (the Playa Vista Loan ).

The Playa Vista project, the Playa Vista Loan was fully drawn at $30.0 million and bore interest at a variable rate per annum equal to 2.0% above the 30-day LIBOR rate. The Playa Vista Loan was being amortized over 15 years. The Playa Vista Loan was fully due and payable on October 19, 2025 (the Maturity Date ) and could be prepaid at any time without premium, but with all accrued interest and other applicable payments.

Total amount drawn under the Playa Vista Loan as at June 30, 2018 was $24.7 million (December 31, 2017 $25.7 million). Under the Playa Vista Loan, the effective interest rate for the three and six months ended June 30, 2018 was 4.02% and 3.86%, respectively (2017 3.08% and 2.97%, respectively).

Subsequent to June 30, 2018, the Company extinguished the Playa Vista Loan by borrowing from its Credit Facility.

***Working Capital Loan***

Subsequent to June 30, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. ( IMAX Shanghai ), the Company s majority-owned subsidiary in China, entered into an unsecured revolving facility for up to RMB 200.0 million (approximately USD $30.0 million) to fund ongoing working capital requirements.

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

As at June 30, 2018, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2017 $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 June 30, 2018, the Company has letters of credit outstanding and advance payment guarantees outstanding of $0.1 million (December 31, 2017 $nil), under the Bank of Montreal Facility.

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***Cash and Cash Equivalents***

As at June 30, 2018, the Company s principal sources of liquidity included cash and cash equivalents of $133.0 million, the Credit Facility, anticipated collection from trade accounts receivable of $113.5 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 $27.1 million and payments expected in the next 12 months on existing backlog deals. As at June 30, 2018, the Company did not have any amount drawn on the Credit Facility (remaining availability of $300.0 million), and the Company had $24.7 million drawn on the Playa Vista Loan. There were no 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 North America as at June 30, 2018 was $121.3 million (December 31, 2017 $119.4 million), of which $44.7 million was held in the PRC (December 31, 2017 $32.6 million). The Company s intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be $8.2 million.

During the six months ended June 30, 2018, the Company used cash of $25.7 million. The Company used cash of $18.8 million to 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 2018, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements, to fund DMR agreements with studios, and to potentially make share repurchases. 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 22 new theater systems under joint revenue sharing arrangements during the six months ended June 30, 2018, which were capitalized by the Company.

In 2017, the Company s Board of Directors of a new share repurchase program which authorizes the repurchase of up to $200.0 million of its common shares by June 30, 2020. 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 six months ended June 30, 2018, the Company repurchased 2,154,689 common shares at an average price of $21.54 per share. The retired shares were repurchased for $46.5 million.

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 that are outside of the Company s control (see Risk Factors in Item 1A in the Company s 2017 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. Based on the Company s cash flow from operations and facilities, it expects to have sufficient capital and liquidity to fund its operations in the normal course for the next 12 months.

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*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 new business initiatives, and the level of cash collections received from its customers.

Cash provided by operating activities amounted to $46.7 million for the six months ended June 30, 2018. Changes in other non-cash operating assets as compared to December 31, 2017 include:

- a decrease of $16.2 million in accounts receivable resulting from cash receipts in the period partially offset by amounts billed;
- a decrease of $3.2 million in financing receivables primarily due a fluctuation in foreign currency rates and ongoing minimum rent payments received, offset by the installation and recognition of IMAX theater systems under sales or sales-type lease arrangements offset by ongoing minimum rent payments received;
- an increase of $9.9 million in inventories as the build-up of inventory for future IMAX theater system installations under sales or sales-type lease arrangements exceeded amounts relieved from inventory for systems recognized and service parts used;
- an increase of $1.9 million in prepaid expenses due to advance payments related to employee benefits; and
- an increase of $0.4 million in other assets which primarily reflects a change in commission and other deferred selling expenses;

Changes in other operating liabilities as compared to December 31, 2017 include: a decrease in accounts payable of $9.2 million due to timing of payments; and a decrease in deferred revenue of $3.0 million related to amounts relieved from deferred revenue related to theater system installations offset by backlog payments received in the current period, and an increase of $4.7 million in accrued liabilities primarily due to the legal arbitration award and timing of payments.

*Investing Activities*

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 $37.0 million for the six months ended June 30, 2018 as compared to $49.5 million for the six months ended June 30, 2017. The Company expects its investment in capital expenditures to remain fairly consistent as the nature of these cash outlays in particular, joint revenue sharing arrangements and film assets, exist to strengthen operational performances.

Net cash used in investing activities amounted to $18.8 million in six months ended June 30, 2018, which includes purchases of $8.6 million in property, plant and equipment, an investment in joint revenue sharing equipment of

$8.6 million and an investment in other intangible assets of $1.7 million, primarily related to expanding the functionality of the Company s enterprise resource planning system.

*Financing Activities*

Net cash used in financing activities in the six months ended June 30, 2018 amounted to $54.0 million as compared to net cash provided by financing activities of $52.4 million in the six months ended June 30, 2017. In the six months ended June 30, 2018, the Company paid $46.5 million for the repurchase of common shares under the Company s share repurchase program, $6.2 million to purchase treasury stock for the settlement of restricted share units and options and $1.3 million of taxes withheld and paid on vested employee stock awards. In addition, the Company also made repayments of $1.0 million under the Playa Vista Loan and paid $2.0 million in fees related to its amended Credit Facility. The Company paid a $4.6 million dividend to the non-controlling interest shareholders of IMAX China. These cash outlays were offset by $6.7 million received from third party capital contributions to the Original Film Fund and the VR Fund and $0.8 million received from the issuance of common shares resulting from stock option exercises.

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**CONTRACTUAL OBLIGATIONS**

Payments to be made by the Company under contractual obligations as of June 30, 2018 are as follows:

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| *(In thousands of U.S. Dollars)* | Total Obligation | 1 Year | > 1 - 3 years | > 3 - 5 years | Thereafter |
| Purchase obligations[1] | $ 39,830 | $ 39,830 | $ | $ | $ |
| Pension obligations[2] | 20,076 | | 20,076 | | |
| Operating lease obligations[3] | 21,943 | 3,102 | 5,151 | 2,757 | 10,933 |
| Playa Vista Loan[4] | 24,667 | 1,000 | 4,000 | 4,000 | 15,667 |
| Postretirement benefits obligations | 4,175 | 393 | 1,068 | 884 | 1,830 |
| | $ 110,691 | $ 44,325 | $ 30,295 | $ 7,641 | $ 28,430 |

(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, 2019), although Mr. Gelfond has not informed the Company that he intends to retire at that time.
(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 was fully due and payable on October 19, 2025. Subsequent to June 30, 2018, the Company has subsequently extinguished the Playa Vista Loan using borrowings from its new Credit Facility.

*Pension and Postretirement Obligations*

The Company has an unfunded defined benefit pension plan, the SERP, covering Mr. Gelfond. As at June 30, 2018, the Company had an unfunded and accrued projected benefit obligation of approximately $19.2 million (December 31, 2017 $19.0 million) in respect of the SERP.

Pursuant to an employment agreement dated November 8, 2016, the term of Mr. Gelfond s employment was extended through December 31, 2019, although Mr. Gelfond has not informed the Company that he intends to retire at that time. 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 June 30, 2018, the Company had an unfunded benefit obligation of $1.6 million (December 31, 2017 $1.7 million).

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Bradley J. Wechsler, the Company s former Co-CEO and current Chairman of its Board of Directors, upon retirement. As at June 30, 2018, the Company had an unfunded benefit obligation of $0.7 million (December 31, 2017 $0.7 million).

The Company also maintains a Retirement Plan covering Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company. The Company has agreed to make a total contribution of $3.2 million pursuant to a schedule set forth in Mr. Foster s employment agreement. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, and will vest in 25% increments on July 2 of 2019, 2022, 2025 and 2027, but will vest in full if Mr. Foster s employment terminates under specified circumstances, including if the Company terminates his employment without cause, if he resigns for good reason, or if the Company does not offer to renew Mr. Foster s employment on terms substantially similar to those set forth in his current employment agreement and, as a result, Mr. Foster incurs a separation from service. As at June 30, 2018, the Company had an unfunded benefit obligation recorded of $1.3 million (December 31, 2017 $1.0 million).

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**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.

**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 79 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.

Certain of the Company s subsidiaries, held approximately 295.8 million Renminbi ($44.7 million U.S dollars) in cash and cash equivalents as at June 30, 2018 (December 31, 2017 213.0 million Renminbi or $32.6 million U.S. dollars) and are required to transact locally in Renminbi. Foreign currency exchange transactions, including the remittance of any funds into and out of the PRC, are subject to controls and require the approval of the China State Administrative of Foreign Exchange to complete. Any developments relating to the Chinese economy and any actions taken by the China government are beyond the control of the Company, however, the Company monitors and manages its capital and liquidity requirements to ensure compliance with local regulatory and policy requirements.

For the three and six months ended June 30, 2018, the Company recorded a foreign exchange net loss of $1.0 million and a net loss $1.1 million, respectively as compared to a foreign exchange net gain of $0.2 million and net gain of $0.2 million, respectively for the three and six months ended June 30, 2017, 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 2018 and 2019. 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 cash flow hedging instruments. All foreign currency forward contracts held by the Company as at June 30, 2018, are designated and qualify as foreign currency cash flow hedging instruments. For foreign currency cash flow 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 cash flow hedging instruments at June 30, 2018 was $43.4 million (December 31, 2017 $35.2 million). A loss of $0.7 million and a loss of $1.7 million was recorded to Other Comprehensive Income with respect to the change in fair value of these contracts for the three and six months ended June 30, 2018, respectively (2017 gain of $0.8 million and gain of $1.1 million, respectively). A gain of $0.1 million and a gain of $0.3 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses for the three and six months ended June 30, 2018, respectively (2017 gain of $0.1 million and loss of $0.2 million, respectively). The Company s estimated net amount of the existing losses as at June 30, 2018 is $0.2 million, which is expected to be reclassified to earnings within the next twelve months.

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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 June 30, 2018, the Company s financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros translated into U.S. dollars was $86.2 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at June 30, 2018, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been $8.6 million. A significant portion of the Company s selling, general, and administrative expenses is denominated in Canadian dollars. Assuming a 1% appreciation or depreciation in foreign currency exchange rates at June 30, 2018, the potential change in the amount of selling, general, and administrative expenses would be $0.2 million.

**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 June 30, 2018, the Company had not drawn down on its Credit Facility (December 31, 2017 $nil).

As at June 30, 2018, the Company had drawn down $24.7 million on its Playa Vista Loan (December 31, 2017 $25.7 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 9.6% and 9.8% of its total liabilities at June 30, 2018 and December 31, 2017, 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 less than $0.1 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 June 30, 2018.

**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 June 30, 2018 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 SEC s rules and forms.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in the Company s internal control over financial reporting which occurred during the three months ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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## PART II. OTHER INFORMATION

**Item 1.** ***Legal Proceedings***

See note 9 to the accompanying condensed consolidated financial statements in Item 1 for information regarding legal proceedings involving the Company.

**Item 1A.** ***Risk Factors***

This Form 10-Q should be read together with the Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, which describes various risks and uncertainties to which the Company is or may become subject, and is supplemented by the discussion below. The risks described in the Company s 2017 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect its 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 June 30, 2018 was as follows:

| | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced program[(1)] | Maximum value of shares that may yet be purchased under the program |
|---|---|---|---|---|
| April 1 through April 30, 2018 | 20,100 | $ 19.56 | 20,100 | $ 186,222,966 |
| May 1 through May 31, 2018 | 1,243,155 | 22.28 | 1,243,155 | 158,526,337 |
| June 1 through June 30, 2018 | 237,210 | 20.81 | 237,210 | 153,590,812 |
| Total | 1,500,465 | $ 22.01 | 1,500,465 | |

(1) In 2017, the Company s Board of Directors approved a new $200.0 million share repurchase program for shares of the Company s common stock. The share repurchase program expires on June 30, 2020. 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.

The total number of shares purchased during the three months ended June 30, 2018 does not include any shares received in the administration of employee share-based compensation plans. The Company has $153.6 million

available under its approved new repurchase program.

**Item 6.** ***Exhibits***

| Exhibit No. | Description |
|---|---|
| 10.38 | Fifth Amended and Restated Credit Agreement, dated June 28, 2018, by and between IMAX Corporation, the Guarantors referred to therein, the Lenders referred to therein, and Wells Fargo Bank, National Association, as Administrative Agent. |
| 10.39 | Form of Director Indemnification Agreement |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated July 25, 2018, by Richard L. Gelfond. |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated July 25, 2018, by Patrick McClymont. |
| 32.1 | Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated July 25, 2018, by Richard L. Gelfond. |
| 32.2 | Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated July 25, 2018, by Patrick McClymont. |

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**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: July 25, 2018 By: /s/ PATRICK MCCLYMONT
Patrick McClymont
Executive Vice-President & Chief Financial Officer
(Principal Financial Officer)

Date: July 25, 2018 By: /s/ JEFFREY VANCE
Jeffrey Vance
Senior Vice-President, Finance & Controller
(Principal Accounting Officer)