

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

Form 10-Q

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

For the quarterly period ended June 30, 2011

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

(State or other jurisdiction of incorporation or organization)

**2525 Speakman Drive,
Mississauga, Ontario, Canada**
(Address of principal executive offices)

98-0140269

(I.R.S. Employer Identification Number)

L5K 1B1
(Postal Code)

Registrant's telephone number, including area code
(905) 403-6500

N/A

(Former name or former address, if changed since last report)

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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, 2011
Common stock, no par value	64,567,556

IMAX CORPORATION

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IMAX CORPORATION

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 wholly-owned 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, general economic, market or business conditions; including the length and severity of the current economic downturn, the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other companies; the performance of IMAX DMR films; conditions in the in-home and out-of-home entertainment industries; the signing of theater system agreements; changes in laws or regulations; conditions, changes and developments in the commercial exhibition industry; the failure to convert theater system backlog into revenue; risks related to new business initiatives; 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; the potential impact of increased competition in the markets the Company operates within; risks related to foreign currency transactions; risks related to the Company’s prior restatements and the related litigation; 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 MPX®, IMAX think big® and think big® are
trademarks and trade names of the Company or its subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

IMAX CORPORATION
PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

The following Condensed Consolidated Financial Statements are filed as part of this Report:

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IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
In accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars)

	June 30, 2011 <u>(unaudited)</u>	December 31, 2010 <u></u>
Assets		
Cash and cash equivalents	\$ 23,232	\$ 30,390
Accounts receivable, net of allowance for doubtful accounts of \$1,534 (December 31, 2010 — \$1,988)	44,243	39,570
Financing receivables (notes 3 and 17(c))	79,558	73,601
Inventories (note 4)	17,746	15,275
Prepaid expenses	3,934	2,832
Film assets	2,752	2,449
Property, plant and equipment (note 5)	89,097	74,035
Other assets (notes 17(d) and 17(e))	13,896	12,350
Deferred income taxes (note 13(a))	56,155	57,122
Goodwill	39,027	39,027
Other intangible assets (note 6)	2,492	2,437
Total assets	\$ 372,132	\$ 349,088
Liabilities		
Bank indebtedness (note 7)	\$ 34,583	\$ 17,500
Accounts payable	30,070	20,384
Accrued liabilities (notes 8(a), 8(c), 9, 14(b), 16(a), and 16(c))	55,104	78,994
Deferred revenue	81,589	73,752
Total liabilities	201,346	190,630
Commitments, contingencies and guarantees (notes 8 and 9)		
Shareholders' equity		
Capital stock (note 14) common shares — no par value. Authorized — unlimited number.		
Issued and outstanding — 64,567,556 (December 31, 2010 — 64,145,573)	300,282	292,977
Other equity	12,506	7,687
Deficit	(140,387)	(141,209)
Accumulated other comprehensive loss	(1,615)	(997)
Total shareholders' equity	170,786	158,458
Total liabilities and shareholders' equity	\$ 372,132	\$ 349,088

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
In accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues				
Equipment and product sales	\$ 19,750	\$ 16,363	\$ 39,981	\$ 27,994
Services (note 10(c))	26,993	28,792	45,267	69,023
Rentals (note 10(c))	9,015	9,352	14,066	29,203
Finance income	1,474	1,091	2,828	2,161
Other	—	—	250	—
	<u>57,232</u>	<u>55,598</u>	<u>102,392</u>	<u>128,381</u>
Costs and expenses applicable to revenues				
Equipment and product sales (note 10(a))	9,661	8,019	20,512	16,153
Services (notes 10(a) and 10(c))	17,525	18,210	28,902	32,177
Rentals (note 10(a))	3,744	2,329	6,010	4,712
Other	—	—	20	—
	<u>30,930</u>	<u>28,558</u>	<u>55,444</u>	<u>53,042</u>
Gross margin				
Selling, general and administrative expenses (note 10(b)) (including share-based compensation expense of \$4.6 million and \$8.5 million for the three and six months ended June 30, 2011, respectively (2010 - recovery of \$3.8 million and expense of \$5.6 million, respectively))	26,302	27,040	46,948	75,339
Provision for arbitration award (note 9(c))	19,470	11,133	36,338	30,662
Research and development	—	—	2,055	—
Amortization of intangibles	2,117	1,219	3,985	2,462
Receivable provisions, net of recoveries (note 12)	116	115	228	245
	<u>151</u>	<u>353</u>	<u>359</u>	<u>366</u>
Income from operations				
Interest income	4,448	14,220	3,983	41,604
Interest expense	13	13	31	297
	<u>(551)</u>	<u>(535)</u>	<u>(994)</u>	<u>(1,187)</u>
Income from operations before income taxes				
Provision for income taxes	3,910	13,698	3,020	40,714
Loss from equity-accounted investments	(1,634)	(396)	(1,325)	(831)
	<u>(451)</u>	<u>—</u>	<u>(873)</u>	<u>—</u>
Net income				
	<u>\$ 1,825</u>	<u>\$ 13,302</u>	<u>\$ 822</u>	<u>\$ 39,883</u>
Net income per share — basic and diluted: (note 14(c))				
Net income per share — basic	<u>\$ 0.03</u>	<u>\$ 0.21</u>	<u>\$ 0.01</u>	<u>\$ 0.63</u>
Net income per share — diluted	<u>\$ 0.03</u>	<u>\$ 0.20</u>	<u>\$ 0.01</u>	<u>\$ 0.60</u>
Comprehensive income consists of:				
Net income	\$ 1,825	\$ 13,302	\$ 822	\$ 39,883
Amortization of actuarial loss on defined benefit plan (note 16(a))	53	—	107	—
Unrealized hedging gain (loss) (note 17(d))	49	(387)	351	(179)
Realization of hedging (gains) losses upon settlement (note 17(d))	(466)	7	(724)	(542)
Unrealized change in market value of available-for-sale investment (note 17(e))	(488)	—	(488)	—
Tax effect of movement in comprehensive income (note 13(b))	164	—	136	—
	<u>\$ 1,137</u>	<u>\$ 12,922</u>	<u>\$ 204</u>	<u>\$ 39,162</u>

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
In accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars)
(Unaudited)

	Six Months Ended June 30,	
	2011	2010
Cash (used in) provided by:		
Operating Activities		
Net income	\$ 822	\$ 39,883
Items not involving cash:		
Depreciation and amortization (note 11(c))	12,183	10,696
Write-downs, net of recoveries (note 11(d))	370	578
Change in deferred income taxes	1,104	—
Stock and other non-cash compensation	8,944	6,050
Provision for arbitration award (note 9(c))	2,055	—
Unrealized foreign currency exchange (gain) loss	(97)	729
Loss on equity-accounted investments	873	—
Gain on non-cash contribution to equity-accounted investees	(404)	—
Change in cash surrender value of life insurance	—	47
Investment in film assets	(6,288)	(5,725)
Changes in other non-cash operating assets and liabilities (note 11(a))	(30,002)	(12,335)
Net cash (used in) provided by operating activities	<u>(10,440)</u>	<u>39,923</u>
Investing Activities		
Purchase of property, plant and equipment	(2,227)	(2,808)
Investment in joint revenue sharing equipment	(14,886)	(2,325)
Investment in new business ventures	(760)	(667)
Cash surrender value of life insurance	—	3,179
Acquisition of other assets	—	(39)
Acquisition of other intangible assets	(504)	(298)
Net cash used in investing activities	<u>(18,377)</u>	<u>(2,958)</u>
Financing Activities		
Increase in bank indebtedness (note 7)	49,583	—
Repayment of bank indebtedness (note 7)	(32,500)	(25,208)
Credit facility amendment fees paid	(259)	—
Common shares issued — stock options exercised (note 14(d))	5,095	5,057
Net cash provided by (used in) financing activities	<u>21,919</u>	<u>(20,151)</u>
Effects of exchange rate changes on cash	(260)	113
(Decrease) increase in cash and cash equivalents during the period	(7,158)	16,927
Cash and cash equivalents, beginning of period	30,390	20,081
Cash and cash equivalents, end of period	<u>\$ 23,232</u>	<u>\$ 37,008</u>

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

IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
In accordance with U.S. Generally Accepted Accounting Principles
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
(Unaudited)

1. Basis of Presentation

IMAX Corporation, together with its wholly-owned subsidiaries (the “Company”), reports its results under United States Generally Accepted Accounting Principles (“U.S. GAAP”).

The 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 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 8 film production companies that are VIEs. For two 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 that most significantly impact the respective VIE’s economic performance and has the obligation to absorb losses or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. The Company continues to consolidate these entities, with no material impact on the operating results or financial condition of the Company, as these production companies have total assets of \$nil (December 31, 2010 — \$nil) and total liabilities of \$nil as at June 30, 2011 (December 31, 2010 — \$nil). For the other 6 film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at June 30, 2011, these 6 VIEs have total assets of \$12.7 million (December 31, 2010 — \$11.1 million) and total liabilities of \$12.7 million (December 31, 2010 — \$11.1 million). Earnings of the investees included in the Company’s condensed consolidated statement of operations amounted to \$nil and \$nil for the three and six months ended June 30, 2011, respectively (2010 — \$nil and \$nil, respectively). The carrying value of these investments in VIEs that are not consolidated is \$nil at June 30, 2011 (December 31, 2010 — \$nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statement of operations.

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”) and the FASB ASC 320 - Investments in Debt and Equity Securities (“ASC 320”), as appropriate. At June 30, 2011, the equity method of accounting is being utilized for an investment with a carrying value of \$3.3 million (December 31, 2010 — \$1.6 million). The Company has determined it is not the primary beneficiary of this VIE, and therefore it has not been consolidated. In addition, during 2010, the Company made an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under ASC 320 and is recorded at its fair value of \$1.0 million at June 30, 2011 (December 31, 2010 — \$1.5 million). This investment is classified as an available-for-sale investment. The total carrying value of investments in new business ventures at June 30, 2011 is \$4.3 million (December 31, 2010 — \$3.1 million) and is recorded in Other Assets.

All significant 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 2010 Annual Report on Form 10-K for the year ended December 31, 2010 (the “2010 Form 10-K”) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company’s financial statements for the year ended December 31, 2010, except as described in note 2.

2. New Accounting Standards and Accounting Changes

Changes in Accounting Policies

In October 2009, the FASB issued ASU No. 2009-13, "Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2009-13") which amends ASC 605-25, "Revenue Recognition: Multiple-Element Arrangements." ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how to allocate consideration to each unit of accounting in the arrangement. This ASU removes the fair value criteria for determining separate units of accounting and replaces all references to fair value as the measurement criteria with the term selling price and establishes a hierarchy for determining the selling price of a deliverable. Consideration in a multiple-element arrangement is allocated at the inception of the arrangement to all deliverables on the basis of the relative selling price. When applying the relative selling price method, the selling price for each deliverable is determined using vendor-specific objective evidence ("VSOE") of the selling price, or third-party evidence ("TPE") of the selling price. If neither VSOE nor TPE of the selling price exists for a deliverable, the Company will use its best estimate of the selling price ("BESP") for that deliverable. ASU No. 2009-13 also eliminates the use of the residual value method for determining the allocation of arrangement consideration. Additionally, ASU 2009-13 requires expanded disclosures and is effective for fiscal years beginning on or after June 15, 2010. On January 1, 2011, the Company adopted the accounting requirements in ASU 2009-13 prospectively for revenue arrangements entered into or materially modified after the date of adoption. As described below, the adoption of these updates did not have, nor are they expected to have, a material effect on the Company's financial condition or results of operations.

The amended standard with respect to multiple-element arrangements is not expected to materially change the allocation of arrangement consideration to the Company's units of accounting. The pattern and timing of revenue recognition for those arrangements entered into or materially modified after the date of adoption may be affected as a result of the adoption of the amended ASC 605-25 requirements. The Company will be required to develop a selling price for each deliverable using VSOE, TPE or BESP and allocate consideration amongst deliverables and to recognize revenue using that allocated consideration for the delivered units of accounting in the current period. For arrangements entered into or modified prior to the adoption date, the Company defers all consideration received and receivable under arrangements for which the selling price of an undelivered item has not yet been established.

In October 2009, the FASB issued ASU No. 2009-14, "Software (Topic 985): Certain Revenue Arrangements That Include Software Elements (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2009-14"). ASU 2009-14 amends ASC 985-605, "Software: Revenue Recognition," such that tangible products, containing both software and non-software components that function together to deliver the tangible product's essential functionality, are no longer within the scope of ASC 985-605. It also amends the determination of how arrangement consideration should be allocated to deliverables in a multiple-deliverable revenue arrangement. The amendments in this update are effective, on a prospective basis, for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. On January 1, 2011, the Company adopted the accounting requirements in ASU 2009-14. The application of this amended standard does not have an impact on the Company's condensed consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements," ("ASU 2010-06") to amend topic ASC 820 "Fair Value Measurements and Disclosures," by improving disclosure requirements in order to increase transparency in financial reporting. ASU 2010-06 requires that an entity disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and describe the reasons for the transfers. Furthermore, an entity should present information about purchases, sales, issuances, and settlements for Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosures for the level of disaggregation and disclosures about input and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements for the activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. On January 1, 2010, the Company adopted the disclosure amendments in ASU 2010-06, except for the amendments to Level 3 fair value measurements as described above, and has expanded disclosures as presented in Note 17. On January 1, 2011, the Company adopted the disclosure amendments in ASU 2010-06 pertaining to Level 3 fair value measurements and has expanded disclosures as presented in note 17(b).

In July 2010, the FASB issued ASU No. 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" ("ASU 2010-20"). The objective of ASU 2010-20 is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. Under

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ASU 2010-20, an entity is required to provide disclosures so that financial statement users can evaluate the nature of the credit risk inherent in the entity's portfolio of financing receivables, how that risk is analyzed and assessed to arrive at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. ASU 2010-20 is applicable to all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. It is effective for interim and annual reporting periods ending on or after December 15, 2010. Comparative disclosures are required to be disclosed for those reporting periods ending after initial adoption. On December 31, 2010, the Company adopted the disclosure requirements in ASU 2010-20 and has expanded disclosures as presented in note 17(c).

In December 2010, the FASB issued ASU No. 2010-28, "Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts" ("ASU 2010-28"). The objective of ASU 2010-28 is to address questions about entities with reporting units with zero or negative carrying amounts. The amendments in ASU 2010-28 modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists by considering whether there are any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is applicable to all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. On January 1, 2011, the Company adopted the accounting requirements in ASU 2010-28. This amended standard does not have an impact on the Company's condensed consolidated financial statements at this time as the Company does not have any reporting units with zero or negative amounts for goodwill impairment testing purposes.

In January 2011, the FASB issued ASU No. 2011-01, "Receivables (ASC Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructuring in Update No. 2010-20 ("ASU 2011-01") which delays the effective date of disclosure requirements for troubled debt restructurings in ASU 2010-20 for public entities. This guidance is effective immediately. The adoption of ASU 2011-01 did not have a material impact on the Company's condensed consolidated financial statements.

Recently Issued FASB Accounting Standard Codification Updates

In April 2011, the FASB issued ASU No. 2011-02, "Receivables (ASC Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring in Update No. 2010-20" ("ASU 2011-02"). ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. For public entities, the amendments in ASU 2011-02 are effective for the first interim or annual period beginning on or after June 15, 2011, with retrospective application to the beginning of the annual period of adoption. Early application by public entities is not permitted. The amendments in ASU 2011-02 do not have an impact on the Company's condensed consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (ASC Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" ("ASU 2011-04"). The standards set forth in ASU 2011-04 supersede most of the accounting guidance currently found in Topic 820 of the FASB's ASC. The amendments will improve comparability of fair value measurements presented and disclosed in financial statements prepared with GAAP and International Financial Reporting Standards ("IFRS"). The amendments also clarify the application of existing fair value measurement requirements. These amendments include (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011 on a prospective basis. Early application by public entities is not permitted. The Company is currently evaluating the potential impact of ASU 2011-04 on its condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" ("ASU 2011-05"). The amendments contained within this update require that all nonowner changes in shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The objective of this amendment is to improve the comparability, consistency, and transparency of financial reporting and to increase the

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prominence of items reported in other comprehensive income. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011, on a retrospective basis. Early application by public entities is permitted. The Company is currently evaluating the potential impact of ASU 2011-05 on its condensed consolidated financial statements.

3. Financing Receivables

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

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Gross minimum lease payments receivable	\$ 35,897	\$ 49,977
Unearned finance income	(11,175)	(15,158)
Minimum lease payments receivable	24,722	34,819
Accumulated allowance for uncollectible amounts	(2,592)	(4,838)
Net investment in leases	<u>22,130</u>	<u>29,981</u>
Gross financed sales receivables	81,570	62,127
Unearned finance income	(24,076)	(18,441)
Financed sales receivables	57,494	43,686
Accumulated allowance for uncollectible amounts	(66)	(66)
Net financed sales receivables	<u>57,428</u>	<u>43,620</u>
Total financing receivables	<u>\$ 79,558</u>	<u>\$ 73,601</u>
Net financed sales receivables due within one year	\$ 7,734	\$ 6,166
Net financed sales receivables due after one year	\$ 49,694	\$ 37,454

As at June 30, 2011, the financed sale receivables had a weighted average effective interest rate of 8.8% (December 31, 2010 — 8.8%).

4. Inventories

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Raw materials	\$ 3,542	\$ 4,693
Work-in-process	2,708	2,293
Finished goods	11,496	8,289
	<u>\$ 17,746</u>	<u>\$ 15,275</u>

At June 30, 2011, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$7.4 million (December 31, 2010 — \$3.2 million).

Inventories at June 30, 2011 include provisions for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of \$4.3 million (December 31, 2010 — \$4.4 million).

5. Property, Plant and Equipment

	As at June 30, 2011		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾	\$ 98,740	\$ 35,762	\$ 62,978
Camera equipment ⁽⁵⁾	6,355	6,048	307
	<u>105,095</u>	<u>41,810</u>	<u>63,285</u>
Assets under construction ⁽³⁾	12,719	—	12,719
Other property, plant and equipment			
Land	1,593	—	1,593
Buildings	14,723	9,157	5,566
Office and production equipment ⁽⁴⁾	28,051	23,671	4,380
Leasehold improvements	8,774	7,220	1,554
	<u>53,141</u>	<u>40,048</u>	<u>13,093</u>
	<u>\$ 170,955</u>	<u>\$ 81,858</u>	<u>\$ 89,097</u>
	As at December 31, 2010		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾	\$ 86,249	\$ 33,775	\$ 52,474
Camera equipment ⁽⁵⁾	6,355	6,008	347
	<u>92,604</u>	<u>39,783</u>	<u>52,821</u>
Assets under construction ⁽³⁾	8,305	—	8,305
Other property, plant and equipment			
Land	1,593	—	1,593
Buildings	14,723	8,906	5,817
Office and production equipment ⁽⁴⁾	27,172	23,454	3,718
Leasehold improvements	8,603	6,822	1,781
	<u>52,091</u>	<u>39,182</u>	<u>12,909</u>
	<u>\$ 153,000</u>	<u>\$ 78,965</u>	<u>\$ 74,035</u>

- (1) Included in theater system components are assets with costs of \$18.7 million (December 31, 2010 — \$19.9 million) and accumulated depreciation of \$17.9 million (December 31, 2010 — \$19.0 million) that are leased to customers under operating leases.
- (2) Included in theater system components are assets with costs of \$75.8 million (December 31, 2010 — \$62.8 million) and accumulated depreciation of \$15.1 million (December 31, 2010 — \$12.0 million) that are used in joint revenue sharing arrangements.
- (3) Included in assets under construction are components with costs of \$10.9 million (December 31, 2010 — \$6.2 million) that will be utilized to construct assets to be used in joint revenue sharing arrangements.
- (4) Included in office and production equipment are assets under capital lease with costs of \$1.3 million (December 31, 2010 — \$1.5 million) and accumulated depreciation of \$1.3 million (December 31, 2010 — \$1.4 million).
- (5) Included in camera equipment is fully amortized equipment still in use by the Company.

6. Other Intangible Assets

	As at June 30, 2011		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 7,570	\$ 5,078	\$ 2,492
Other	250	250	—
	<u>\$ 7,820</u>	<u>\$ 5,328</u>	<u>\$ 2,492</u>

	As at December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 7,289	\$ 4,852	\$ 2,437
Other	250	250	—
	<u>\$ 7,539</u>	<u>\$ 5,102</u>	<u>\$ 2,437</u>

The Company expects to amortize approximately \$0.2 million of other intangible assets for the remainder of 2011 and \$0.3 million for each of the next 5 years, respectively. Fully amortized other intangible assets are still in use by the Company.

During the six months ended June 30, 2011, the Company acquired \$0.3 million in patents and trademarks. The net book value of these patents and trademarks was \$0.3 million as at June 30, 2011. The weighted average amortization period for these additions was 10 years.

During the three and six months ended June 30, 2011, the Company incurred costs of \$0.1 million, respectively, to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses.

7. Credit Facility

On June 2, 2011, the Company amended and restated the terms of its existing senior secured credit facility (the "Prior Credit Facility"), which had been scheduled to mature on October 31, 2013. The amended and restated facility (the "Credit Facility"), with a scheduled maturity of October 31, 2015, has a maximum borrowing capacity of \$110.0 million, consisting of revolving asset-based loans of up to \$50.0 million subject to a borrowing base calculation (as described below) and including a sublimit of \$20.0 million for letters of credit, and a revolving term loan of up to \$60.0 million. The Prior Credit Facility had a maximum borrowing capacity of \$75.0 million. Certain of the Company's subsidiaries serve as guarantors (the "Guarantors") of the Company's obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in all of the present and future assets of the Company and the Guarantors.

The terms of the Credit Facility are set forth in the Second Amended and Restated Credit Agreement (the "Credit Agreement"), dated June 2, 2011, among the Company, Wells Fargo Capital Finance Corporation (Canada), as agent, lender, sole lead arranger and sole bookrunner ("Wells Fargo"), and Export Development Canada, as lender ("EDC", together with Wells Fargo, the "Lenders") and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company's obligations under the Credit Facility.

The revolving asset-based portion of the Credit Facility permits maximum aggregate borrowings equal to the lesser of:

(i) \$50.0 million, and

(ii) a collateral calculation based on the percentages of the book values of certain of the Company's net investment in sales-type leases, financing receivables, certain trade accounts receivable, finished goods inventory allocated to backlog contracts and the appraised values of the expected future cash flows related to operating leases and the Company's owned real property, reduced by certain accruals and accounts payable and subject to other conditions, limitations and reserve right requirements.

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Two years after entry into the Credit Facility any outstanding borrowings under the revolving term loan portion of the Credit Facility convert to a term loan to be repaid in accordance with the terms of the Credit Facility, any undrawn amounts under the revolving term loan are cancelled and the Company may not request any further advances under the revolving term loan.

The Company borrowed \$29.6 million from the revolving term loan portion of the Credit Facility to repay \$15.0 million in outstanding indebtedness under the revolving portion of the Prior Credit Facility and \$14.6 million in outstanding indebtedness under the term loan portion of the Prior Credit Facility. The Company subsequently borrowed another \$5.0 million under the revolving term loan portion of the Credit Facility. Under the Prior Credit Facility, the effective interest rate for the three and six months ended June 30, 2011 for the term loan portion was 4.03% and 4.04%, respectively (2010 — 4.04% and 4.03%, respectively) and 2.97% and 2.97%, respectively for the revolving portion (2010 — 4.50% and 3.56%, respectively).

The revolving asset-based portion of the Credit Facility bears interest, at the Company's option, at (i) LIBOR plus a margin of 2.00% per annum, or (ii) Wells Fargo's prime rate plus a margin of 0.50% per annum. The revolving term loan portion of the Credit Facility also bears interest at the Company's option, at (i) LIBOR plus a margin of 2.00% per annum, or (ii) Wells Fargo's prime rate plus a margin of 0.50% per annum. Under the Credit Facility, the effective interest rate for the three and six months ended June 30, 2011 for the revolving term loan portion was 2.19% and 2.19%, respectively (2010 — n/a). There was no amount drawn on the revolving asset-based portion of the Credit Facility.

The Credit Facility provides that the Company will be required to maintain a ratio of funded debt (as defined in the Credit Agreement) to EBITDA (as defined in the Credit Agreement) of not more than 2:1. The Company will also be required to maintain a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.1:1.0. At all times under the terms of the Credit Facility, the Company is required to maintain minimum Excess Availability of not less than \$5.0 million and minimum Cash and Excess Availability of not less than \$15.0 million. These amounts were \$49.2 million and \$72.4 million at June 30, 2011 respectively. The Company was in compliance with all of these requirements at June 30, 2011.

The Credit Facility contains typical affirmative and negative covenants, including covenants that limit or restrict the ability of the Company and the guarantors to: incur certain additional indebtedness; make certain loans, investments or guarantees; pay dividends; make certain asset sales; incur certain liens or other encumbrances; conduct certain transactions with affiliates and enter into certain corporate transactions.

The Credit Facility also contains customary events of default, including upon an acquisition or change of control or upon a change in the business and assets of the Company or a Guarantor that in each case is reasonably expected to have a material adverse effect on the Company or a guarantor. If an event of default occurs and is continuing under the Credit Facility, the Lenders may, among other things, terminate their commitments and require immediate repayment of all amounts owed by the Company.

Bank indebtedness includes the following:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Term Loan (under the Prior Credit Facility)	\$ —	\$ 17,500
Revolving Term Loan	34,583	—
	<u>\$ 34,583</u>	<u>\$ 17,500</u>

Total amounts drawn and available under the Credit Facility at June 30, 2011 were \$34.6 million and \$69.6 million, respectively (December 31, 2010 — \$17.5 million and \$40.0 million, respectively).

At June 30, 2011, the Company's current borrowing capacity under the revolving asset-based portion of the Credit Facility was \$44.2 million after deduction for the minimum Excess Availability reserve of \$5.0 million (December 31, 2010 — \$40.0 million) and borrowing capacity under the revolving term portion of the Credit Facility was \$25.4 million. Outstanding borrowings and letters of credit and advance payment guarantees were \$nil as at June 30, 2011.

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

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2011 (six months remaining)	\$	—
2012		—
2013		—
2014		—
2015		34,583
Thereafter		—
		<u>\$ 34,583</u>

Wells Fargo Foreign Exchange Facility

Within the Credit Facility, the Company has a \$10.0 million sublimit to cover the Company's settlement risk on its purchased foreign currency forward contracts and/or other swap arrangements as defined in the Credit Facility. The settlement risk on its foreign currency forward contracts was \$nil as at June 30, 2011 as the fair value exceeded the notional value of the forward contracts. The Company can enter into such arrangements up to a notional amount of \$50.0 million, of which \$39.0 million is remaining at June 30, 2011.

Bank of Montreal Facility

As at June 30, 2011, the Company has available a \$10.0 million facility (December 31, 2010 — \$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 EDC (the "Bank of Montreal Facility"). As at June 30, 2011, the Company has letters of credit and advance payment guarantees outstanding of \$1.2 million (December 31, 2010 — \$2.4 million) under the Bank of Montreal Facility.

8. Commitments

(a) The Company's lease commitments consist of rent and equipment under operating leases. The Company accounts for any incentives provided over the term of the lease. Total minimum annual rental payments to be made by the Company as at June 30, 2011 for each of the years ended December 31, are as follows:

	<u>Operating Leases</u>	<u>Capital Leases</u>
2011 (six months remaining)	\$ 2,760	\$ 12
2012	5,380	23
2013	2,089	21
2014	899	—
2015	510	—
Thereafter	1,812	—
	<u>\$ 13,450</u>	<u>\$ 56</u>

Rent expense was \$1.0 million and \$2.2 million for three and six months ended June 30, 2011, respectively (2010 — \$1.2 million and \$2.3 million, respectively) net of sublease rental of \$nil and less than \$0.1 million, respectively (2010 — \$0.1 million and \$0.2 million, respectively).

Recorded in the accrued liabilities balance as at June 30, 2011 is \$3.8 million (December 31, 2010 — \$4.2 million) related to accrued rent and lease inducements being recognized as an offset to rent expense over the term of the lease.

Purchase obligations under long-term supplier contracts as at June 30, 2011 were \$18.8 million (December 31, 2010 — \$13.6 million).

(b) As at June 30, 2011, the Company has letters of credit and advance payment guarantees secured by the Credit Facility of \$nil (December 31, 2010 — \$nil) outstanding. As at June 30, 2011, the Company also has letters of credit and advance payment guarantees outstanding of \$1.2 million as compared to \$2.4 million as at December 31, 2010, under the Bank of Montreal Facility.

(c) The Company compensates its sales force with both fixed and variable compensation. Commissions on the sale or lease of the Company's theater systems are payable in graduated amounts from the time of collection of the customer's first payment to the

Company up to the collection of the customer's last initial payment. At June 30, 2011, \$1.3 million (December 31, 2010 —\$1.5 million) of commissions have been accrued and will be payable in future periods.

9. 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) In March 2005, the Company, together with Three-Dimensional Media Group, Ltd. ("3DMG"), filed a complaint in the U.S. District Court for the Central District of California, Western Division, against In-Three, Inc. ("In-Three") alleging patent infringement. On March 10, 2006, the Company and In-Three entered into a settlement agreement settling the dispute between the Company and In-Three. Despite the settlement reached between the Company and In-Three, co-plaintiff 3DMG refused to dismiss its claims against In-Three. Accordingly, the Company and In-Three moved jointly for a motion to dismiss the Company's and In-Three's claims. On August 24, 2010, the Court dismissed all of the claims pending between the Company and In-Three, thus dismissing the Company from the litigation.

On May 15, 2006, the Company initiated arbitration against 3DMG before the International Centre for Dispute Resolution in New York (the "ICDR"), alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties' license agreement. On June 21, 2007, the Arbitration Panel unanimously denied 3DMG's Motion for Summary Judgment filed on April 11, 2007 concerning the Company's claims and 3DMG's counterclaims. The proceeding was suspended on May 4, 2009 due to failure of 3DMG to pay fees associated with the proceeding. The proceeding was further suspended on October 11, 2010 pending resolution of reexamination proceedings currently pending involving one of 3DMG's patents. The Company will continue to pursue its claims vigorously and believes that all allegations made by 3DMG are without merit. The Company further believes that the amount of loss, if any, suffered in connection with the counterclaims would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration.

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chambers 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"), seeking damages as a result of E-City's breach of a September 2000 lease agreement. An arbitration hearing took place in November 2005 against E-City which considered all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company's favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of \$9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company's theater system contract. The Company thereafter submitted its application to the arbitration panel for interest and costs. On March 27, 2008, the Panel issued a final award in favor of the Company in the amount of \$11.3 million, plus an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid, which the Company is seeking to enforce and collect in full. On June 24, 2011, the Company commenced an application to the Ontario Superior Court of Justice for recognition of the final award.

(c) In June 2003, Robots of Mars, Inc. ("Robots") initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to arbitration provisions in two film production agreements entered into in 1994 and 1995 between Robots' predecessor-in-interest and a discontinued subsidiary of the Company (Ridefilm), asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with the contract. The Company discontinued its Ridefilm

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business through a sale of the Ridefilm business and its assets to a third party in March 2001. Robots sought an award of over \$5.0 million in damages including contingent compensation that it claims was owed under two production agreements, damages for tort claims, and punitive damages. The arbitration hearings of this matter occurred in June and October 2009. The arbitrator issued a final award on March 16, 2011, awarding Robots \$0.4 million in damages and \$0.3 million in pre-judgment interest to date on its claim for breach of one of the Ridefilm production agreements. The arbitrator found in the Company's favor on Robots' tort claims, and awarded Robots no damages on its claim for breach of the second production agreement. Despite finding in the Company's favor on the vast majority of Robots' claims, the arbitrator awarded Robots \$1.2 million in attorneys' fees and costs pursuant to the attorneys' fee provision set forth in the production agreements. Robots initiated two separate proceedings in California state court and in Ontario, Canada, to confirm the award. The Company removed the California state court proceeding to the United States District Court for the Central District of California, and stayed the Ontario, Canada proceeding pending resolution of the California proceeding. The Company opposed confirmation of the award and sought to have it vacated in the California proceeding. On July 13, 2011, the California district court granted Robots' petition to confirm the award, and denied the Company's petition to vacate the award. The Company intends to appeal the district court's denial of its petition to vacate to the United States Court of Appeals for the Ninth Circuit. In addition, the Company will oppose confirmation of the award and will seek to have it vacated in the Ontario, Canada proceeding. The Company has accrued a liability of \$2.1 million in respect of the arbitration award in this action.

(d) The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York. On January 18, 2007, the Court consolidated all eight class action lawsuits and appointed Westchester Capital Management, Inc. as the lead plaintiff and Abbey Spanier Rodd & Abrams, LLP as lead plaintiff's counsel. On October 2, 2007, plaintiffs filed a consolidated amended class action complaint. The amended complaint, brought on behalf of shareholders who purchased the Company's common stock between February 27, 2003 and July 20, 2007, alleges primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company's revenue recognition of theater system installations, and failing to disclose material information concerning the Company's revenue recognition practices. The amended complaint also added PricewaterhouseCoopers LLP, the Company's auditors, as a defendant. The lawsuit seeks unspecified compensatory damages, costs, and expenses. The defendants filed a motion to dismiss the amended complaint on December 10, 2007. On September 16, 2008, the Court issued a memorandum opinion and order, denying the motion. On October 6, 2008, the defendants filed an answer to the amended complaint. On October 31, 2008, the plaintiffs filed a motion for class certification. Fact discovery on the merits commenced on November 14, 2008. On March 13, 2009, the Court granted a second prospective lead plaintiff's request to file a motion for reconsideration of the Court's order naming Westchester Capital Management, Inc. as the lead plaintiff and issued an order denying without prejudice plaintiff's class certification motion pending resolution of the motion for reconsideration. On June 29, 2009, the Court granted the motion for reconsideration and appointed Snow Capital Investment Partners, L.P. as the lead plaintiff and Coughlin Stoa Geller Rudman & Robbins LLP as lead plaintiff's counsel. Westchester Capital Management, Inc. appealed this decision, but the U.S. Court of Appeals for the Second Circuit denied its petition on October 1, 2009. On April 22, 2010, the new lead plaintiff filed its motion for class certification, defendants filed their oppositions to the motion on June 10, 2010, and plaintiff filed its reply on July 30, 2010. On December 20, 2010, the Court denied Snow Capital Investment Partners' motion and ordered that all applications to be appointed lead plaintiff must be filed within 20 days of the decision. Two applications for lead plaintiff were filed, on January 10, 2011 and January 12, 2011, respectively. On April 14, 2011, the Court issued an order appointing The Merger Fund as the lead plaintiff and Abbey Spanier Rodd & Abrams, LLP as lead plaintiff's counsel. The merger fund filed a motion for class certification on June 3, 2011, and on July 1, 2011, the Company filed its opposition. The Company is not able to estimate a potential loss exposure at this time. The Company will vigorously defend the matter, although no assurances can be given with respect to the outcome of such proceedings. The Company's directors and officers insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

(e) A class action lawsuit was filed on September 20, 2006 in the Ontario Superior Court of Justice against the Company and certain of its officers and directors, alleging violations of Canadian securities laws. This lawsuit was brought on behalf of shareholders who acquired the Company's securities between February 17, 2006 and August 9, 2006. The lawsuit is in an early procedural stage and seeks unspecified compensatory and punitive damages, as well as costs and expenses. As a result, the Company is unable to estimate a potential loss exposure at this time. For reasons released December 14, 2009, the Court granted leave to the Plaintiffs to amend their statement of claim to plead certain claims pursuant to the Securities Act (Ontario) against the Company and certain individuals and granted certification of the action as a class proceeding. These are procedural decisions, and do not contain any conclusions binding on a judge at trial as to the factual or legal merits of the claim. Leave to appeal those decisions was denied. The Company believes the allegations made against it in the statement of claim are meritless and will vigorously defend the matter, although no assurance can be given with respect to the ultimate outcome of such proceedings. The Company's directors and officers

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insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits, exclusions and deductibles.

(f) In November 2009, the Company filed suit against Sanborn Theatres (“Sanborn”) in the United States District Court for the Central District of California alleging breach of Sanborn’s agreement to make payments for the purchase of two IMAX theater systems from the Company and seeking \$1.7 million in compensatory damages. After granting Sanborn notice of default in connection with the failure to make required payments under the agreement and upon Sanborn’s failure to cure, the Company terminated its agreement with Sanborn. On May 11, 2010, Sanborn filed counterclaims against the Company and AMC Entertainment Inc. (“AMC Entertainment”) and Regal Cinemas, Inc. (“Regal”) in the U.S. District Court for the Central District of California alleging breach of contract, fraud and unfair competition against the Company and alleging intentional interference with contractual relations against AMC Entertainment and Regal. The lawsuits are at early stages and, as a result the Company is not able to estimate a potential loss exposure, if any, at this time. The Company will vigorously prosecute its claims and defenses in both matters, although no assurances can be given with respect to the outcome of such proceedings.

(g) Since June 2006, the Company had been subject to informal inquiries by the Securities and Exchange Commission (the “SEC”) and the Ontario Securities Commission (the “OSC”). In September 2010, the SEC issued a formal order of investigation in connection with its inquiry. On June 28, 2011, the SEC informed the Company that its investigation had been completed with respect to the Company and that it did not intend to recommend any enforcement action against the Company. On June 28, 2011 the OSC informed the Company that the OSC Staff will not be seeking any orders pursuant to s.127 of the Securities Act (Ontario).

(h) In addition to the matters described above, the Company is currently involved in other legal proceedings 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.

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

Financial Guarantees

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

Product Warranties

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

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Balance at the beginning of period	\$ 160	\$ 36
Warranty redemptions	(19)	(87)
Warranties issued	59	211
Balance at the end of period	<u>\$ 200</u>	<u>\$ 160</u>

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 amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it

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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, 2011 and December 31, 2010 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 less than \$0.1 million has been accrued in the condensed consolidated financial statements with respect to the contingent aspect of these indemnities.

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, included in costs and expenses applicable to revenues-equipment and product sales, totaled \$0.1 million and \$0.8 million for the three and six months ended June 30, 2011, respectively (2010 — \$0.4 million and \$0.6 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$2.1 million and \$2.8 million for the three and six months ended June 30, 2011, respectively (2010 — \$0.4 million and \$1.1 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 \$0.7 million and \$0.9 million for the three and six months ended June 30, 2011, respectively (2010 — \$0.4 million and \$0.8 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 \$1.1 million and \$1.4 million for the three and six months ended June 30, 2011, respectively (2010 — \$0.2 million and \$0.4 million, respectively).

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three and six months ended June 30, 2011 is a gain of \$0.1 million and a gain of \$0.7 million, respectively, for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts compared with a loss of \$0.9 million and \$0.6 million for the three and six months ended June 30, 2010, respectively. See note 17(c) 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 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 7 to 10 years with renewal provisions. Title to equipment under joint revenue sharing arrangements 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

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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 17 exhibitors for a total of 332 theater systems, of which 204 theaters were operating as of June 30, 2011, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(n) of the Company's 2010 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Rentals revenue and for the three and six months ended June 30, 2011 amounted to \$8.3 million and \$12.4 million, respectively (2010 — \$8.5 million and \$27.4 million, respectively).

IMAX DMR

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

For the six months ended June 30, 2011, 15 IMAX DMR films were released to the IMAX theater network. The Company has entered into arrangements with film producers to convert 9 additional films which are expected to be released during the remainder of 2011, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(n) of the Company's 2010 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and six months ended June 30, 2011 amounted to \$12.4 million and \$19.7 million, respectively (2010 — \$14.5 million and \$38.0 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, except that the Company obtains exclusive theatrical distribution rights to the film. Under these arrangements, both parties contribute funding to the Company's wholly-owned production company for the production of the film and for associated exploitation costs. Clauses in the film arrangements generally provide for the third party to take over the production of the film if the cost of the production exceeds its approved budget or if it appears as though the film will not be delivered on a timely basis.

The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) and 2(n) of the Company's 2010 Form 10-K.

At June 30, 2011, the Company has 1 significant co-produced film arrangement which makes up greater than 50% of the VIE total assets and liabilities balance of \$12.7 million and 3 other co-produced film arrangements, the terms of which are similar.

For the three and six months ended June 30, 2011, amounts totaling \$2.5 million and \$3.5 million, respectively (2010 — \$2.1 million and \$3.7 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.

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,	
	2011	2010
Decrease (increase) in:		
Accounts receivable	\$ (4,950)	\$ (2,563)
Financing receivables	(6,035)	(1,232)
Inventories	(1,269)	(4,513)
Prepaid expenses	(1,102)	(2,724)
Commissions and other deferred selling expenses	(117)	(757)
Insurance recoveries	1,135	521
Other assets	(1,441)	845
Increase (decrease) in:		
Accounts payable	6,703	671
Accrued and other liabilities ⁽¹⁾	(30,763)	(6,553)
Deferred revenue	7,837	3,970
	<u>\$ (30,002)</u>	<u>\$ (12,335)</u>

(1) Decrease in accrued and other liabilities for the six months ended June 30, 2011 includes payments of \$23.7 million for variable stock-based compensation.

(b) Cash payments made on account of:

	Six Months Ended June 30,	
	2011	2010
Income taxes	<u>\$ 1,652</u>	<u>\$ 332</u>
Interest	<u>\$ 570</u>	<u>\$ 1,104</u>

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

	Six Months Ended June 30,	
	2011	2010
Film assets	\$ 6,584	\$ 5,741
Property, plant and equipment		
Joint revenue sharing arrangements	3,062	2,815
Other property, plant and equipment	1,927	1,743
Other intangible assets	228	229
Other assets	79	—
Deferred financing costs	303	168
	<u>\$ 12,183</u>	<u>\$ 10,696</u>

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

	Six Months Ended June 30,	
	2011	2010
Accounts receivables	\$ 270	\$ 10
Financing receivables	89	356
Property, plant and equipment	11	—
Other intangible assets	—	17
Inventories(1)	—	195
	<u>\$ 370</u>	<u>\$ 578</u>

(1) In the six months ended June 30, 2011, the Company recorded a charge of \$nil (2010 — \$0.2 million) in costs and expenses applicable to revenues — services, primarily for its film-based projector inventories due to lower net realizable values resulting from the Company's development of a digital projection system.

12. Receivable Provisions, Net of Recoveries

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Accounts receivable provisions, net of recoveries	\$ 151	\$ 16	\$ 270	\$ 10
Financing receivables, net of recoveries	—	337	89	356
Receivable provisions, net of recoveries	<u>\$ 151</u>	<u>\$ 353</u>	<u>\$ 359</u>	<u>\$ 366</u>

13. 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 numerous permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the last quarter of 2010, the Company released a valuation allowance of \$54.8 million relating to the future utilization of deductible temporary differences, tax credits, and certain net operating loss carryforwards. During the six months ended June 30, 2011, 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, 2011, the Company had net deferred income tax assets after valuation allowance of \$56.2 million (December 31, 2010 — \$57.1 million). As at June 30, 2011, the Company had a gross deferred income tax asset before valuation allowance of \$64.1 million (December 31, 2010 — \$65.1 million), against which the Company is carrying a \$7.9 million valuation allowance (December 31, 2010 — \$7.9 million).

As at June 30, 2011 and December 31, 2010, the Company had total unrecognized tax benefits (including interest and penalties) of \$4.7 million and \$4.4 million, respectively, for international withholding taxes. All of the unrecognized tax benefits could impact the Company's effective tax rate if recognized. While the Company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could differ from the Company's accrued position. Accordingly, additional provisions on federal, state, provincial and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its condensed consolidated statement of operations rather than income tax

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expense. The Company recognized approximately less than \$0.1 million and \$0.1 million in potential interest and penalties associated with unrecognized tax benefits for the three and six months ended June 30, 2011, respectively (2010 — \$0.1 million and \$0.1 million, respectively).

(b) Income Tax Effect on Comprehensive Income

The income tax expenses related to the following items included in other comprehensive income are:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Amortization of actuarial gain on defined benefit plan	\$ (11)	\$ —	\$ (27)	\$ —
Unrealized change in market value of available-for-sale investment	61	—	61	—
Unrealized hedging gain	(12)	—	(96)	—
Realization of hedging gains upon settlement	126	—	198	—
	<u>\$ 164</u>	<u>\$ —</u>	<u>\$ 136</u>	<u>\$ —</u>

14. Capital Stock

(a) Authorized

Common Shares

The authorized capital of the Company consists of an unlimited number of common shares. The following is a summary of the rights, privileges, restrictions and conditions of the common shares.

The holders of common shares are entitled to receive dividends if, as and when declared by the directors of the Company, subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to the common shares.

The holders of the common shares are entitled to one vote for each common share held at all meetings of the shareholders.

(b) Stock-Based Compensation

The Company has five stock-based compensation plans that are described below. The compensation costs recorded in the condensed consolidated statement of operations for these plans were \$4.7 million and \$8.7 million for the three and six months ended June 30, 2011, respectively (2010 — recovery of \$3.7 million and an expense of \$5.6 million, respectively).

Stock Option Plan

The Company's Stock Option Plan, which is shareholder approved, permits the grant of options to employees, directors and consultants. The Company recorded an expense of \$2.8 million and \$4.8 million for the three and six months ended June 30, 2011, respectively (2010 — \$1.1 million and \$1.7 million, respectively), related to grants issued to employees and directors in the plan. No income tax benefit is recorded in the condensed consolidated statement of operations for these costs.

The Company's policy is to issue new shares from treasury to satisfy stock options which are exercised.

The Company utilizes a lattice-binomial option-pricing model ("Binomial Model") to determine the fair value of stock-based payment awards. The fair value determined by the Binomial Model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The Binomial Model also considers the expected exercise multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options have certain characteristics

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that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the Binomial Model best provides a fair measure of the fair value of the Company's employee stock options.

The weighted average fair value of all common share options, granted to employees for the three and six months ended June 30, 2011 at the measurement date was \$7.72 per share and \$9.60 per share, respectively (2010 — \$8.00 per share and \$7.27 per share, respectively). The following assumptions were used:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Average risk-free interest rate	2.34%	3.09%	2.79%	3.11%
Expected option life (in years)	1.78 - 5.14	2.99 - 5.33	1.78 - 5.14	2.99 - 5.39
Expected volatility	50%	61%	50%	61%
Annual termination probability	0% - 8.31%	0% - 9.69%	0% - 8.49%	0% - 9.69%
Dividend yield	0%	0%	0%	0%

As at June 30, 2011, the Company has reserved a total of 12,913,511 (December 31, 2010 — 12,829,115) common shares for future issuance under the Stock Option Plan, of which options in respect of 7,409,881 common shares are outstanding at June 30, 2011. All awards of stock options are made at fair market value of the Company's Common Shares on the date of grant. The fair market value of a Common Share on a given date means the higher of the closing price of a Common Share on the grant date (or the most recent trading date if the grant date is not a trading date) on the New York Stock Exchange ("NYSE"), the Toronto Stock Exchange (the "TSX") and such national exchange, as may be designated by the Company's Board of Directors (the "Fair Market Value"). The options generally vest between one and 5 years and expire 10 years or less from the date granted. The Stock Option Plan provides that vesting will be accelerated if there is a change of control, as defined in the plan and upon certain conditions. At June 30, 2011, options in respect of 3,121,874 common shares were vested and exercisable.

The following table summarizes certain information in respect of option activity under the Stock Option Plan for the six month periods ended June 30:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2011	2010	2011	2010
Options outstanding, beginning of year	6,743,272	6,173,795	\$10.79	\$ 6.52
Granted	1,107,342	1,047,689	31.83	17.76
Exercised	(421,983)	(838,206)	12.07	6.03
Forfeited	(18,750)	—	7.57	—
Expired	—	(22,302)	—	22.68
Cancelled	—	—	—	—
Options outstanding, end of period	<u>7,409,881</u>	<u>6,360,976</u>	13.87	8.38
Options exercisable, end of period	<u>3,121,874</u>	<u>3,093,225</u>	7.61	6.05

During the three and six months ended June 30, 2011, the Company did not cancel any stock options from its Stock Option Plan (2010 — nil and nil, respectively) surrendered by Company employees.

As at June 30, 2011, 6,790,608 options were fully vested or are expected to vest with a weighted average exercise price of \$13.47, aggregate intrinsic value of \$129.3 million and weighted average remaining contractual life of 4.8 years. As at June 30, 2011, options that are exercisable have an intrinsic value of \$77.8 million and a weighted average remaining contractual life of 3.2 years. The

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intrinsic value of options exercised in the three and six months ended June 30, 2011 was \$6.3 million and \$8.7 million, respectively (2010 — \$2.6 million and \$8.3 million, respectively).

Options to Non-Employees

During the three and six months ended June 30, 2011, an aggregate of nil and 103,944, respectively (2010 — 50,000 and 61,217, respectively) common share options to purchase the Company's common stock with an average exercise price of n/a and \$27.64, respectively (2010 — \$18.98 and \$18.12, respectively) were granted to certain advisors and strategic partners of the Company. These options have a maximum contractual life of 6 years. The granted options vested immediately. These options were granted under the Stock Option Plan.

As at June 30, 2011, non-employee options outstanding amounted to 107,501 options (2010 — 91,885) with a weighted average exercise price of \$14.31 (2010 — \$13.43). Of these grants, 20,000 common share options are subject to vesting based on a performance commitment which has not been completed as at June 30, 2011 and no expense has been recorded. 9,500 options (2010 — 11,217) were exercisable with an average weighted exercise price of \$14.40 (2010 — \$14.31) and the vested options have an aggregate intrinsic value of \$0.2 million (2010 — less than \$0.1 million). The weighted average fair value of options granted to non-employees during the three and six months ended June 30, 2011 at the measurement date was n/a and \$13.75 per share, respectively (2010 — \$8.08 and \$8.15 per share, respectively), utilizing a Binomial Model with the following underlying assumptions for periods ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Average risk-free interest rate	n/a	3.12%	2.38%	3.10%
Contractual option life	n/a	6.84 years	6 years	6 - 6.84 years
Average expected volatility	n/a	61.00%	50%	61%
Dividend yield	n/a	0.00%	0%	0%

For the three and six months ended June 30, 2011, the Company recorded a charge of \$0.5 million and \$0.7 million, respectively (2010 — less than \$0.1 million and \$0.1 million, respectively) to cost and expenses related to revenues — services and selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is an accrual of less than \$0.1 million for non-employee stock options recorded (December 31, 2010 — \$1.5 million).

Restricted Common Shares

Under the terms of certain employment agreements dated July 12, 2000, the Company was required to issue either 160,000 restricted common shares or pay their cash equivalent upon request by the employees at any time. The Company accounted for the obligation as a liability, which was classified within accrued liabilities. In December 2010, upon request by the employees, the Company paid \$4.2 million in cash to settle the equivalent of the remaining 160,000 restricted common shares under these agreements. The Company recorded a recovery of \$0.5 million and an expense of \$0.2 million for the three and six months ended June 30, 2010, respectively related to the restricted common shares.

Stock Appreciation Rights

There were no stock appreciation rights ("SARs") granted during the first six months of 2011 or 2010. During 2007, 2,280,000 SARs with a weighted average exercise price of \$6.20 per right were granted in-lieu of stock options to certain Company executives. For the three and six months ended June 30, 2011 472,000 and 999,500 SARs were cash settled for \$13.0 million and \$23.7 million, respectively (2010 — 270,000 and 480,000 SARs were cash settled for \$3.3 million and \$5.4 million, respectively). The average exercise prices for the settled SARs for the three and six months ended June 30, 2011 was \$6.86 and \$6.86, respectively (2010 — \$5.74 and \$5.13, respectively) per SAR. As at June 30, 2011, 133,000 SARs were outstanding, of which 100,000 SARs were exercisable. None of the SARs were forfeited, cancelled, or expired for the three and six months ended June 30, 2011 and 2010. The SARs vesting period ranges from immediately upon granting to 5 years, with a remaining contractual life ranging from 6.51 years as at June 30, 2011. The outstanding SARs had an average fair value of \$25.31 per right as at June 30, 2011 (December 31, 2010 — \$21.21). The Company accounts for the obligation of these SARs as a liability (June 30, 2011 — \$3.1 million; December 31, 2010 —

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\$23.7 million), which is classified within accrued liabilities. The Company has recorded an expense of \$1.4 million and \$3.2 million for the three and six months ended June 30, 2011, respectively (2010 — recovery of \$4.4 million and an expense of \$3.6 million, respectively) to selling, general and administrative expenses related to these SARs. The following assumptions were used for measuring the fair value of the SARs:

	<u>As at June 30, 2011</u>	<u>As at December 31, 2010</u>
Average risk-free interest rate	2.25%	0.65%
Expected option life (in years)	0.36 - 2.40	0.24 - 2.51
Expected volatility	50%	50% - 61%
Annual termination probability	8.31%	0% - 8.31%
Dividend yield	0%	0%

Warrants

There were no warrants issued during the three and six months ended or outstanding as at June 30, 2011 and 2010.

(c) Income Per Share

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net income from operations applicable to common shareholders	<u>\$ 1,825</u>	<u>\$ 13,302</u>	<u>\$ 822</u>	<u>\$ 39,883</u>
Weighted average number of common shares (000's):				
Issued and outstanding, beginning of period	64,255	63,460	64,146	62,832
Weighted average number of shares issued during the period	121	104	136	478
Weighted average number of shares used in computing basic income per share	64,376	63,564	64,282	63,310
Assumed exercise of stock options, net of shares assumed	4,323	3,424	4,096	3,184
Weighted average number of shares used in computing diluted income per share	<u>68,699</u>	<u>66,988</u>	<u>68,378</u>	<u>66,494</u>

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(d) Shareholders' Equity

The following summarizes the movement of Shareholders' Equity for the six months ended June 30, 2011:

Balance as at December 31, 2010	\$ 158,458
Issuance of common shares for stock options exercised	5,095
Net income	822
Adjustment to other equity for employee stock options granted	4,797
Adjustment to other equity for non-employee stock options granted	2,232
Adjustment to capital stock for stock options exercised	2,210
Adjustment to other equity for stock options exercised	(2,210)
Adjustments to accumulated other comprehensive income to record unrealized hedging gains	351
Adjustments to accumulated other comprehensive income to record the realization of hedging gains upon settlement	(724)
Adjustments to accumulated other comprehensive income to record the amortization of actuarial loss on defined benefit plan	107
Adjustments to accumulated other comprehensive income to record an unrealized decline in the market value of the preferred stock of another business venture	(488)
Tax effect of movement in accumulated other comprehensive income	136
Balance as at June 30, 2011	<u>\$ 170,786</u>

15. Segmented Information

The Company has 8 reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; theater operations; and other. The IMAX systems segment designs, manufactures, sells or leases IMAX theater projection system equipment. The theater system maintenance segment maintains IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment provides IMAX theater projection system equipment to an exhibitor in exchange for a share of the box-office and concession revenues. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The theater operations segment operates certain IMAX theaters. The Company refers to all theaters using the IMAX theater system as "IMAX theaters." The other segment includes camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2010 Form 10-K.

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), writedowns net of recoveries, interest income, interest expense and tax provision (recovery) are not allocated to the segments.

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

Transactions between the other segments are not significant.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue(1)				
IMAX systems	\$ 20,470	\$ 17,329	\$ 42,729	\$ 28,282
Theater system maintenance	6,127	5,102	11,922	10,068
Joint revenue sharing arrangements	8,347	8,494	12,387	27,430
Films				
Production and IMAX DMR	12,422	14,540	19,680	37,992
Distribution	5,275	3,870	7,892	7,142
Post-production	1,039	2,326	2,663	4,918
Theater operations	1,918	2,954	2,899	8,903
Other	1,634	983	2,220	3,646
Total	\$ 57,232	\$ 55,598	\$ 102,392	\$ 128,381
Gross margins				
IMAX systems(2)	\$ 11,440	\$ 9,918	\$ 23,175	\$ 14,418
Theater system maintenance	2,381	2,051	4,968	4,360
Joint revenue sharing arrangements(2)	4,881	6,501	7,059	23,313
Films				
Production and IMAX DMR(2)	6,461	6,823	9,220	26,324
Distribution(2)	487	719	1,113	1,461
Post-production	307	837	1,996	2,891
Theater operations	(242)	152	(1,005)	1,810
Other	587	39	422	762
Total	\$ 26,302	\$ 27,040	\$ 46,948	\$ 75,339

- (1) For the three and six months ended June 30, 2011, the Company's two largest customers collectively represent 13.1% and 11.5%, respectively, of total revenues (2010 — 15.4% and 20.4%, respectively).
- (2) IMAX systems include commission costs of \$0.1 million and \$0.8 million for the three and six months ended June 30, 2011, respectively (2010 — \$0.4 million and \$0.6 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.8 million and \$2.3 million for the three and six months ended June 30, 2011, respectively (2010 — \$0.6 million and \$1.2 million, respectively). Production and DMR segment margins include marketing costs of \$0.7 million and \$1.2 million for the three and six months ended June 30, 2011, respectively (2010 — \$0.6 million and \$0.8 million, respectively). Distribution segment margins include marketing costs of \$1.4 million and \$1.6 million for the three and six months ended June 30, 2011, respectively (2010 — recovery of \$0.2 million and an expense of \$0.3 million, respectively).

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	June 30, 2011	December 31, 2010
Assets		
IMAX systems	\$ 126,571	\$ 119,708
Theater system maintenance	14,800	13,548
Joint revenue sharing arrangements	99,523	81,376
Films		
Production and IMAX DMR	18,166	17,229
Distribution	7,776	5,313
Post-production	3,652	2,877
Theater operations	552	582
Other	2,525	1,785
Corporate and other non-segment specific assets	98,567	106,670
Total	<u>\$ 372,132</u>	<u>\$ 349,088</u>

Geographic Information

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue				
Canada	\$ 4,626	\$ 874	\$ 5,627	\$ 2,771
United States	36,240	38,087	61,720	93,882
Russia and the CIS	5,086	1,987	9,003	3,626
Western Europe	4,193	3,245	6,475	7,937
Rest of Europe	317	230	2,641	562
Asia (excluding Greater China)	3,554	6,142	5,873	8,655
Greater China	1,890	1,112	8,662	4,434
Mexico	302	475	658	1,735
Rest of the World	1,024	3,446	1,733	4,779
Total	<u>\$ 57,232</u>	<u>\$ 55,598</u>	<u>\$ 102,392</u>	<u>\$ 128,381</u>

No single country in the Rest of the World, Western Europe, Rest of Europe or Asia (excluding Greater China) classifications comprises more than 5% of the total revenue.

16. Employees 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, Chief Executive Officer (“CEO”) of the Company and Bradley J. Wechsler, Chairman of the Company’s Board of Directors. The SERP provides for a lifetime retirement benefit from age 55 determined as 75% of the member’s best average 60 consecutive months of earnings over the member’s employment history. The benefits were 50% vested as at July 2000, the SERP initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. As at June 30, 2011, the benefits of Mr. Gelfond were 100% vested. Upon a termination for cause, prior to a change of control, the executive shall forfeit any and all benefits to which such executive may have been entitled, whether or not vested.

Under the terms of the SERP, if Mr. Gelfond’s employment terminated other than for cause prior to August 1, 2010, he would have been entitled to receive SERP benefits in the form of monthly annuity payments until the earlier of a change of control or August 1, 2010, at which time he became entitled to receive remaining benefits in the form of a lump sum payment. If Mr. Gelfond’s employment is, or would have been, terminated other than for cause on or after August 1, 2010, he is, or would have been, entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six

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months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. The term of Mr. Gelfond's current employment agreement has been extended through December 31, 2012. Under the terms of the extension, Mr. Gelfond also agreed that any compensation earned during 2011 and 2012 would not be included in calculating his entitlement under the SERP.

Under the terms of the SERP, monthly annuity payments payable to Mr. Wechsler, whose employment as Co-CEO terminated effective April 1, 2009, were deferred for six months and were paid in the form of a lump sum plus interest on the deferred amount on October 1, 2009. Thereafter, in accordance with the terms of the SERP, Mr. Wechsler was entitled to receive monthly annuity payments until the earlier of a change of control or August 1, 2010, at which time he was entitled to receive remaining benefits in the form of a lump sum payment. On August 1, 2010, the Company made a lump sum payment of \$14.7 million to Mr. Wechsler in accordance with the terms of the plan, representing a settlement in full of Mr. Wechsler's entitlement under the SERP.

The amounts accrued for the SERP are determined as follows:

	As at June 30, 2011	As at December 31, 2010
Obligation, beginning of period	\$ 18,108	\$ 29,862
Service cost	—	448
Interest cost	139	351
Benefits paid	—	(15,199)
Actuarial loss	—	2,646
Obligation, end of period and unfunded status	<u>\$ 18,247</u>	<u>\$ 18,108</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Service cost	\$ —	\$ 112	\$ —	\$ 224
Interest cost	69	88	139	175
Amortization of actuarial loss	53	—	107	—
Pension expense	<u>\$ 122</u>	<u>\$ 200</u>	<u>\$ 246</u>	<u>\$ 399</u>

The accumulated benefit obligation for the SERP was \$18.2 million at June 30, 2011 (December 31, 2010 — \$18.1 million).

The following amounts were included in accumulated other comprehensive income ("AOCI") and will be recognized as components of net periodic benefit cost in future periods:

	As at June 30, 2011	As at December 31, 2010
Unrecognized actuarial loss	<u>\$ 2,132</u>	<u>\$ 2,239</u>

No contributions are expected to be made for the SERP during 2011. The Company expects amortization of actuarial losses of \$0.1 million to be recognized as a component of net periodic benefit cost during the remainder of 2011.

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:

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2011 (six months remaining)	\$	—
2012		—
2013		18,813
2014		—
2015		—
Thereafter		—
		<u>\$ 18,813</u>

At the time the Company established the SERP, it also took out life insurance policies on Messrs. Gelfond and Wechsler with coverage amounts of \$21.5 million in aggregate to which the Company was the beneficiary. During 2010, the Company obtained \$3.2 million representing the cash surrender value of Mr. Gelfond's policy and \$4.6 million representing the cash surrender value of Mr. Wechsler's policy.

(b) Defined Contribution Plan

The Company also maintains defined contribution pension 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, 2011, the Company contributed and expensed an aggregate of \$0.3 million and \$0.5 million, respectively (2010 — \$0.2 million and \$0.4 million, respectively), to its Canadian plan and an aggregate of less than \$0.1 million and \$0.1 million, respectively (2010 — less than \$0.1 million and \$0.1 million, respectively), to its defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

(c) Postretirement Benefits

The Company has an unfunded postretirement plan covering Messrs. Gelfond and Wechsler. 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, 2011 is \$0.5 million (December 31, 2010 — \$0.5 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, 2011, respectively (2010 — 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:

2011 (six months remaining)	\$	13
2012		15
2013		31
2014		34
2015		38
Thereafter		353
		<u>\$ 484</u>

17. 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.

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(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, 2011		As at December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Borrowings under Credit Facility	\$34,583	\$34,583	\$17,500	\$17,500
Net financed sales receivable	\$57,428	\$56,628	\$43,620	\$43,615
Net investment in sales-type leases	\$22,130	\$23,324	\$29,981	\$32,613
Available-for-sale investment	\$ 1,012	\$ 1,012	\$ 1,500	\$ 1,500
Foreign exchange contracts — designated forwards	\$ 292	\$ 292	\$ 664	\$ 664
Foreign exchange contracts — non-designated forwards	\$ 480	\$ 480	\$ 1,249	\$ 1,249

The carrying value of borrowings under the Credit Facility approximates fair value as the interest rates offered under the Credit Facility are close to June 30, 2011 and December 31, 2010 market rates for the Company for debt of the same remaining maturities (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2011 and December 31, 2010, respectively.

The estimated fair values of the net financed sales receivable and net investment in sales-type leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2011 and December 31, 2010, respectively.

The fair value of the Company's available-for-sale investment is determined using more recent securities with similar characteristics, the present value of expected cash flows based on projected earnings and other information readily available from the business venture (Level 3 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2011 and December 31, 2010, respectively.

The fair value of foreign currency derivatives are determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2011 and December 31, 2010, respectively. These identical instruments are traded on a closed exchange.

The table below sets forth a summary of changes in the fair value of the Company's available-for-sale investment measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period:

	Available For Sale Investments
Beginning balance, January 1, 2011	\$ 1,500
Transfers into/out of Level 3	—
Total gains or losses (realized/unrealized)	
Included in earnings	—
Included in other comprehensive income	(488)
Purchases, issuances, sales and settlements	—
Ending balance, June 30, 2011	<u>\$ 1,012</u>

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date

\$ —

(c) Financing Receivables

The Company's net investment in leases and its net financed sale receivables are subject to the disclosure requirements of the FASB ASC 310 "Receivables". Due to differing risk profiles of its net investment in leases and its financed sales receivables, the Company views its net investment in leases and its 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 dependant upon management approval.

The Company classifies its customers into three categories to indicate their credit quality internally:

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

Pre-approved transactions only — Theater operator has begun to demonstrate 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 "Good standing". 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, 2011:

	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	\$ 19,077	\$ 54,799	\$ 73,876
Pre-approved transactions	943	1,094	2,037
Transactions suspended	4,702	1,601	6,303
	<u>\$ 24,722</u>	<u>\$ 57,494</u>	<u>\$ 82,216</u>

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 as at June 30, 2011 is as follows:

	<u>Recorded Investment</u>	<u>Related Allowance</u>
Net investment in leases	\$ 4,702	\$ (2,475)
Net financed sales receivables	1,601	(66)
Total	<u>\$ 6,303</u>	<u>\$ (2,541)</u>

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 as at June 30, 2011 are as follows:

	<u>Current</u>	<u>30-89 Days</u>	<u>90+ Days</u>	<u>Billed Financing Receivables</u>	<u>Related Unbilled Recorded Investment</u>	<u>Total Recorded Investment</u>	<u>Related Allowances</u>	<u>Recorded Investment Net of Allowances</u>
Net investment in leases	\$ 418	\$ 357	\$ 1,922	\$ 2,697	\$ 22,025	\$ 24,722	\$ (2,592)	\$ 22,130
Net financed sales receivables	960	551	639	2,150	55,344	57,494	(66)	57,428
Total	<u>\$ 1,378</u>	<u>\$ 908</u>	<u>\$ 2,561</u>	<u>\$ 4,847</u>	<u>\$ 77,369</u>	<u>\$ 82,216</u>	<u>\$ (2,658)</u>	<u>\$ 79,558</u>

The Company's recorded investment in past due financing receivables for which the Company continues to accrue finance income as at June 30, 2011 is as follows:

	<u>Current</u>	<u>30-89 Days</u>	<u>90+ Days</u>	<u>Billed Financing Receivables</u>	<u>Related Unbilled Recorded Investment</u>	<u>Related Allowance</u>	<u>Recorded Investment Past Due and Accruing</u>
Net investment in leases	\$ 70	\$ 108	\$ 546	\$ 724	\$ 2,988	\$ (116)	\$ 3,596
Net financed sales receivables	281	254	459	994	15,403	—	16,397
Total	<u>\$ 351</u>	<u>\$ 362</u>	<u>\$ 1,005</u>	<u>\$ 1,718</u>	<u>\$ 18,391</u>	<u>\$ (116)</u>	<u>\$ 19,993</u>

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 and 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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	Impaired Financing Receivables For the Three and Six Months Ended June 30, 2011				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net financed sales receivables	232	195	(66)	232	—
Total recorded investment in impaired loans:					
Net financed sales receivables	<u>\$ 232</u>	<u>\$ 195</u>	<u>\$ (66)</u>	<u>\$ 232</u>	<u>\$ —</u>

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

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
Allowance for credit losses:				
Beginning balance	\$ 2,558	\$ 66	\$ 4,838	\$ 66
Charge-offs	—	—	(2,445)	—
Provision	34	—	199	—
Ending balance	<u>\$ 2,592</u>	<u>\$ 66</u>	<u>\$ 2,592</u>	<u>\$ 66</u>
Ending balance: individually evaluated for impairment	<u>\$ 2,592</u>	<u>\$ 66</u>	<u>\$ 2,592</u>	<u>\$ 66</u>
Financing receivables:				
Ending balance: individually evaluated for impairment	<u>\$ 24,722</u>	<u>\$ 57,494</u>	<u>\$ 24,722</u>	<u>\$ 57,494</u>

(d) Foreign Exchange Risk Management

The Company is exposed to market risk from changes in foreign currency rates. A major 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 Japan, the Company has ongoing operating expenses related to its operations in Japanese yen. Net Japanese yen cash flows are converted to U.S. dollars generally through the spot market. The Company also has cash receipts under leases denominated in Japanese yen, Canadian dollar and Euros which are converted to U.S. dollars generally through the spot market. The Company's policy is to not use any financial instruments for trading or other speculative purposes.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at June 30, 2011 (the "Foreign Currency Hedges"), with settlement dates throughout 2011. In addition, at June 30, 2011, the Company held foreign currency forward contracts to manage foreign currency risk on future anticipated Canadian dollar expenditures that were not considered Foreign Currency Hedges by the Company. 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 statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income ("OCI") and reclassified to the condensed consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statement of operations.

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

Notional value foreign exchange contracts as at:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Derivatives designated as hedging instruments:		
Foreign exchange contracts — Forwards	\$ 4,062	\$ 12,671
Derivatives not designated as hedging instruments:		
Foreign exchange contracts — Forwards	6,984	28,842
	<u>\$ 11,046</u>	<u>\$ 41,513</u>

Fair value of derivatives in foreign exchange contracts as at:

	<u>Balance Sheet Location</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Derivatives designated as hedging instruments:			
Foreign exchange contracts — Forwards	Other assets	\$ 292	\$ 664
Derivatives not designated as hedging instruments:			
Foreign exchange contracts — Forwards	Other assets	480	1,249
		<u>\$ 772</u>	<u>\$ 1,913</u>

Derivatives in Foreign Currency Hedging relationships for the:

		<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Foreign exchange contracts — Forwards	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	\$ 49	\$ (387)	\$ 351	\$ (179)
		<u>\$ 49</u>	<u>\$ (387)</u>	<u>\$ 351</u>	<u>\$ (179)</u>
	Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)				
		<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Foreign exchange contracts - Forwards	Selling, general and administrative expenses	\$ 466	\$ (7)	\$ 724	\$ 542
		<u>\$ 466</u>	<u>\$ (7)</u>	<u>\$ 724</u>	<u>\$ 542</u>

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Non Designated Derivatives in Foreign Currency relationships for:

	<u>Location of Derivative Gain (Loss)</u>	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Foreign exchange contracts - Forwards	Selling, general and administrative expenses	\$ 93	\$ (602)	\$ 721	\$ (178)
		<u>\$ 93</u>	<u>\$ (602)</u>	<u>\$ 721</u>	<u>\$ (178)</u>

(e) Investments in New Business Ventures

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 and the FASB ASC 320, as appropriate. As at June 30, 2011, the equity method of accounting is being utilized for an investment with a carrying value of \$3.3 million (December 31, 2010 — \$1.6 million). For the three months ended June 30, 2011, gross revenues, cost of revenue and net loss for the investment were \$0.3 million, \$2.4 million and \$4.4 million, respectively (2010 — \$nil, \$nil and \$nil, respectively). For the six months ended June 30, 2011, gross revenues, cost of revenue and net loss for the investment were \$0.5 million, \$3.8 million and \$8.6 million, respectively (2010 — \$nil, \$nil and \$nil, respectively). The Company has determined it is not the primary beneficiary of this VIE, and therefore it has not been consolidated. In addition, during 2010, the Company made an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under the FASB ASC 320 and is recorded at its fair value of \$1.0 million at June 30, 2011 (December 31, 2010 — \$1.5 million). This investment is classified as an available-for-sale investment. The total carrying value of investments in new business ventures at June 30, 2011 is \$4.3 million (December 31, 2010 — \$3.1 million) and is recorded in Other Assets.

IMAX CORPORATION

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

OVERVIEW

IMAX Corporation, together with its wholly-owned subsidiaries (the "Company"), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company's principal business is the design and manufacture of premium digital and film-based theater systems ("IMAX theater systems") and the sale or lease of IMAX theater systems or the contribution of IMAX theater systems under revenue-sharing arrangements to its customers. The IMAX theater systems are based on proprietary and patented technology developed over the course of the Company's 43-year history. The Company's customers who purchase, lease or otherwise acquire the IMAX theater systems are theater exhibitors that operate commercial theaters (particularly multiplexes), museums, science centers, or destination entertainment sites. The Company generally does not own IMAX theaters, but licenses the use of its trademarks along with the sale, lease or contribution of its equipment. The Company refers to all theaters using the IMAX theater system as "IMAX theaters."

The Company derives revenue principally from the sale or long-term lease of IMAX theater systems and associated maintenance and extended warranty services, the installation of IMAX theater systems under joint revenue sharing arrangements, the provision of film production and digital re-mastering services, the distribution of certain films, and the provision of post-production services, including the conversion of two-dimensional ("2D") and three-dimensional ("3D") Hollywood feature films for exhibition on IMAX theater systems around the world. The Company also derives revenue from the operation of its own theaters, camera rentals and the provision of aftermarket parts for its system components.

The Company believes the IMAX theater network is the most extensive premium theater network in the world with 560 IMAX theaters (441 commercial, 119 institutional) operating in 46 countries as at June 30, 2011. This compares to 447 IMAX theaters (325 commercial, 122 institutional) operating in 47 countries as at June 30, 2010.

Important factors that the Company's Chief Executive Officer ("CEO") Richard L. Gelfond uses in assessing the Company's business and prospects include revenue, gross margins from the Company's operating segments, the signing and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements), film performance, installations, earnings from operations as adjusted for unusual items that the Company views as non-recurring, the success of strategic initiatives such as the securing of new film projects (particularly IMAX DMR films) and the viability of new businesses, the overall execution, reliability and consumer acceptance of *The IMAX Experience* and related technologies and short- and long-term cash flow projections.

IMAX Systems, Theater System Maintenance and Joint Revenue Sharing Arrangements

The Company provides IMAX theater systems to customers on a sales or long-term lease basis, typically with initial terms of approximately 10 years. These agreements typically provide for three major sources of cash flows: initial fees, ongoing fees (which can include a fixed minimum amount per annum and contingent fees in excess of the minimum payments) and maintenance and extended warranty fees. The initial fees vary depending on the system configuration and location of the theater and generally are paid to the Company in installments commencing upon the signing of the agreement. Finance income is derived over the term of the sales or sales-type lease arrangement as the unearned income on financed sales or sales-type leases is earned. Ongoing fees are paid monthly over the term of the contract, commencing after the theater system has been installed and are generally equal to the greater of a fixed minimum amount per annum or a percentage of box-office receipts. Both ongoing fees and maintenance and extended warranty fees are typically indexed to a local consumer price index.

The Company also offers certain commercial clients joint revenue sharing arrangements, where the Company receives a portion of the theater's box-office and concession revenue in exchange for placing an IMAX theater system at the theater operator's venue.

Revenue from theater system arrangements is recognized at a different time from when cash is collected. See "Critical Accounting Policies" below for further discussion on the Company's revenue recognition policies.

Sales Backlog and Theater Network

The Company's sales backlog fluctuates in both number of systems and dollar value from quarter to quarter depending on the signing of new theater system arrangements, which adds to backlog, and the installation and acceptance of theater systems and the settlement of contracts, both of which reduce backlog. Sales backlog typically represents the fixed contracted revenue under signed theater system sale and lease agreements that the Company believes will be recognized as revenue upon installation and acceptance of the associated theater. Sales backlog includes initial fees along with the estimated present value of contractual ongoing fees due over the lease term, but excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of contractual ongoing fees that may be received in the future. The value of sales backlog does not include revenue from theaters in which the Company has an equity interest, joint revenue sharing arrangements, operating leases, letters of intent or long-term conditional theater commitments.

The Company's theater signings are as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
	Number of Systems	Dollar Value (in millions)	Number of Systems	Dollar Value (in millions)	Number of Systems	Dollar Value (in millions)	Number of Systems	Dollar Value (in millions)
Full new sales and sale-type lease arrangements	13 (1)	\$ 17.8	31 (1)	\$ 40.7	36 (2)	\$ 44.7	39 (2)	\$ 51.5
Digital upgrades under sales and sale-type lease arrangements	13 (3)	6.9	8 (3)	4.6	15 (4)	7.8	22 (4)	10.5
Joint revenue sharing arrangements	26 (5)	n/a	18 (5)	n/a	102 (6)	n/a	37 (6)	n/a
	<u>52</u>	<u>\$ 24.7</u>	<u>57</u>	<u>\$ 45.3</u>	<u>153</u>	<u>\$ 52.5</u>	<u>98</u>	<u>\$ 62.0</u>

(1) Includes 1 installation and 12 in backlog as at June 30, 2011 (2010 — 1 and 30, respectively).

(2) Includes 3 installations and 33 in backlog as at June 30, 2011 (2010 — 3 and 36, respectively).

(3) Includes 2 installations and 11 in backlog as at June 30, 2011 (2010 — 4 and 4, respectively).

(4) Includes 4 installations and 11 in backlog as at June 30, 2011 (2010 — 18 and 4, respectively).

(5) Includes 3 installations and 23 in backlog as at June 30, 2011 (2010 — nil and 18, respectively).

(6) Includes 5 installations and 97 in backlog as at June 30, 2011 (2010 — 1 and 36, respectively).

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The Company's sales backlog is as follows:

	June 30, 2011		June 30, 2010	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sale-type lease arrangements	166 (1)	\$ 196,469	117 (1)	\$ 156,091
Joint revenue sharing arrangements	128	n/a	70	n/a
	<u>294</u>	<u>\$ 196,469</u>	<u>187</u>	<u>\$ 156,091</u>

(1) Includes 12 upgrades from film-based IMAX theater systems to IMAX digital theater systems as at June 30, 2011 (2010 — 5).

Theater systems under joint revenue sharing arrangements carry no assigned backlog value. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

The following chart shows the number of the Company's theater systems by configuration, opened theater network base and backlog as at June 30:

	2011		2010	
	Theater Network Base	Backlog	Theater Network Base	Backlog
Flat Screen (2D)	28	—	35	—
Dome Screen (2D)	62	—	66	—
IMAX 3D Dome (3D)	5	—	2	—
IMAX 3D GT (3D)	69 (1)	1	88 (2)	1
IMAX 3D SR (3D)	29 (1)	1	46 (2)	2
IMAX MPX (3D)	11 (1)	4	20 (2)	9
IMAX Digital (3D)	356 (1)	288 (3)	190 (2)	175 (3)
Total	<u>560</u>	<u>294</u>	<u>447</u>	<u>187</u>

(1) During the six months ended June 30, 2011, the Company upgraded 28 film-based IMAX theater systems to IMAX digital theater systems (all sales arrangements).

(2) During the six months ended June 30, 2010, the Company upgraded 21 film-based IMAX theater systems to IMAX digital theater systems (20 sales arrangements and 1 joint revenue sharing arrangement).

(3) Includes 128 and 70 theater systems as at June 30, 2011 and 2010, respectively, under joint revenue sharing arrangements.

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

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	2011 Theater Network Base				2010 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	245	10	64	319	182	8	66	256
Canada	19	2	7	28	13	2	7	22
Mexico	7	—	10	17	8	—	11	19
Russia & the CIS	20	—	—	20	8	—	—	8
Western Europe	38	7	8	53	26	7	9	42
Rest of Europe	10	—	—	10	11	—	—	11
Japan	10	2	6	18	5	2	7	14
Greater China (1)	28	—	18	46	12	—	14	26
Rest of World	40	4	5	49	38	3	8	49
Total	<u>417 (2)</u>	<u>25</u>	<u>118</u>	<u>560</u>	<u>303 (2)</u>	<u>22</u>	<u>122</u>	<u>447</u>

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

(2) Includes 204 and 126 theater systems in operation as at June 30, 2011 and 2010, respectively, under joint revenue sharing arrangements.

CRITICAL ACCOUNTING POLICIES

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

The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to selling prices associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; provisions for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historic experience, future expectations and other assumptions that are believed to be reasonable at the date of the 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 note 2 to its audited consolidated financial statements in the Company’s 2010 Annual Report on Form 10-K for the year ended December 31, 2010 (the “2010 Form 10-K”) and are summarized below.

The Company considers the following significant estimates, assumptions and judgments to have the most significant effect on its results:

Revenue Recognition

The Company generates revenue from various sources as follows:

- design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 46 countries as at June 30, 2011;
- production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;
- operation of certain IMAX theaters primarily in the United States;

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- provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems; and
- other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

Multiple Element Arrangements

The Company's revenue arrangements with certain customers may involve multiple elements consisting 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 of the IMAX brand; 3D glasses; maintenance and extended warranty services; and licensing of films. The Company evaluates all elements in an arrangement to determine what are considered typical deliverables 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "Codification"); the Guarantees Topic of the FASB ASC; the Entertainment — Films Topic of FASB ASC; and the Revenue Recognition Topic of the FASB ASC. 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 a single deliverable and a single unit of accounting (the "System Deliverable"). When an arrangement does not include all the elements of a System Deliverable, the elements of the System Deliverable included in the arrangement are considered by the Company to be a single deliverable 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 Deliverable arrangements involve either a lease or a sale of the theater system. Consideration in the Company's arrangements that are not joint revenue sharing arrangements, consists 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.

Sales Arrangements

For arrangements qualifying as sales, the revenue allocated to the System Deliverable is recognized in accordance with the Revenue Recognition Topic of the FASB ASC, 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 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 collectibility is reasonably assured.

The initial revenue recognized consists of the initial payments received and the present value of any future initial payments and fixed minimum ongoing payments that have been attributed to this unit of accounting. Contingent payments in excess of the fixed minimum ongoing payments are recognized when reported by theater operators, provided collectibility is reasonably assured.

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, collectibility is reasonably assured and title to the theater system passes from the Company to the customer.

In a certain sales arrangement not subject to the provisions of the amended FASB ASC 605-25, "Revenue Recognition: Multiple-Element Arrangements" ("ASC 605-25"), the Company provided a customer with digital upgrades on several systems, including several specified upgrades to an as-of-yet undeveloped product. At the current period-end, the Company has not yet established the fair value of this product, and as a result, the Company cannot determine the arrangement's consideration, nor its allocation of consideration between delivered and undelivered items. Consequently, revenue recognition has been deferred for all delivered items in the arrangement. Once the Company determines an objective and reliable fair value of the undeveloped specified upgrade, the Company will be able to calculate total arrangement consideration and consequently, the Company will be able to recognize revenue on the delivered elements of the arrangement. If the arrangement is materially modified in the future such that contract consideration becomes fixed, the arrangement in its entirety would be subject to the provisions of the amended FASB ASC 605-25 and the Company would be required to develop, absent an established selling price for the undeveloped specified upgrade, a best estimated selling price for the undeveloped specified upgrade, allocate the arrangement's consideration on a relative selling price allocation basis, and recognize revenue on the delivered elements based on that allocation.

Lease Arrangements

The Company uses the Leases Topic of the FASB ASC to evaluate whether an arrangement is a lease and the classification of the lease. 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 Leases Topic of the 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 in 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 Deliverable 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 collectibility 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 collectibility 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 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. Contingent payments in excess of fixed minimum ongoing payments are recognized as revenue when reported by theater operators, provided collectibility is reasonably assured.

For joint revenue sharing arrangements, where the Company receives a portion of a theater's box-office and concession revenues, in exchange for placing a theater system at the theater operator's venue, revenue is recognized when box-office and concession revenues are reported by the theater operator, provided collectibility is reasonably assured.

Equipment and components allocated to be used in future joint revenue sharing arrangements, as well as direct labor costs and an allocation of direct production costs, are included in assets under construction until such equipment is installed and in working condition, at which time the equipment is depreciated on a straight-line basis over the lesser of the term of the joint revenue sharing arrangement and the equipment's anticipated useful life.

Finance Income

Finance income is recognized over the term of the lease or over the period of time specified in the sales arrangement, provided collectibility is reasonably assured. Finance income recognition ceases when the Company determines that the associated receivable is not recoverable.

Terminations, Consensual Buyouts and Concessions

The Company enters into theater system arrangements with customers that provide for 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 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, as described in note 2 to the accompanying notes to the unaudited condensed consolidated financial statements, 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 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.

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.

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 collectibility 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 and recoupments calculated as a percentage of box-office receipts generated from the re-mastered films. Processing fees are recognized as Services revenues when the performance of the related re-mastering service is completed, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is reasonably assured. Recoupments, calculated as a percentage of box-office receipts, are recognized as Services revenues when box-office receipts are reported by the third party that owns or holds the related film rights, provided collectibility 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 licensing of films 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 collectibility is reasonably assured. When license fees are based on a percentage of box-office receipts, revenue is recognized when box-office receipts are reported by exhibitors, provided collectibility is reasonably assured.

Film Post-Production Services

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

Theater Operations Revenue

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 theatergoers 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.

Other

Revenues on camera rentals are recognized in Rental revenue 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.

Allowances for Accounts Receivable and Financing Receivables

Allowances for doubtful accounts receivable are based on the Company's assessment of the collectibility of specific customer balances, which is based upon a review of the customer's credit worthiness, past collection history and the underlying asset value of the equipment, where applicable. Interest on overdue accounts receivable is recognized as income as the amounts are collected.

The Company monitors the performance of the theaters to which it has leased or sold theater systems which are subject to ongoing payments. When facts and circumstances indicate that there is a potential impairment in the accounts receivable, net investment in lease or a financing receivable, the Company will evaluate the potential outcome of either renegotiations involving changes in the terms of the receivable or defaults on the existing lease or financed sale agreements. The Company will record a provision if it is considered probable that the Company will be unable to collect all amounts due under the contractual terms of the arrangement or a renegotiated lease amount will cause a reclassification of the sales-type lease to an operating lease.

When the net investment in lease or the financing receivable is impaired, the Company will recognize a provision for the difference between the carrying value in the investment and the present value of expected future cash flows discounted using the effective interest rate for the net investment in the lease or the financing receivable. If the Company expects to recover the theater system, the provision is equal to the excess of the carrying value of the investment over the fair value of the equipment.

When the minimum lease payments are renegotiated and the lease continues to be classified as a sales-type lease, the reduction in payments is applied to reduce unearned finance income.

These provisions are adjusted when there is a significant change in the amount or timing of the expected future cash flows or when actual cash flows differ from cash flow previously expected.

Once a net investment in lease or financing receivable is considered impaired, the Company does not recognize interest income until the collectibility issues are resolved. When finance income is not recognized, any payments received are applied against outstanding gross minimum lease amounts receivable or gross receivables from financed sales.

Inventories

Inventories are carried at the lower of cost, determined on an average cost basis, and net realizable value except for raw materials, which are carried out at the lower of cost and replacement cost. Finished goods and work-in-process include the cost of raw materials, direct labor, theater design costs, and an applicable share of manufacturing overhead costs.

The costs related to theater systems under sales and sales-type lease arrangement are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met. The costs related to theater systems under operating lease arrangements and joint revenue sharing arrangements are transferred from inventory to assets under construction in property, plant and equipment when allocated to a signed joint revenue sharing arrangement or when the arrangement is first classified as an operating lease.

The Company records provisions for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, technological developments, signings in negotiation, growth prospects within the customers' ultimate marketplace and anticipated market acceptance of the Company's current and pending theater systems.

Finished goods inventories can contain theater systems for which title has passed to the Company's customer, under the contract, but the revenue recognition criteria as discussed above have not been met.

Asset Impairments

The Company performs an impairment test on its goodwill on an annual basis, coincident with the year-end, as well as in quarters where events or changes in circumstances suggest that the carrying amount may not be recoverable.

Goodwill impairment is assessed at the reporting unit level by comparing the unit's carrying value, including goodwill, to the fair value of the unit. Significant estimates are involved in the impairment test. The carrying values of each unit are subject to allocations

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of certain assets and liabilities that the Company has applied in a systematic and rational manner. The fair value of the Company's units is assessed using a discounted cash flow model. The model is constructed using the Company's budget and long-range plan as a base.

Long-lived asset impairment testing is performed at the lowest level of an asset group at which identifiable cash flows are largely independent. In performing its review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset or asset group and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is recognized in the consolidated statement of operations. Measurement of the impairment loss is based on the excess of the carrying amount of the asset or asset group over the fair value calculated using discounted expected future cash flows.

The Company's estimates of future cash flows involve anticipating future revenue streams, which contain many assumptions that are subject to variability, as well as estimates for future cash outlays, the amounts of which, and the timing of which are both uncertain. Actual results that differ from the Company's budget and long-range plan could result in a significantly different result to an impairment test, which could impact earnings.

Foreign Currency Translation

Monetary assets and liabilities of the Company's operations which are denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the end of the period. Non-monetary items are translated at historical exchange rates. Revenue and expense transactions are translated at exchange rates prevalent at the transaction date. Such exchange gains and losses are included in the determination of earnings in the period in which they arise.

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 consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations.

Pension Plan and Postretirement Benefit Obligations Assumptions

The Company's pension plan and postretirement benefit obligations and related costs are calculated using actuarial concepts, within the framework of the Compensation — Retirement Benefits Topic of the FASB ASC. A critical assumption to this accounting is the discount rate. The Company evaluates this critical assumption annually or when otherwise required to by accounting standards. Other assumptions include factors such as expected retirement date, mortality rate, rate of compensation increase, and estimates of inflation.

The discount rate enables the Company to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. The Company's discount rate was determined by considering the average of pension yield curves constructed from a large population of high-quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

The discount rate used is a key assumption in the determination of the pension benefit obligation and expense. A 1.0% change in the discount rate used could result in a \$1.7 — \$2.0 million increase or decrease in the pension benefit obligation with a corresponding benefit or charge recognized in other comprehensive income in the year. A one year delay in Mr. Gelfond's retirement date would increase the discount rate by 0.3% and have a \$0.4 million impact on the expected pension payment.

Deferred Tax Asset Valuation

As at June 30, 2011, the Company had net deferred income tax assets of \$56.2 million. The Company's management assesses realization of its deferred tax assets based on all available evidence in order to conclude whether it is more likely than not that the deferred tax assets will be realized. Available evidence considered by the Company includes, but is not limited to, the Company's historic operating results, projected future operating results, reversing temporary differences, contracted sales backlog at June 30, 2011, changing business circumstances, and the ability to realize certain deferred tax assets through loss and tax credit carry-back and carry-forward strategies.

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When there is a change in circumstances that causes a change in judgment about the realizability of the deferred tax assets, the Company would adjust the applicable valuation allowance in the period when such change occurs.

Tax Exposures

The Company is subject to ongoing tax exposures, examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts tax expense to reflect the Company's ongoing assessments of such matters which require judgment and can materially increase or decrease its effective rate as well as impact operating results. The Company provides for such exposures in accordance with Income Taxes Topic of the FASB ASC.

Stock-Based Compensation

The Company utilizes a lattice-binomial option-pricing model (the "Binomial Model") to determine the fair value of stock-based payment awards. The fair value determined by the Binomial Model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The Binomial Model also considers the expected exercise multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options and stock appreciation rights ("SARs") have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the Binomial Model best provides an accurate measure of the fair value of the Company's employee stock options and SARs. Although the fair value of employee stock options and SARs are determined in accordance with the Equity topic of the FASB ASC using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Impact of Recently Issued Accounting Pronouncements

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

Non-GAAP Financial Measures

In this report, the Company presents adjusted net income and adjusted net income per diluted share as supplemental measures of performance of the Company, which are not recognized under US GAAP. The Company presents adjusted net income and adjusted net income per diluted share because it believes that they are important supplemental measures of its comparable controllable operating performance and it wants to ensure that its investors fully understand the impact of its variable share-based compensation, provision for arbitration award and deferred taxes on its net income. The Company presents gross margin from its joint revenue sharing arrangements segment excluding initial launch costs because it believes that it is an important supplemental measure used by management to evaluate ongoing joint revenue sharing arrangement theater performance. Management uses these measures to review operating performance on a comparable basis from period to period. However, these non-GAAP measures may not be comparable to similarly titled amounts reported by other companies. Adjusted net income and adjusted net income per diluted share should be considered in addition to, and not as a substitute for, net income and other measures of financial performance reported in accordance with GAAP.

RESULTS OF OPERATIONS

As identified in note 15 to the accompanying condensed consolidated financial statements in Item 1, the Company has eight reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; theater operations; and other. The IMAX systems segment designs, manufactures, sells or leases IMAX theater projection system equipment. The theater system maintenance segment maintains IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment installs IMAX theater projection system equipment to an exhibitor in exchange for a certain percentage of box-office and concession revenue. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The theater operations segment owns and operates certain IMAX theaters. The other segment includes camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2010 Form 10-K.

The Company's Management's Discussion and Analysis of Financial Condition and Results of Operations have been organized and discussed with respect to the above stated segments. Management feels that a discussion and analysis based on its segments is significantly more relevant as the Company's condensed consolidated statements of operations captions combine results from several segments.

Three Months Ended June 30, 2011 Versus Three Months Ended June 30, 2010

The Company reported net income of \$1.8 million or \$0.03 per basic and diluted share for the second quarter of 2011, as compared to net income of \$13.3 million or \$0.21 per basic share and \$0.20 per diluted share for the second quarter of 2010. Net income for the quarter includes a \$1.4 million pre-tax charge or \$0.02 per diluted share (2010 — recovery of \$4.9 million or \$0.07 per diluted share) for variable share-based compensation expense primarily due to the increase in the Company's stock price during the quarter (from \$32.17 per share to \$32.43 per share) and a deferred tax provision of \$1.4 million (\$0.02 per diluted share). Adjusted net income, which consists of net income excluding the impact of variable share-based compensation and the deferred tax provision was \$4.6 million or \$0.07 per diluted share in the second quarter of 2011 as compared to adjusted net income of \$8.4 million or \$0.13 per diluted share for the second quarter of 2010. A reconciliation of net income, the most directly comparable GAAP measure, to adjusted net income and adjusted net income per diluted share is presented in the table below:

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported	\$ 1,825	\$ 0.03	\$ 13,302	\$ 0.20
Add:				
Variable stock compensation	1,357	0.02	—	—
Deferred tax provision	1,419	0.02	—	—
Less:				
Recovery of variable stock compensation	—	—	4,899	0.07
Adjusted	<u>\$ 4,601</u>	<u>\$ 0.07</u>	<u>\$ 8,403</u>	<u>\$ 0.13</u>
Weighted average diluted shares outstanding		<u>68,699</u>		<u>66,988</u>

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The following table sets forth the breakdown of revenue and gross margin by category:

	Revenue		Gross Margin	
	Three Months Ended June 30, 2011	2010	Three Months Ended June 30, 2011	2010
IMAX Systems				
Sales and sales-type leases ⁽¹⁾	\$ 17,857	\$ 14,428	\$ 8,892	\$ 7,216
Ongoing rent, fees, and finance income ⁽²⁾	2,613	2,901	2,548	2,702
	<u>20,470</u>	<u>17,329</u>	<u>11,440</u>	<u>9,918</u>
Theater System Maintenance	<u>6,127</u>	<u>5,102</u>	<u>2,381</u>	<u>2,051</u>
Joint Revenue Sharing Arrangements	<u>8,347</u>	<u>8,494</u>	<u>4,881</u>	<u>6,501</u>
Film				
Production and IMAX DMR	12,422	14,540	6,461	6,823
Distribution	5,275	3,870	487	719
Post-production	1,039	2,326	307	837
	<u>18,736</u>	<u>20,736</u>	<u>7,255</u>	<u>8,379</u>
Theater Operations	<u>1,918</u>	<u>2,954</u>	<u>(242)</u>	<u>152</u>
Other	<u>1,634</u>	<u>983</u>	<u>587</u>	<u>39</u>
	<u>\$ 57,232</u>	<u>\$ 55,598</u>	<u>\$ 26,302</u>	<u>\$ 27,040</u>

(1) Includes initial payments and the present value of fixed minimum payments from equipment, sales and sales-type lease transactions.

(2) Includes rental income from operating leases, contingent rents from operating and sales-type leases, contingent fees from sales arrangements and finance income.

Revenues and Gross Margin

The Company's revenues for the second quarter of 2011 increased by 2.9% to \$57.2 million from \$55.6 million in the same period last year due in large part to increase in IMAX systems revenue, partially offset by decreases in revenue from film and joint revenue sharing arrangements. The gross margin across all segments in the second quarter of 2011 was \$26.3 million, or 46.0% of total revenue, compared to \$27.0 million, or 48.6% of total revenue in the second quarter of 2010.

IMAX Systems

IMAX systems revenue increased 18.1% to \$20.5 million in the second quarter of 2011 as compared to \$17.3 million in the second quarter of 2010, resulting primarily from the installation of 6 more full, theater systems (excluding digital upgrades) under sales or sales-type leases as compared to the prior year comparative period.

Revenue from sales and sales-type leases increased 23.8% to \$17.9 million in the second quarter of 2011 from \$14.4 million in the second quarter of 2010. The Company recognized revenue on 11 full, new theater systems which qualified as either sales or sales-type leases in the second quarter of 2011, with a total value of \$13.9 million, as compared to 6 in the second quarter of 2010 with a total value of \$9.4 million. The Company also recognized revenue on 6 digital upgrades in the second quarter of 2011, with a total value of \$2.8 million, as compared to 11 in the second quarter of 2010 with a total value of \$4.9 million. Digital upgrades have lower sales prices and gross margin than full theater system installations. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital systems increase flexibility and profitability for the Company's existing exhibition customers. The Company recognized revenue on one used system during the three months ended June 30, 2011 with a value of \$1.2 million as compared to none during the three months ended June 30, 2010.

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Average revenue per full, new sales and sales-type lease system was \$1.3 million for the three months ended June 30, 2011, as compared to \$1.6 million for the three months ended June 30, 2010. Average revenue per full, new sales and sales-type lease system was lower in the second quarter of 2011 compared to the prior year comparative period primarily due to the mix of units sold in the quarter. Average revenue per digital upgrade was \$0.5 million for the three months ended June 30, 2011, as compared to \$0.4 million experienced during the three months ended June 30, 2010. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangement (see discussion below) installations by theater system configuration for the second quarter of 2011 and 2010 is outlined in the table below.

	Three Months Ended June 30,	
	2011	2010
Sales and Sales-type lease systems — installed and recognized		
IMAX 3D GT	1	1
IMAX digital	17 (1)	16 (2)
	<u>18</u>	<u>17</u>
IMAX digital — installed and deferred		
	<u>—</u>	<u>—</u>
	<u>18</u>	<u>17</u>
Joint revenue sharing arrangements — installed and operating		
IMAX digital	23	4
	<u>41</u>	<u>21</u>

(1) Includes the digital upgrade of 6 systems (all sales arrangements) from film-based to digital.

(2) Includes the digital upgrade of 11 systems (all sales arrangements) from film-based to digital.

Settlement revenue was \$nil for the three months ended June 30, 2011 and 2010, respectively.

IMAX theater systems gross margin from full, new sales and sale-type leases, excluding the impact of settlements and asset impairment charges was 65.6% in the second quarter of 2011 in comparison to 66.1% in the second quarter of 2010. The gross margin on digital upgrades, excluding the impact of settlements and asset impairment charges, was \$0.6 million in the second quarter of 2011 in comparison to \$1.6 million in the prior year quarter reflecting the lower number of digital system upgrades this year in comparison to the prior year. The gross margin on the sale of one used system recognized in the three months ended June 30, 2011 was \$0.1 million.

Ongoing rent revenue and finance income was \$2.6 million in the second quarter of 2011 compared to \$2.9 million in the second quarter of 2010. Gross margin for ongoing rent and finance income in the second quarter of 2011 decreased to \$2.5 million from \$2.7 million in the second quarter of 2010. Contingent fees included in this caption amounted to \$0.6 million and \$0.3 million in the three months ended June 30, 2011 and 2010, respectively.

Theater System Maintenance

Theater system maintenance revenue increased 20.1% to \$6.1 million during the second quarter of 2011 as compared to \$5.1 million in the second quarter of 2010. Theater system maintenance gross margin increased \$0.3 million to \$2.4 million in the second quarter of 2011 as compared to \$2.1 million in the prior year comparative period. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins can vary depending on the mix of theater system configurations in the theater network and the date(s) of installation and/or service.

Joint Revenue Sharing Arrangements

Revenue from joint revenue sharing arrangements decreased 1.7% to \$8.3 million in the second quarter of 2011 compared to \$8.5 million in the second quarter of 2010. The Company ended the second quarter with 204 theaters operating under joint revenue sharing arrangements as compared to 126 theaters at the end of the second quarter of 2010. The decrease in revenues from joint revenue sharing arrangements was due to lower per-screen gross box office revenue experienced from the films released to the joint

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revenue sharing theater network in the quarter. During the quarter, the Company installed 23 full, new theaters under joint revenue sharing arrangements, as compared to 4 full, new theaters during the prior year quarter.

The gross margin from joint revenue sharing arrangements in the second quarter of 2011 decreased to \$4.9 million compared to \$6.5 million in the second quarter of 2010. The decrease in gross margin was largely a result of a decrease in revenues and higher launch expenses. Included in the calculation of second quarter gross margin were certain advertising, marketing and selling expenses of \$1.8 million, as compared to \$0.7 million incurred in the prior year period. Adjusted gross margin from joint revenue sharing arrangements, which excludes these launch expenses from both periods, was \$6.7 million in the second quarter of 2011, compared to \$7.2 million in the second quarter of 2010. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable GAAP measure, to adjusted gross margin is presented in the table below:

	<u>Three Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Gross margin from joint revenue sharing arrangements	\$ 4,881	\$ 6,501
Add:		
Advertising, marketing and selling expenses	1,785	676
Adjusted gross margin from joint revenue sharing arrangements	<u>\$ 6,666</u>	<u>\$ 7,177</u>

Film

Revenues from the Company's film segments decreased 9.6% to \$18.7 million in the second quarter of 2011 from \$20.7 million in the second quarter of 2010. Film production and IMAX DMR revenues decreased to \$12.4 million in the second quarter of 2011 from \$14.5 million in the second quarter of 2010. The decrease in film production and IMAX DMR revenues was primarily as a result of lower gross box office generated by the films released to the IMAX network in the quarter. Gross box office generated by IMAX DMR films decreased to \$107.7 million for the second quarter of 2011 from \$113.9 million for the second quarter of 2010. Gross box office per screen for the three months ended June 30, 2011 averaged \$315,700 in comparison to \$483,500 in the comparable period last year. In the second quarter of 2011, gross box office was generated by the release of primarily 9 films (listed below), as compared to 8 films released during the second quarter of 2010:

Three Months Ended June 30, 2011 – Films Released

Sucker Punch: The IMAX Experience
Fast Five: The IMAX Experience
Thor: An IMAX 3D Experience
Pirates of the Caribbean: On Stranger Tides: An IMAX 3D Experience
The Founding of a Party: The IMAX Experience
Kung Fu Panda 2: An IMAX 3D Experience
Super 8: The IMAX Experience
Cars 2: An IMAX 3D Experience
Transformers: Dark of the Moon: An IMAX 3D Experience

Three Months Ended June 30, 2010 – Films Released

Avatar: An IMAX 3D Experience
Alice in Wonderland: An IMAX 3D Experience
How to Train Your Dragon: An IMAX 3D Experience
Iron Man 2: The IMAX Experience
Shrek Forever After: An IMAX 3D Experience
Prince of Persia: The Sands of Time: The IMAX Experience
Toy Story 3: An IMAX 3D Experience
The Twilight Saga: Eclipse: The IMAX Experience

Film distribution revenues increased to \$5.3 million in the second quarter of 2011 from \$3.9 million in the second quarter of 2010. During the second quarter of 2011, the Company, in conjunction with WB, released the original film *Born to Be Wild 3D: An IMAX 3D Experience* to its network. The Company did not release any new, original titles in the second quarter of 2010.

Film post-production revenues decreased to \$1.0 million in the second quarter of 2011 from \$2.3 million in the second quarter of 2010 due primarily to a decrease in third party business.

The Company's gross margin from its film segments decreased in the second quarter of 2011 to \$7.3 million from \$8.4 million in the second quarter of 2010. Film production and IMAX DMR gross margin decreased to \$6.5 million in the second quarter of 2011 from \$6.8 million in the second quarter of 2010 primarily due to the decrease in gross box office experienced in the second quarter of 2011 as compared to the second quarter of 2010, partially offset by lower costs. The film distribution gross margin decreased in the second quarter of 2011 to \$0.5 million from \$0.7 million in the second quarter of 2010. The gross margin for the second quarter of 2011 included a higher level of marketing costs of \$1.4 million (including launch marketing expenditures associated with the April

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2011 release of *Born to be Wild*) as compared to \$0.2 million in the prior year comparative period. During the second quarter of 2011, the gross margin from post-production was \$0.3 million as compared to \$0.8 million in the second quarter of 2010.

Theater Operations

Theater operations revenue decreased to \$1.9 million in the second quarter of 2011 compared to \$3.0 million experienced in the second quarter of 2010. This decrease is due to a decrease in average ticket prices and attendance from the prior year comparative period, primarily due to lower film performance in the current period.

Theater operations gross margin decreased to a loss of \$0.2 million in the second quarter of 2011 as compared to a profit of \$0.2 million in the second quarter of 2010 primarily due to the decrease in revenues.

Other

Other revenue increased to \$1.6 million in the second quarter of 2011 compared to \$1.0 million in the same period in 2010. Other revenue primarily includes revenue generated from the Company's camera and rental business and after market sales of projection system parts and 3D glasses.

The gross margin on other revenue increased to \$0.6 million from less than \$0.1 million in the prior year comparative period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$19.5 million in the second quarter of 2011 as compared to \$11.1 million in the second quarter of 2010. The \$8.4 million increase experienced from the prior year comparative period was largely the result of the following:

- an \$8.4 million increase in the Company's stock-based compensation expense (including an increase of \$6.3 million for variable share-based awards); and
- a \$1.1 million increase in staff-related and compensation costs including an increase in salaries and benefits of \$0.8 million including a higher average Canadian dollar denominated salary expense, increased staffing and normal merit increases.

These increases were offset by:

- a \$1.0 million decrease due to foreign exchange. During the second quarter of 2011, the Company recorded a foreign exchange gain of \$0.1 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts as compared to a loss of \$0.9 million in the prior year comparative period. See note 10(b) of the accompanying condensed consolidated financial statements in Item 1 for more information.
- a \$0.1 million decrease in other general corporate expenditures.

Research and Development

Research and development expenses increased to \$2.1 million in the second quarter of 2011 compared to \$1.2 million in the second of 2010. The increased research and development expenses for the three months ended June 30, 2011 compared to the prior year period are primarily attributable to ongoing enhancements to the Company's digital projection technology to assure that the Company continues to provide the highest quality, premiere movie going experience available to consumers, as well as ongoing work performed on the Company's portable theater initiative.

Receivable Provisions, Net of Recoveries

Receivable provisions net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.2 million and \$0.4 million in the second quarter of 2011 and 2010, respectively.

The Company's accounts receivables and financing receivables are subject to credit risk. These receivables are concentrated with the leading theater exhibitors and studios in the film entertainment industry. To minimize the Company's credit risk, the Company retains title to underlying theater systems that are 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 decreased to less than \$0.1 million in the second quarter of 2011 as compared to less than \$0.1 million in the second quarter of 2010.

Interest expense increased to \$0.6 million in the second quarter of 2011 as compared to \$0.5 million in the second quarter of 2010. Included in interest expense is the amortization of deferred finance costs of \$0.2 million in the second quarter of 2011 and less than \$0.1 million in the second quarter of 2010. The Company's policy is to defer and amortize, over the life of the debt instrument, all the costs relating to debt financing which are paid directly to the debt provider.

Income Taxes

The Company's effective tax rate differs from the statutory tax rate and will vary from year to year primarily as a result of numerous permanent differences, investments 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.

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, 2011, the Company had a gross deferred income tax asset of \$64.1 million, against which the Company is carrying a \$7.9 million valuation allowance. The Company recorded an income tax provision of \$1.6 million for the three months ended June 30, 2011, of which a provision of \$0.1 million is related to an increase in unrecognized tax benefits. For the three months ended June 30, 2010, the Company recorded an income tax provision of \$0.4 million, of which \$0.1 million was related to an increase in unrecognized tax benefits.

The Company anticipates utilizing the majority of its currently available tax attributes over the next two years.

Six Months Ended June 30, 2011 Versus Six Months Ended June 30, 2010

The Company reported net income of \$0.8 million or \$0.01 per basic and diluted share for the six months ended June 30, 2011, as compared to net income of \$39.9 million or \$0.63 per basic share and \$0.60 per diluted share for the six months ended June 30, 2010. The six months ended June 30, 2010 included the record-breaking performance of *Avatar: An IMAX 3D Experience*. Net income for the six months ended June 30, 2011 includes a \$3.2 million pre-tax charge or \$0.05 per diluted share (2010 — \$3.8 million or \$0.06 per diluted share) for variable share-based compensation expense primarily due to the increase in the Company's stock price during the six months ended June 30, 2011 (from \$28.07 per share to \$32.43 per share) and its impact on SARs, a one-time \$2.1 million pre-tax charge (\$0.03 per diluted share) due to an arbitration award arising from an arbitration proceeding brought against the Company in connection with a discontinued subsidiary and a deferred tax provision of \$1.1 million (\$0.01 per diluted share). Adjusted net income, which consists of net income excluding the impact of variable share-based compensation expense, the charge for the arbitration award, and the deferred tax provision was \$7.1 million or \$0.10 per diluted share in the six months ended June 30, 2011 as compared to adjusted net income of \$43.7 million or \$0.66 per diluted share for the six months ended June 30, 2010. A reconciliation of net income, the most directly comparable GAAP measure, to adjusted net income and adjusted net income per diluted share is presented in the table below:

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	<u>Net Income</u>	<u>Diluted EPS</u>	<u>Net Income</u>	<u>Diluted EPS</u>
Net income	\$ 822	\$ 0.01	\$ 39,883	\$ 0.60
Add:				
Variable stock compensation	3,160	0.05	3,848	0.06
Deferred tax provision	1,104	0.01	—	—
Provision for arbitration award	2,055	0.03	—	—
Adjusted net income	<u>\$ 7,141</u>	<u>\$ 0.10</u>	<u>\$ 43,731</u>	<u>\$ 0.66</u>
Weighted average diluted shares outstanding		<u>68,378</u>		<u>66,494</u>

The following table sets forth the breakdown of revenue and gross margin by category:

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	Revenue		Gross Margin	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
IMAX Systems				
Sales and sales-type leases ⁽¹⁾	\$ 37,165	\$ 22,959	\$ 17,834	\$ 9,279
Ongoing rent, fees, and finance income ⁽²⁾	5,564	5,323	5,341	5,139
	<u>42,729</u>	<u>28,282</u>	<u>23,175</u>	<u>14,418</u>
Theater System Maintenance	<u>11,922</u>	<u>10,068</u>	<u>4,968</u>	<u>4,360</u>
Joint Revenue Sharing Arrangements	<u>12,387</u>	<u>27,430</u>	<u>7,059</u>	<u>23,313</u>
Film				
Production and IMAX DMR	19,680	37,992	9,220	26,324
Distribution	7,892	7,142	1,113	1,461
Post-production	2,663	4,918	1,996	2,891
	<u>30,235</u>	<u>50,052</u>	<u>12,329</u>	<u>30,676</u>
Theater Operations	<u>2,899</u>	<u>8,903</u>	<u>(1,005)</u>	<u>1,810</u>
Other	<u>2,220</u>	<u>3,646</u>	<u>422</u>	<u>762</u>
	<u>\$ 102,392</u>	<u>\$ 128,381</u>	<u>\$ 46,948</u>	<u>\$ 75,339</u>

(1) Includes initial rents and fees and the present value of fixed minimum rents and fees from equipment, sales and sales-type lease transactions.

(2) Includes rental income from operating leases, contingent rents from sales-type leases, contingent fees from sales arrangements and finance income.

Revenues and Gross Margin

The Company's revenues for the six months ended June 30, 2011 decreased by 20.2% to \$102.4 million from \$128.4 million in the same period last year due in large part to decreases in revenue from the Company's film and joint revenue sharing arrangement segments partially offset by higher revenues from the IMAX systems segment. The six months ended June 30, 2010 included the record-breaking performance of *Avatar: An IMAX 3D Experience*. The gross margin across all segments in the six months ended June 30, 2011 was \$46.9 million, or 45.9% of total revenue, compared to \$75.3 million, or 58.7% of total revenue in the six months ended June 30, 2010.

IMAX Systems

IMAX systems revenue increased 51.1% to \$42.7 million in the six months ended June 30, 2011 as compared to \$28.3 million in the six months ended June 30, 2010 resulting primarily from the installation of 13 more full, theater systems (excluding digital upgrades) under sales and sales-type leases as compared to the prior year comparative period. In addition, the six months ended June 30, 2011 included settlement revenue of \$0.3 million as compared to \$nil in the comparable period last year.

Revenue from sales and sales-type leases increased 61.9% to \$37.2 million in the six months ended June 30, 2011 from \$23.0 million in the six months ended June 30, 2010. The Company recognized revenue on 22 full, new theater systems which qualified as either sales or sales-type leases in the six months ended June 30, 2011, with a total value of \$27.4 million, versus 9 in the six months ended June 30, 2010 with a total value of \$14.1 million. Additionally, the Company recognized revenue on 20 digital upgrades in the six months ended June 30, 2011, with a total value of \$8.3 million, as compared to 20 digital upgrades in the six months ended June 30, 2010 with a total value of \$7.6 million. Digital upgrades have lower sales prices and gross margin than a full theater installation. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital systems increase flexibility and profitability for the Company's existing exhibition customers. There was one used system installed in the six months ended June 30 2011 with a value of \$1.2 million as compared to one used system with a value of \$0.9 million recognized in the six months ended 2010.

Average revenue per full, new sales and sales-type lease systems was \$1.2 million for the six months ended June 30, 2011 as compared to \$1.6 million for the six months ended June 30, 2010. Average revenue per digital upgrade was \$0.4 million for the six

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months ended June 30, 2011, as compared to \$0.4 million for the six months ended June 30, 2010. The breakdown in mix of sales and sales-type lease, joint revenue sharing arrangements (see discussion below) and operating lease installations by theater system configuration for the six months ended June 30, 2011 and 2010 is outlined in the table below.

	Six Months Ended June 30,	
	2011	2010
Sales and Sales-type lease systems — installed and recognized		
IMAX 3D GT	1	1
IMAX Dome	—	1
IMAX 3D SR	—	1
IMAX digital	42 (1)	27 (3)
	43	30
IMAX digital — installed and deferred	8 (2)	—
	51	30
Joint revenue sharing arrangements — installed and operating		
IMAX digital	33	10 (3)
	84	40

(1) Includes the digital upgrade of 20 systems (all sales arrangements) from film-based to digital.

(2) Includes the digital upgrade of 8 systems (all sales arrangements) from film-based to digital.

(3) Includes the digital upgrade of 21 systems (20 sales arrangements and 1 system under a joint revenue sharing arrangement) from film-based to digital.

As noted in the table above, 8 theater systems under a digital upgrade sales arrangement were installed but revenue recognition was deferred in the six months ended June 30, 2011. The arrangement contained provisions providing the customer with standard digital upgrades, which were installed, and a number of as-of-yet undeveloped upgrades. The Company's policy is such that once the fair value for the undeveloped upgrade is established, the Company allocates total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a relative fair value basis and recognizes the revenue allocated to the delivered elements with their associated costs. If the arrangement is materially modified in the future such that contract consideration becomes fixed, the arrangement in its entirety would be subject to the provisions of the amended ASC 605-25 and the Company would be required to develop, absent an established selling price or third party evidence of the selling price for the undeveloped specified upgrade, a best estimated selling price for the undeveloped specified upgrade, allocate the arrangement's consideration on a relative selling price allocation basis, and recognize revenue on the delivered elements based on that allocation. In the six months ended June 30, 2010, the Company did not defer any recognitions.

Settlement revenue was \$0.3 million for the six months ended June 30, 2011 as compared to \$nil in the six months ended June 30, 2010. The amount recognized in the six months ended June 30, 2011 related to a consensual buyout for one uninstalled theater system.

IMAX theater systems margin from full, new sales and sale-type leases, excluding the impact of settlements and asset impairment charges, was 65.3% in the six months ended June 30, 2011, as compared to 63.8% in the six months ended June 30, 2010. The gross margin on digital upgrades was \$1.2 million in the six months ended June 30, 2011 in comparison with \$1.3 million in the six months ended June 30, 2010. There was one used system installed during the six months ended June 30, 2011 with a margin of \$0.1 million, which is consistent with the one used system with a gross margin of \$0.1 million installed and recognized in the comparable period last year.

Ongoing rent revenue and finance income increased to \$5.6 million in the six months ended June 30, 2011 from \$5.3 million in the six months ended June 30, 2010. Gross margin for ongoing rent and finance income increased to \$5.3 million in the six months ended June 30, 2011 from \$5.1 million in the six months ended June 30, 2010. Contingent fees included in this caption amounted to \$1.7 million and \$0.4 million in the six months ended June 30, 2011 and 2010, respectively.

Theater System Maintenance

Theater system maintenance revenue increased 18.4% to \$11.9 million during the six months ended June 30, 2011 as compared to \$10.1 million in the six months ended June 30, 2010. Theater system maintenance gross margin was \$5.0 million in the six months ended June 30, 2011 as compared to \$4.4 million in the six months ended June 30, 2010. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows.

Joint Revenue Sharing Arrangements

Revenue from joint revenue sharing arrangements decreased to \$12.4 million in the six months ended June 30, 2011 compared to \$27.4 million in the six months ended June 30, 2010. The Company ended the six month period with 204 theaters under joint revenue sharing arrangements in operation as compared to 126 theaters in operation at June 30, 2010. The decrease in revenues from joint revenue sharing arrangements was primarily due to the lower per-screen gross box office realized from the films released to the joint revenue sharing theater network during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, which included the record-breaking performance of *Avatar: An IMAX 3D Experience*, which contributed approximately \$13.3 million in revenue from joint revenue sharing arrangements, offset slightly by the greater number of theaters operating. During the six months ended June 30, 2011, the Company installed 33 full, new theaters under joint revenue sharing arrangements, as compared to 9 new theaters during the prior year comparative period.

The gross margin from joint revenue sharing arrangements in the six months ended June 30, 2011 decreased to \$7.1 million from \$23.3 million in the six months ended June 30, 2010. The variance was due to lower revenues and higher launch expenses experienced in the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, which included the record-breaking performance of *Avatar: An IMAX 3D Experience*. Included in the calculation of gross margin in the first six months of 2011 were certain advertising, marketing and selling expenses of \$2.3 million, as compared to \$1.3 million for such expenses in the prior year comparative period. Adjusted gross margin from joint revenue sharing arrangements, which excludes these launch expenses from both periods, was \$9.3 million in the six months ended June 30, 2011, compared to \$24.6 million in the six months ended June 30, 2010. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable GAAP measure, to adjusted gross margin is presented in the table below:

	<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Gross margin from joint revenue sharing arrangements	\$ 7,059	\$ 23,313
Add:		
Advertising, marketing and selling expenses	2,266	1,302
Adjusted gross margin from joint revenue sharing arrangements	<u>\$ 9,325</u>	<u>\$ 24,615</u>

Film

The Company's revenues from its film segments decreased 39.6% to \$30.2 million in the six months ended June 30, 2011 from \$50.1 million in the six months ended June 30, 2010. Film production and IMAX DMR revenues decreased 48.2% to \$19.7 million in the six months ended June 30, 2011 from \$38.0 million in the six months ended June 30, 2010. The decrease in film production and IMAX DMR revenues was due primarily to lower gross box office and particularly the lack of event type films released during the period compared with the record breaking performance of *Avatar: An IMAX 3D Experience* during the six months ended June 30, 2010, which contributed \$180.0 million in IMAX gross box office and \$17.1 million in DMR revenue. Gross box office generated by IMAX DMR films decreased to \$170.0 million for the six months ended June 30, 2011 from \$346.2 million for the six months ended June 30, 2010, a 50.9% decrease year-over-year. Gross box office per screen for the six months ended June 30, 2011 averaged \$488,000 in comparison to \$1,246,300 in the comparable period last year. In 2011, gross box office was generated from the release of primarily 15 films to IMAX theaters (listed below), as compared to 8 films released during the six months ended June 30, 2010:

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Six Months Ended June 30, 2011 – Films Released

TRON: Legacy: An IMAX 3D Experience
The Green Hornet: An IMAX 3D Experience
Tangled: An IMAX 3D Experience
Sanctum: An IMAX 3D Experience
I Am Number Four: The IMAX Experience
Mars Needs Moms: An IMAX 3D Experience
Sucker Punch: The IMAX Experience
Fast Five: The IMAX Experience
Thor: An IMAX 3D Experience
Pirates of the Caribbean: On Stranger Tides: An IMAX 3D Experience
The Founding of a Party: The IMAX Experience
Kung Fu Panda 2: An IMAX 3D Experience
Super 8: The IMAX Experience
Cars 2: An IMAX 3D Experience
Transformers: Dark of the Moon: An IMAX 3D Experience

Six Months Ended June 30, 2010 – Films Released

Avatar: An IMAX 3D Experience
Alice in Wonderland: An IMAX 3D Experience
How to Train Your Dragon: An IMAX 3D Experience
Iron Man 2: The IMAX Experience
Shrek Forever After: An IMAX 3D Experience
Prince of Persia: The Sands of Time: The IMAX Experience
Toy Story 3: An IMAX 3D Experience
The Twilight Saga: Eclipse: The IMAX Experience

Film distribution revenues increased 10.5% to \$7.9 million in the six months ended June 30, 2011 from \$7.1 million in the six months ended June 30, 2010 including *Born to be Wild 3D: An IMAX 3D Experience*, which was released during April 2011. Film post-production revenues decreased to \$2.7 million in the six months ended June 30, 2011 from \$4.9 million in the six months ended June 30, 2010, primarily due to a decrease in third party business.

The Company's gross margin from its film segments decreased 59.8% in the six months ended June 30, 2011 to \$12.3 million from \$30.7 million in the six months ended June 30, 2010. Film production and IMAX DMR gross margins decreased to \$9.2 million from \$26.3 million in the six months ended June 30, 2010 largely due to a decrease in IMAX DMR revenue partially offset by lower costs. The film distribution margin of \$1.1 million in the six months ended June 30, 2011 was \$0.4 million lower than the \$1.5 million experienced in the six months ended June 30, 2010. The gross margin for the six months ended June 30, 2011 included a higher level of marketing costs of \$1.6 million (including launch marketing expenditures associated with the April 2011 release of *Born to be Wild*) compared to \$0.3 million in the prior year comparative period. Film post-production gross margin decreased by \$0.9 million due to a decrease in third party business as compared to the prior year period.

Theater Operations

Theater operations revenue in the six months ended June 30, 2011 decreased to \$2.9 million in comparison to \$8.9 million experienced in the six months ended June 30, 2010. This decrease was attributable to a decrease in average ticket prices and attendance over the first six months of 2010, primarily as a result of the record breaking performance of *Avatar: An IMAX 3D Experience* in the first six months of 2010 and comparatively weaker film performance in 2011.

Theater operations margin decreased \$2.8 million to a loss of \$1.0 million in the six months ended June 30, 2011 as compared to \$1.8 million in the six months ended June 30, 2010, reflecting the impact of lower attendance and average ticket prices.

Other

Other revenue decreased to \$2.2 million in the six months ended June 30, 2011 compared to \$3.6 million in the same period in 2010. Other revenue primarily includes revenue generated from the Company's camera and rental business and after market sales of projection system parts and 3D glasses. Other revenue in the six months ended June 30, 2010 was driven by high orders for 3D glasses as a result of the record breaking performance of *Avatar: An IMAX 3D Experience*.

The gross margin on other revenue was \$0.3 million lower in the six months ended June 30, 2011 as compared to 2010.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$36.3 million in the six months ended June 30, 2011 as compared to \$30.7 million in 2010. This \$5.6 million increase experienced from the prior year comparative period was largely the result of the following:

- a \$2.4 million increase in staff-related costs and compensation costs including (i) an increase in salaries and benefits of \$1.9 million including a higher average Canadian dollar denominated salary expense, increased staffing and normal merit increases partially offset by lower pension plan costs, and (ii) a \$0.5 million increase in travel and entertainment costs commensurate with business activity;
- a \$2.9 million increase in the Company's stock-based compensation expense primarily due to the cost associated with stock options granted during the period; and
- a \$1.6 million increase in legal, professional and other general corporate expenditures.

These increases were offset by:

- a \$1.3 million decrease due to foreign exchange. During the six months ended June 30, 2011, the Company recorded a foreign exchange gain of \$0.7 million due to the impact of a decrease in exchange rates on foreign currency denominated working capital balances and unmatured and unhedged foreign currency forward contracts as compared to a loss of \$0.6 million recorded in the six months ended June 30, 2010. See note 10(b) of the accompanying condensed consolidated financial statements in Item 1 for more information.

Provision for Arbitration Award

During the six months ended June 30, 2011, the Company recorded a provision of \$2.1 million regarding an award issued in connection with an arbitration proceeding brought against the Company, relating to agreements entered into in 1994 and 1995 by its former Ridefilm subsidiary, whose business the Company discontinued through a sale to a third party in March 2001. The Company is seeking to have the award vacated. See note 9(c) to the condensed consolidated financial statements for more information on this matter.

Research and Development

Research and development expenses increased to \$4.0 million in the six months ended June 30, 2011 compared to \$2.5 million in the six months ended June 30, 2010. The increased research and development expenses for the six months ended June 30, 2011 compared to the prior year period are primarily attributable to ongoing enhancements to the Company's digital projection technology to assure that the Company continues to provide the highest quality, premiere movie going experience available to consumers, as well as ongoing work performed on the Company's portable theater initiative.

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 six months ended June 30, 2011 as compared to \$0.4 million in the six months ended June 30, 2010.

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

Interest Income and Expense

Interest income decreased to less than \$0.1 million in the six months ended June 30, 2011 as compared to \$0.3 million in the six months ended June 30, 2010. The decrease was largely due to interest recorded during the first six months of 2010 related to tax refunds.

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Interest expense decreased to \$1.0 million in the six months ended June 30, 2011 as compared to \$1.2 million in the six months ended June 30, 2010. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.3 million in the six months ended June 30, 2011 and \$0.2 million in the six months ended June 30, 2010. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Income Taxes

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. The Company recorded an income tax provision of \$1.3 million for the six months ended June 30, 2011, of which a provision of \$0.1 million is related to an increase in unrecognized tax benefits. For the six months ended June 30, 2010, the Company recorded an income tax provision of \$0.8 million, of which \$0.1 million was related to an increase in unrecognized tax benefits.

Outlook

While the Company expects overall revenues for 2011 to be consistent with those of 2010, the Company's revenues in 2011 to date have been adversely impacted by the lower gross box office generated by the films released to IMAX theaters in the six months ended June 30, 2011 and, in particular, the lack of event films such as the record breaking performance of *Avatar: An IMAX 3D Experience*, released in 2010. However, the Company continues to experience significant network growth, driven in large part by the record number of theater signings the Company achieved in 2010, which has continued into the first six months of 2011, with the Company entering into arrangements for a total of 153 theater systems (138 new theater systems and 15 digital upgrades) in 2011 to date, as compared to 98 theaters systems (76 new theater systems and 22 digital upgrades) in the prior year comparative period.

The Company installed 56 IMAX theater systems, not including digital upgrades, in the first six months of 2011. At June 30, 2011, this reflected an increase of 25.3% for the overall IMAX theater network and 37.6% for the IMAX commercial multiplex theater network as compared to June 30, 2010. Of the theater system arrangements in backlog as at June 30, 2011, the Company currently estimates that approximately 64-74 theater systems (excluding digital upgrades) will be installed during the remainder of 2011. As a result, by the end of 2011, the Company's total theater network is expected to have increased by approximately 21.4% over the prior year end and its commercial multiplex theater network by approximately 30.3% over the prior year end as the majority of the new 2011 systems are to be installed in commercial settings. In addition, each year the Company installs a number of systems that are signed in that same calendar year. (Although the Company cautions that theater system installations slip from period to period in the course of the Company's business and such slippages remain a recurring and unpredictable part of its business).

The Company's pace of overall IMAX theater system signings increased significantly in the first six months of 2011 as compared to the prior year period. The Company signed deals for 153 theater systems during the first six months of 2011, as compared to 98 IMAX theater signings for the first six months of 2010. The Company believes that this increase in IMAX theater system signings will result in a larger IMAX theater network and, ultimately, should position the Company to generate increased revenue over the longer term. A substantial portion of the recent commercial theater network growth has come from theaters under joint revenue sharing arrangements in the United States and, increasingly, in certain international markets. Revenue sharing arrangements allow the Company to capitalize on its theater network growth by providing the Company with higher recurring revenue than under most sales or sales-type lease arrangements. The Company believes that the strategy of increasing the number of IMAX theaters under joint revenue sharing arrangements has driven increased profitability in recent years and the Company believes that it will continue to drive profitability in the future. The retirement of a significant portion of the Company's debt during 2009 and increased cash flows from operations during 2009 and 2010 has allowed the Company the financial flexibility to fund the expansion of its joint revenue sharing strategy. To date, the Company has signed joint revenue sharing arrangements for 332 theater systems, including the Company's 75-theater joint revenue sharing arrangement signed with Wanda Cinema Line Corporation, China's top-grossing cinema chain, in March 2011. Furthermore, on July 15, 2011, the Company and American-Multi Cinemas, Inc. ("AMC") announced an expansion of the companies' joint revenue sharing arrangement to include the installation of 10 additional IMAX theaters in the United States expected to be open by the end of 2012. This brings the total number of digital projection systems contracted for under the agreement with AMC to 125, with 105 currently in operation. In addition, on July 14, 2011, the Company and Regal Entertainment Group ("Regal") announced an additional 9 IMAX theaters to be installed in the United States, bringing the total number of digital projection systems under the joint revenue sharing arrangement between the parties to 64, with 45 currently in operation. In the second quarter of 2011 the Company and Southern Theatres, LLC announced a 4 theater joint revenue sharing agreement, with 3 of the 4 theaters operational at June 30, 2011. On July 6, 2011, the Company and ZON Lusomundo Cinemas announced a joint revenue sharing agreement to install 3 new IMAX digital theater systems in Portugal, marking the first IMAX theaters to open in Portugal. Of the 332 joint revenues

sharing theaters signed, 204 have been installed as at June 30, 2011. The Company cautions that as an increasing portion of its revenues are derived from theaters under joint revenue sharing arrangements, it is increasingly subject to the success or failure of its IMAX DMR film slate.

In recent years, the number of IMAX DMR films released to the IMAX theater network has also increased. The increased number of IMAX DMR films can minimize the impact of an individual film's relatively weak performance. In addition, the increased number of titles with shorter release windows can mean a greater opportunity to capitalize on the early weeks of a movie's release, when over half of a given title's gross box office is typically generated. The increased number of films also permits the Company to select a diverse mix of titles to maximize the network's box office potential. To date, the Company has signed contracts for 24 IMAX DMR films to be exhibited throughout the IMAX theater network in 2011, as compared to 15 IMAX DMR titles in 2010 and 12 IMAX DMR titles in 2009. The Company remains in active discussions with every major Hollywood studio regarding future titles. However, the Company cautions that films can be subject to delays in production or changes in release schedule, which can negatively impact the number, timing and type of IMAX DMR and IMAX original films released to the IMAX theater network. The Company intends to continue to try and achieve the optimal film slate, with the appropriate number of mix and titles.

During the six months ended June 30, 2011, the Company's DMR revenue decreased 48.2% over the prior year period owing to the lower box office performance of IMAX DMR films exhibited, and in particular the lack of event film titles such as the record breaking performance of *Avatar: An IMAX 3D Experience* in 2010. In the first six months of 2010, there were 6 films that recorded gross domestic box office of over \$200.0 million. All 6 of these event-type films were released to the IMAX network in 2010. By contrast, there have been only 3 films in the first half of 2011 that have recorded gross domestic box office of over \$200.0 million. Of those films, 2 were released to the IMAX network in 2011. IMAX DMR films released to IMAX theaters during the period, however, continued to significantly outperform lower-cost formats on a per screen basis.

The Company believes that its international expansion is an important driver of future growth for the Company. On March 24, 2011, the Company announced a 75-theater joint revenue sharing agreement with Wanda Cinema Line Corporation. This agreement with Wanda, which represents IMAX's first full revenue-sharing arrangement in China and its largest single international partnership to date, brings the total number of IMAX theaters open or in backlog in Greater China to 211. Under the terms of the new partnership, IMAX will install its digital technology in 25 of the exhibitor's multiplex locations this year, with the remainder to be rolled out in 2012, 2013 and 2014. On March 29, 2011, the Company and Cinema Park, an exhibition chain owned by Russia's largest media holding company, Profmedia, announced a sale agreement to install 8 additional digital IMAX theater systems (in addition to a deal for 10 systems in 2010). These theater systems are scheduled to be installed in various parts of Russia in 2012 and 2013. In addition, on March 30, 2011, the Company and PVR Cinemas, India's leading cinema brand and operator of the country's top-performing multiplexes, announced an agreement to install 4 digital IMAX theater systems in key locations throughout India. On July 6, 2011, the Company and ZON Lusomundo Cinemas announced a joint revenue sharing agreement to install 3 new IMAX digital theater systems in Portugal, marking the first IMAX theaters to open in Portugal. The first theater is expected to open by end of 2011, with the remaining 2 theaters slated to open before the end of 2012.

For the first six months of 2011, 45.0% of the Company's gross box office from DMR films was generated from IMAX theaters in international markets, as compared with 40.5% in the first six months of 2010. In the first six months of 2011, 107 of the Company's 153 theater signings were for theaters in international markets. During the remainder of 2011, the Company intends to continue to expand its international presence, including by expanding its number of theaters under international joint revenue sharing arrangements.

To support its growth in international markets, the Company has begun, and expects to continue, to evaluate DMR opportunities in international markets. In July 2010, the first IMAX DMR title outside of North America, *Aftershock: The IMAX Experience*, was released across IMAX theaters in China, other parts of Asia and key North American markets pursuant to an agreement between the Company and Huayi Bros. Media Corporation Ltd., China's largest media group. On August 30, 2010, the Company announced that internationally acclaimed director John Woo and producer Terence Chang's next film, the action epic *Flying Tigers*, is intended to be released to select IMAX theaters in early 2012. In June 2011, *The Founding of a Party: The IMAX Experience* was released to IMAX theaters in China. The Company is similarly committed to maximizing the productivity of its international theaters through international-only releases. The IMAX DMR film, *Prince of Persia: Sands of Time: The IMAX Experience* was the first international-only release to IMAX theaters in May 2010 and the second international-only release, *Tangled: An IMAX 3D Experience*, was released to IMAX theaters in select Asian markets beginning in February 2011. In addition, in June 2011, *Kung Fu Panda 2: An IMAX 3D Experience* was an international-only release to IMAX theaters. In August 2011, *Cowboys & Aliens: The IMAX Experience* will be released in international IMAX theaters day-and-date. In addition, *Sector 7: An IMAX 3D Experience* will be released to IMAX theaters in August 2011 in select Asian markets. The Company anticipates announcing additional international-only

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releases to IMAX theaters in the future. Finally, in order to further strengthen the Company's film slate internationally, the Company has recently announced certain IMAX-exclusive early releases. For instance, *TRON: Legacy: An IMAX 3D Experience* was released to IMAX theaters in France four days prior to its wide release in that country. The Company and its studio partners also employed this IMAX-exclusive early release strategy with *Harry Potter and the Deathly Hallows: Part I: The IMAX Experience* in France in November, with *TRON: Legacy: An IMAX 3D Experience* in Russia in December and with *I Am Number Four: The IMAX Experience* in Mexico in February. The Company anticipates announcing additional IMAX-exclusive early releases in the future.

The Company's historical domestic growth strategy has been to penetrate domestic urban markets with large national exhibition partners. More recently, however, the Company has signed several new theater agreements with smaller, regional exhibitors such as Warren Theatres and Premiere Cinemas. The Company has found that some of the top performing IMAX theaters in the United States are in smaller markets and as such will continue to pursue this growth initiative.

In addition to the 15 DMR films that have already been shown in the IMAX theater network in the first six months of 2011, 9 additional DMR films are scheduled to be released to its theater network during the remaining six months of 2011:

- *Harry Potter and the Deathly Hallows Part II: An IMAX 3D Experience* (WB, July 2011);
- *Cowboys & Aliens: The IMAX Experience* (DreamWorks, Paramount, August 2011);
- *Sector 7: An IMAX 3D Experience* (CJ Entertainment, August 2011);
- *Contagion: The IMAX Experience* (WB, September 2011);
- *Real Steel: The IMAX Experience* (DreamWorks, Disney, October 2011);
- *Puss in Boots: An IMAX 3D Experience* (Paramount, November 2011);
- *Happy Feet 2: An IMAX 3D Experience* (WB, November 2011);
- *Mission: Impossible — Ghost Protocol: The IMAX Experience* (Paramount, December 2011); and
- *The Adventures of Tintin: The Secret of the Unicorn: An IMAX 3D Experience* (Paramount, December 2011).

To date, the Company has announced the following three titles to be released in 2012 to its theater network:

- *The Amazing Spider-Man: An IMAX 3D Experience* (Sony, July 2012);
- *The Dark Knight Rises: The IMAX Experience* (WB, July 2012); and
- *The Hobbit: An Unexpected Journey: An IMAX 3D Experience* (WB, December 2012).

The Company remains in active discussions with virtually every studio regarding future titles.

In addition, the Company, in conjunction with WB, released the original film *Born to Be Wild 3D: An IMAX 3D Experience* to its network in April 2011.

During the remainder of 2011, the Company expects to continue to explore new areas of brand extension such as: 3D in-home entertainment technology; increased post-production opportunities; alternative theater content; and partnering with technology, studio, programming, content and consumer electronics companies. In 2010, 3net was formed. 3net is a 24/7 3D television channel operated by a limited liability corporation owned by the Company, Discovery Communications and Sony Corporation.

LIQUIDITY AND CAPITAL RESOURCES

On June 2, 2011, the Company amended and restated the terms of its existing senior secured credit facility (the “Prior Credit Facility”), which had been scheduled to mature on October 31, 2013. The amended and restated facility (the “Credit Facility”), with a scheduled maturity of October 31, 2015, has a maximum borrowing capacity of \$110.0 million, consisting of revolving asset-based loans of up to \$50.0 million, subject to a borrowing base calculation (as described below) and including a sublimit of \$20.0 million for letters of credit, and a revolving term loan of up to \$60.0 million. The Prior Credit Facility had a maximum borrowing capacity of \$75.0 million. Certain of the Company’s subsidiaries will serve as guarantors (the “Guarantors”) of the Company’s obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the Guarantors.

The Company’s indebtedness under the Credit Facility includes the following:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Term Loan (under the Prior Credit Facility)	\$ —	\$ 17,500
Revolving Credit Facility	34,583	—
	<u>\$ 34,583</u>	<u>\$ 17,500</u>

As at June 30, 2011, the Company’s current borrowing capacity under the revolving asset-based portion of the Credit Facility was \$44.2 million after deduction for the minimum Excess Availability reserve of \$5.0 million (December 31, 2010 — \$40.0 million) and borrowing capacity under the revolving term portion of the Credit Facility was \$25.4 million. Outstanding borrowings and letters of credit and advance payment guarantees were \$nil as at June 30, 2011.

The terms of the Credit Facility are set forth in the Second Amended and Restated Credit Agreement (the “Credit Agreement”), dated June 2, 2011, among the Company, Wells Fargo Capital Finance Corporation (Canada), as agent, lender, sole lead arranger and sole bookrunner, (“Wells Fargo”) and Export Development Canada, as lender (“EDC”, together with Wells Fargo, the “Lenders”) and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company’s obligations under the Credit Facility.

The revolving asset-based portion of the Credit Facility permits maximum aggregate borrowings equal to the lesser of:

(i) \$50.0 million, and

(ii) a collateral calculation based on the percentages of the book values of certain of the Company’s net investment in sales-type leases, financing receivables, certain trade accounts receivable, finished goods inventory allocated to backlog contracts and the appraised values of the expected future cash flows related to operating leases and the Company’s owned real property, reduced by certain accruals and accounts payable and subject to other conditions, limitations and reserve right requirements.

Two years after entry into the Credit Facility any outstanding borrowings under the revolving term loan portion of the Credit Facility convert to a term loan to be repaid in accordance with the terms of the Credit Facility, any undrawn amounts under the revolving term loan are cancelled and the Company may not request any further advances under the revolving term loan.

The Company borrowed \$29.6 million from the revolving term loan portion of the Credit Facility to repay \$15.0 million in outstanding indebtedness under the revolving portion of the Prior Credit Facility and \$14.6 million in outstanding indebtedness under the term loan portion of the Prior Credit Facility. The Company subsequently borrowed another \$5.0 million under the revolving term loan portion of the Credit Facility. Under the Prior Credit Facility, the effective interest rate for the three and six months ended June 30, 2011 for the term loan portion was 4.03% and 4.04%, respectively (2010 — 4.04% and 4.03%, respectively) and 2.97% and 2.97%, respectively for the revolving portion (2010 — 4.50% and 3.56%, respectively).

The revolving asset-based portion of the Credit Facility bears interest, at the Company’s option, at (i) LIBOR plus a margin of 2.00% per annum, or (ii) Wells Fargo’s prime rate plus a margin of 0.50% per annum. The revolving term loan portion of the Credit Facility also bears interest at the Company’s option, at (i) LIBOR plus a margin of 2.00% per annum, or (ii) Wells Fargo’s prime rate plus a margin of 0.50% per annum. Under the Credit Facility, the effective interest rate for the three and six months ended June 30, 2011 for the revolving term loan portion was 2.19% and 2.19%, respectively (2010 — n/a). There was no amount drawn on the revolving asset-based portion of the Credit Facility.

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The Credit Facility provides that the Company will be required to maintain a ratio of funded debt (as defined in the Credit Agreement) to EBITDA (as defined in the Credit Agreement) of not more than 2:1. The Company will also be required to maintain a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.1:1.0. At all times under the terms of the Credit Facility, the Company is required to maintain minimum Excess Availability of not less than \$5.0 million and minimum Cash and Excess Availability of not less than \$15.0 million. The ratio of funded debt to EBITDA was 0.51:1 as at June 30, 2011, where Funded Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments and was \$34.6 million. EBITDA is calculated as follows:

	For the 3 months ended June 30, 2011	For the 12 months ended June 30, 2011⁽¹⁾
EBITDA per Credit Facility: <i>(In thousands of U.S. Dollars)</i>		
Net income	\$ 1,825	\$ 61,717
Add (subtract):		
Loss from equity accounted investments	451	1,366
Provision for (recovery of) income taxes	1,634	(51,290)
Interest expense, net of interest income	538	1,560
Depreciation and amortization, including film asset amortization	6,719	21,548
Write-downs net of recoveries including asset impairments and receivable provisions	163	2,343
Stock and other non-cash compensation	4,837	31,089
Other, net	—	(89)
	<u>\$16,167</u>	<u>\$ 68,244</u>

(1) Ratio of funded debt calculated using twelve months ended EBITDA

The Credit Facility contains typical affirmative and negative covenants, including covenants that limit or restrict the ability of the Company and the guarantors to: incur certain additional indebtedness; make certain loans, investments or guarantees; pay dividends; make certain asset sales; incur certain liens or other encumbrances; conduct certain transactions with affiliates and enter into certain corporate transactions.

The Credit Facility also contains customary events of default, including upon an acquisition or change of control or upon a change in the business and assets of the Company or a guarantor that in each case is reasonably expected to have a material adverse effect on the Company or a guarantor. If an event of default occurs and is continuing under the Credit Facility, the Lenders may, among other things, terminate their commitments and require immediate repayment of all amounts owed by the Company.

Letters of Credit and Other Commitments

As at June 30, 2011, the Company has letters of credit and advance payment guarantees of \$nil outstanding (December 31, 2010 — \$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 EDC (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, 2011, the Company had letters of credit and advance payment guarantees outstanding of \$1.2 million under the Bank of Montreal Facility as compared to \$2.4 million as at December 31, 2010.

Cash and Cash Equivalents

As at June 30, 2011, the Company's principal sources of liquidity included cash and cash equivalents of \$23.2 million, the Credit Facility, anticipated collection from trade accounts receivable of \$44.2 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of \$12.4 million, payments expected in the next 12 months on existing backlog deals. As at June 30, 2011, the Company had drawn down \$nil on the revolving asset-based portion of the Credit Facility, and had letters of credit and advance payment guarantees of \$nil outstanding under the Credit Facility and \$1.2 million under the Bank of Montreal Facility.

During the six months ended June 30, 2011, the Company's operations used cash of \$10.4 million and the Company used cash of \$17.1 million to fund capital expenditures, principally to build equipment for use in joint revenue sharing arrangements and to purchase property, plant, and equipment. Based on management's current operating plan for 2011, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements and DMR agreements with studios. Cash flows from joint revenue sharing arrangements are derived from the theater box office and concession revenues and the Company invested directly in the roll out of 33 new theater systems under joint revenue sharing arrangements during the six months ended June 30, 2011.

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

The Company's operating cash flow will be adversely affected if management's projections of future signings for theater systems and film productions, installations and film performance 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 2010 Form 10-K), there is no guarantee that the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company's typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

Operating Activities

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

Cash used by operating activities amounted to \$10.4 million for the six months ended June 30, 2011. Changes in other non-cash operating assets as compared to December 31, 2010 include: an increase of \$6.0 million in financing receivables; an increase of \$5.0 million in accounts receivable; an increase of \$1.3 million in inventories; an increase of \$1.1 million in prepaid expenses, which primarily relates to an increase in prepaid benefits and film distribution expenses; and an increase of \$0.4 million in other assets which includes a \$1.1 million decrease in insurance recoveries receivable, a \$1.4 million increase in other assets and a \$0.1 million increase in commission and agency fees. Changes in other operating liabilities as compared to December 31, 2010 include: an increase in deferred revenue of \$7.8 million related to amounts relieved from deferred revenue related to theater system installations offset by backlog payments received in the current period; an increase in accounts payable of \$6.7 million; and a decrease of \$30.8 million in accrued liabilities including payments of \$23.7 million for variable stock-based compensation expense.

Included in accrued liabilities at June 30, 2011 was \$18.2 million in respect of accrued pension obligations.

Investing Activities

Net cash used in investing activities amounted to \$18.4 million in the six months ended June 30, 2011, which includes an investment in joint revenue sharing equipment of \$14.9 million, purchases of \$2.2 million in property, plant and equipment, an additional investment in business ventures of \$0.8 million and an increase in other intangible assets of \$0.5 million.

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Financing Activities

Net cash provided by financing activities in the six months ended June 30, 2011 amounted to \$21.9 million due to an increase in net bank indebtedness of \$17.1 million and proceeds from the issuance of common shares from stock option exercises of \$5.1 million offset by a \$0.3 million in payment of fees relating to the Credit Facility amendment.

Capital Expenditures

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, net of sales proceeds, and investments in film assets were \$23.4 million for the six months ended June 30, 2011 as compared to \$10.9 million for the six months ended June 30, 2010.

CONTRACTUAL OBLIGATIONS

Payments to be made by the Company under contractual obligations are as follows:

<i>(In thousands of U.S. Dollars)</i>	Payments Due by Period						
	Total Obligations	2011	2012	2013	2014	2015	Thereafter
Pension obligations (1)	\$ 18,813	\$ —	\$ —	\$ 18,813	\$ —	\$ —	\$ —
Credit Facility(2)	34,583	—	—	—	—	34,583	—
Operating lease obligations (3)	13,450	2,760	5,380	2,089	899	510	1,812
Purchase obligations (4)	18,804	18,804	—	—	—	—	—
Postretirement benefits obligations	484	13	15	31	34	38	353
Capital lease obligations (5)	56	12	23	21	—	—	—
	<u>\$ 86,190</u>	<u>\$ 21,589</u>	<u>\$ 5,418</u>	<u>\$ 20,954</u>	<u>\$ 933</u>	<u>\$ 35,131</u>	<u>\$ 2,165</u>

- (1) The SERP assumptions are that Mr. Gelfond will receive a lump sum payment at the beginning of 2013 upon retirement at the end of the current term of his employment agreement, although Mr. Gelfond has not informed the Company that he intends to retire at that time.
- (2) Interest on the Credit Facility is payable monthly in arrears based on the applicable variable rate and is not included above.
- (3) The Company's total minimum annual rental payments to be made under operating leases, mostly consisting of rent at the Company's properties in New York and Santa Monica, and at the various owned and operated theaters.
- (4) 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.
- (5) The Company's total minimum annual payments to be made under capital leases, mostly consisting of payments for IT hardware and various other fixed assets.

Pension and Postretirement Obligations

The Company has an unfunded defined benefit pension plan, the SERP, covering Messrs. Gelfond and Wechsler. As at June 30, 2011, the Company had an unfunded and accrued projected benefit obligation of approximately \$18.2 million (December 31, 2010 — \$18.1 million) in respect of the SERP. At the time the Company established the SERP, it also took out life insurance policies on Messrs. Gelfond and Wechsler with coverage amounts of \$21.5 million in aggregate. During the quarter ended June 30, 2010, the Company obtained \$3.2 million representing the cash surrender value of Mr. Gelfond's policy. The proceeds were used to pay down the term loan under the Credit Facility. During the quarter ended September 30, 2010, the Company obtained \$4.6 million representing the cash surrender value of Mr. Wechsler's policy. The amount was used to fund part of the \$14.7 million lump sum payment made to Mr. Wechsler on August 1, 2010 under the SERP, which settled in full Mr. Wechsler's entitlement under the SERP. At June 30, 2011, the cash surrender value of these policies was \$nil.

Under the terms of the SERP, if Mr. Gelfond's employment had been terminated other than for cause prior to August 1, 2010, he would have been entitled to receive SERP benefits in the form of monthly annuity payments until the earlier of a change of control or August 1, 2010, at which time he would have become entitled to receive remaining benefits in the form of a lump sum payment. If Mr. Gelfond's employment is, or would have been, terminated other than for cause on or after August 1, 2010, he is, or would have been, entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. The term of Mr. Gelfond's current employment agreement has been extended through December 31, 2012. Under the terms of the extension, Mr. Gelfond also agreed that any compensation earned during 2011 and 2012 would not be included in calculating his entitlement under the SERP.

Under the terms of SERP, monthly annuity payments payable to Mr. Wechsler, whose employment as Co-CEO terminated effective April 1, 2009, were deferred for six months and were paid in the form of a lump sum plus interest on the deferred amount on October 1, 2009. These monthly annuity payments continued through to August 1, 2010. On August 1, 2010, the Company made a lump sum payment of \$14.7 million to Mr. Wechsler in accordance with the terms of the plan, representing a settlement in full of Mr. Wechsler's entitlement under the SERP.

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler upon retirement. As at June 30, 2011, the Company had an unfunded benefit obligation of \$0.5 million (December 31, 2010 — \$0.5 million).

OFF-BALANCE SHEET ARRANGEMENTS

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

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 and the Canadian dollar. 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 Japan, the Company has ongoing operating expenses related to its operations. Net Japanese yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Japanese yen, Euros and Canadian dollars.

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

For the three and six months ended June 30, 2011, the Company recorded a foreign exchange gain of \$0.1 million and \$0.7 million, respectively, as compared with a foreign exchange loss of \$0.9 million and \$0.6 million at June 30, 2010, respectively, associated with the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies with settlement dates throughout 2011. In addition, at June 30, 2011, the Company held foreign currency forward contracts to manage foreign currency risk on future anticipated Canadian dollar expenditures that were not considered foreign currency hedges by the Company. 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 consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the

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consolidated statement of operations. The notional value of these contracts at June 30, 2011 was \$4.1 million (December 31, 2010 — \$12.7 million). A gain of less than \$0.1 million and a gain of \$0.4 million was recorded to Other Comprehensive Income with respect to the appreciation in the value of these contracts in the three and six months ended June 30, 2011, respectively (2010 — loss of \$0.4 million and loss of \$0.2 million, respectively). A gain of \$0.5 million and gain of \$0.7 million for the three and six months ended June 30, 2011, respectively (2010 — loss of less than \$0.1 million and gain of \$0.5 million, respectively) was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses. 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. The notional value of forward contracts that do not qualify for hedge accounting at June 30, 2011 was \$7.0 million (December 31, 2010 — \$28.8 million).

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, 2011, the Company's net investment in leases and working capital items denominated in Canadian dollar and Euros aggregated to \$2.2 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at June 30, 2011, the potential change in the fair value of foreign currency-denominated net investment in leases and working capital items would be \$0.2 million. A significant portion of the Company's selling, general, and administrative expenses are denominated in Canadian dollars. Assuming a 1% change appreciation or depreciation in foreign currency exchange rates at June 30, 2011, the potential change in the amount of selling, general, and administrative expenses would be \$0.1 million for every \$10.0 million in Canadian denominated expenditures.

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, 2011, the Company borrowings under the Credit Facility were \$34.6 million (December 31, 2010 — \$17.5 million).

The Company's largest exposure with respect to variable rate debt comes from changes in the London Interbank Offered Rate (LIBOR). The Company had variable rate debt instruments representing approximately 17.2% and 9.2% of its total liabilities as at June 30, 2011 and December 31, 2010, respectively. If 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 for the quarter ended June 30, 2011. 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, 2011.

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 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 Chief Financial Officer ("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, 2011 and has concluded that, as at the end of the period covered by this report, the Company's disclosure controls and procedures were adequate and 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, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

See note 9 to the interim condensed consolidated financial statements for information regarding legal proceedings involving the Company.

Item 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Submission of Matters to a Vote of Security Holders

The Company's 2011 Annual General Meeting of Shareholders was held on June 1, 2011.

Set forth below are the matters acted upon by the Company's shareholders at the Annual General Meeting, and the final voting results on each such matter.

Election of Directors

By a vote by way of show of hands, Martin Pompadur was elected as a Class III director of the Company for a term expiring in 2013 and each of Eric A. Demirian, David W. Leebron and Marc A. Utay were elected as Class II directors of the Company to hold office until the year 2014 or until their successors are elected or appointed. Management received proxies from the shareholders to vote for the four directors nominated for election as follows:

Director	Votes For	Votes Withheld	Broker Non-Votes
Martin Pompadur	46,263,656	130,326	10,395,667
Eric A. Demirian	46,272,964	121,018	10,395,667
David W. Leebron	44,611,661	1,782,322	10,395,666
Marc A. Utay	46,136,827	257,155	10,395,667

In addition to the foregoing directors, the following directors continued in office: Neil S. Braun, Kenneth G. Copland, Richard L. Gelfond, Garth M. Girvan and Bradley J. Wechsler.

Appointment of Auditor

By a vote by way of show of hands, PricewaterhouseCoopers, LLP ("PwC") were appointed auditors of the Company to hold office until the next annual meeting of shareholders and the directors were authorized to fix their remuneration. Management received proxies from the shareholders to vote for the re-appointment of PwC as follows:

Votes For	Votes Against	Votes Withheld	Broker Non-Votes
56,485,801	178,854	124,994	0

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Executive Compensation

By a vote by way of show of hands, the compensation of the Company's Named Executive Officers was approved. Management received proxies from the shareholders to vote for the approval of the compensation of the Company's Names Executive Officers as follows:

Votes For	Votes Against	Abstentions	Broker Non-Votes
42,913,002	3,270,929	210,052	10,395,666

Frequency

By a vote by way of show of hands, the Company's shareholders recommended the advisory vote on executive officers' compensation be held every two years. Management received proxies from the shareholders to vote for the frequency of future advisory votes on executive officers' compensation as follows:

1 year	2 years	3 years	Abstentions	Broker Non-Votes
19,335,879	26,360,410	553,993	143,531	10,395,836

There were no other matters coming before the meeting that required a vote by the shareholders.

Based on the June 1, 2011 results of the shareholders' non-binding advisory vote on the frequency of the advisory vote on the Company's executive officers' compensation, the Company's Board of Directors determined that an advisory vote on executive officers' compensation will be conducted every second year, until the next vote on the frequency of such votes.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
10.37	Second Amended and Restated Credit Agreement, dated June 2, 2011 by and between IMAX Corporation, Wells Fargo Capital Finance Corporation Canada and Export Development Canada.
31.1	Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated July 28, 2011, by Richard L. Gelfond.
31.2	Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated July 28, 2011, by Joseph Sparacio.
32.1	Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated July 28, 2011, by Richard L. Gelfond.
32.2	Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated July 28, 2011, by Joseph Sparacio.

**IMAX CORPORATION
EXHIBIT 10.37**

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

by and between

IMAX CORPORATION

as Borrower

- and -

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA

as Agent, Lender, Sole Lead Arranger and Sole Bookrunner

- and -

EXPORT DEVELOPMENT CANADA

as Lender

Dated: June 2, 2011

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SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This Second Amended and Restated Credit Agreement dated June 2, 2011 is entered into by and between IMAX Corporation, a corporation incorporated pursuant to the laws of Canada ("**Borrower**"), Wells Fargo Capital Finance Corporation Canada (formerly known as Wachovia Capital Finance Corporation (Canada)), an Ontario corporation, as agent for and on behalf of the Secured Parties (in such capacity, "**Agent**") and as a Lender, and Export Development Canada, as a Lender.

WITNESSETH:

WHEREAS Borrower and Congress Financial Corporation (Canada) ("**Original Lender**") entered into a loan agreement dated February 6, 2004 which was amended pursuant to:

- (a) a first amendment to the Loan Agreement dated June 30, 2005;
- (b) a second amendment to the Loan Agreement dated May 16, 2006;
- (c) a second amendment to the Loan Agreement dated May 16, 2006 (which amended, restated and replaced in its entirety the second amendment to the Loan Agreement referred to in subparagraph (b) above);
- (d) a third amendment to the Loan Agreement dated September 30, 2007;
- (e) a fourth amendment to the Loan Agreement dated December 5, 2007; and
- (f) a fifth amendment to the Loan Agreement dated May 5, 2008,

(collectively, the "**Original Loan Agreement**");

WHEREAS Lenders, Agent and Borrower amended and restated the Original Loan Agreement pursuant to an amended and restated loan agreement dated November 16, 2009 as amended by a first amendment to the amended and restated credit agreement dated January 21, 2011 (as amended, modified, supplemented, extended, renewed, restated or replaced from time to time, the "**Existing Loan Agreement**");

WHEREAS Lenders, Agent and Borrower desire to amend and restate the Existing Loan Agreement as set forth herein; and

WHEREAS each Lender is willing to (severally and not jointly) make loans and provide such financial accommodations to Borrower on a *pro rata* basis according to their Commitment to Borrower on the terms and conditions set forth herein and Agent is willing to act as agent for Lenders on the terms and conditions set forth herein and the other Financing Agreements;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS

All terms used herein which are defined in the PPSA shall have the meanings given therein unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to Borrower, Lenders and Agent pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns. The words “**hereof**”, “**herein**”, “**hereunder**”, “**this Agreement**” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word “**including**” when used in this Agreement shall mean “**including, without limitation**”. References herein to any statute or any provision thereof include such statute or provision as amended, revised, re-enacted, and/or consolidated from time to time and any successor statute thereto. An Event of Default shall exist or continue or be continuing until such Event of Default is waived in accordance with Section 12.3 or, without derogating from the cure rights, if any, provided to Borrower in Article 10 hereof, is cured in a manner satisfactory to Agent, if such Event of Default is capable of being cured as determined by Agent. Any accounting term used herein unless otherwise defined in this Agreement shall have the meanings customarily given to such term in accordance with GAAP. If, after the date hereof, there shall be any change in the application of the accounting principles used in preparation of Borrower’s financial statements as a result of any changes in GAAP including International Financial Reporting Standards becoming applicable to Borrower, which changes (a) result in a change in the method of calculation of, or (b) impact on, financial covenants or other covenants applicable to Borrower found in this Agreement or the other Financing Agreements, Borrower and Agent shall promptly enter into negotiations in good faith in order to amend such financial covenants or other covenants so as to reflect equitably such changes with the desired result that the evaluations of Borrower’s financial condition shall be the same after such changes as if such changes had not been made. Canadian Dollars and the sign “**CDN\$**” mean lawful money of Canada. “**US Dollars**” and the sign “**\$**” mean lawful money of the United States of America. All monetary amounts referred to in this Agreement are in US Dollars unless otherwise stated. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

1.1 “Accounts”

“**Accounts**” shall mean all present and future rights of Borrower to payment for goods sold or leased or for services rendered, including the right of Borrower to payments made pursuant to the Contracts and Leases, which are not evidenced by instruments or chattel paper, and whether or not earned by performance, excluding Excluded Accounts.

1.2 “Adjusted Euro Dollar Rate”

“**Adjusted Euro Dollar Rate**” shall mean, with respect to each Interest Period for any Euro Dollar Rate Loan, the rate per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one percent (1%)) determined by dividing:

(a) the Euro Dollar Rate for such Interest Period by:

(b) a percentage equal to:

(i) one (1) minus

(ii) the Reserve Percentage.

For purposes hereof, “**Reserve Percentage**” shall mean the reserve percentage, expressed as a decimal, prescribed by any United States or foreign banking authority for determining the reserve requirement which is or would be applicable to deposits of US Dollars in a non-United States or an international banking office of the US Reference Bank, used to fund a Euro Dollar Rate Loan or any Euro Dollar Rate Loan made with the proceeds of such deposit, whether or not the US Reference Bank, actually holds or has made any such deposits or loans. The Adjusted Euro Dollar Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

1.3 “Affiliate” or “affiliate”

“**Affiliate**” or “**affiliate**” shall have the meaning ascribed thereto in the *Business Corporations Act* (Canada).

1.4 “Agreed Currency”

“**Agreed Currency**” shall have the meaning set forth in Section 13.7 hereof.

1.5 “Application”

“**Application**” shall mean the Application, Indemnity and Consent Foreign Exchange Facility Guarantee between Borrower and BMO.

1.6 “Appraisal”

“**Appraisal**” shall mean an appraisal conducted by the Appraiser at the cost of Borrower, such appraisal to be in form, scope, methodology and with assumptions acceptable to Agent and addressed to Agent and Lenders and upon which Agent and Lenders are permitted to rely.

1.7 “Appraiser”

“**Appraiser**” means Hilco Appraisal Services, LLC, Great American Group or any other appraiser mutually acceptable to Agent and Borrower.

1.8 “Arranger”

“**Arranger**” shall mean Wells Fargo Capital Finance Corporation Canada (formerly known as Wachovia Capital Finance Corporation (Canada)) in its role hereunder as sole lead arranger and bookrunner.

1.9 “Assignment Agreement”

“Assignment Agreement” shall have the meaning set forth in Section 11.1(a)(iv) hereof.

1.10 “Assignment of Capital Leases and Operating Leases”

“Assignment of Capital Leases and Operating Leases” shall mean the amended and restated Assignment of Capital Leases and Operating Leases dated the date hereof between Borrower, as assignor, and Agent, as assignee, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.11 “Assignment of Contracts on Backlog and Long Term Receivables Contracts”

“Assignment of Contracts on Backlog and Long Term Receivables Contracts” shall mean the amended and restated Assignment of Contracts in Backlog and Long Term Receivables Contracts dated the date hereof between Borrower, as assignor, and Agent, as assignee, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.12 “Availability Reserves”

“Availability Reserves” shall mean, as of any date of determination, such amounts as Agent may from time to time establish and revise reducing the amount of Revolving Loans and Letter of Credit Accommodations which would otherwise be available to Borrower under the Lending Formulas: (a) to reflect events, conditions, contingencies or risks which, as determined by Agent, do or may reasonably be expected to affect either: (i) the Collateral or any other property which is security for the Obligations or its value; (ii) the assets or business of Borrower or any Obligor; or (iii) the security interests and other rights of Agent in the Collateral (including the enforceability, perfection and priority thereof); or (b) to reflect Agent’s good faith belief that any collateral report or financial information furnished by or on behalf of Borrower or any Obligor to Agent is or may have been incomplete, inaccurate or misleading in any material respect; or (c) to reflect Agent’s good faith estimate of the amount of any Priority Payables Reserve; or (d) in respect of any state of facts which Agent determines, in good faith, constitutes an Event of Default or Default; or (e) to reflect Agent’s good faith estimate of the Mark to Market Exposure. The amount of any Availability Reserve established by Agent shall have a reasonable relationship to the event, condition or circumstance which is the basis for such Availability Reserve as determined by Agent in good faith.

1.13 “BIA”

“BIA” shall mean the *Bankruptcy and Insolvency Act* (Canada).

1.14 “Blocked Account Agreement”

“Blocked Account Agreement” shall mean the amended and restated blocked account agreement dated on or about the date hereof among Borrower, Agent and the Bank of Montreal, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.15 “Blocked Accounts”

“Blocked Accounts” shall have the meaning set forth in Section 6.3(a) hereof.

1.16 “BMO”

“BMO” shall mean Bank of Montreal.

1.17 “BMO FEFC Term Sheet”

“BMO FEFC Term Sheet” shall mean the term sheet dated November 27, 2008 between Borrower and BMO with respect to a \$5,000,000 Foreign Exchange Forward Contract Facility by BMO in favour of Borrower.

1.18 “BMO Term Sheet”

“BMO Term Sheet” shall mean the term sheet dated July 21, 2010, between Borrower and BMO with respect to the issuance of:

- (a) a \$10,000,000 Demand, Revolving Letter of Credit Facility by BMO in favour of Borrower (the “**BMO LC Facility**”);
- (b) a CDN\$35,000 Mastercard Businesscard Facility by BMO in favour of Borrower (the “**Mastercard Facility**”); and
- (c) a \$3,000,000 Directline for Business — Foreign Exchange Settlement Facility by BMO in favour of Borrower (the “**F/X Facility**”).

1.19 “Borrowing Base Certificate”

“Borrowing Base Certificate” shall mean the borrowing base certificate, together with the completed exhibits thereto, to be delivered by Borrower pursuant to, *inter alia*, Section 7.1, the form of which is attached herewith as Schedule 1.19.

1.20 “Business Day”

“Business Day” shall mean a day (other than a Saturday, Sunday or statutory holiday in Ontario, Illinois or New York) on which Agent’s Toronto office and banks in Chicago and New York City are open for business in the normal course.

1.21 “Capital Lease Obligations”

“Capital Lease Obligations” shall mean all monetary obligations of Borrower and its Subsidiaries under a capital lease and, for the purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

1.22 “Capital Leases”

“**Capital Leases**” shall mean, collectively, all of the leases listed on Schedule 1.22, as may be amended, updated and/or restated from time to time in accordance with the reporting requirements set out in Section 7.1(a) hereof, each of which are theatre system leases that transfer substantially all of the benefits and risks of ownership to Clients and meet the criteria established by the FASB Statement of Financial Accounting Standards No. 13.

1.23 “Capital Leases Lending Formula”

“**Capital Leases Lending Formula**” shall have the meaning set forth in Section 2.1(a)(iii) hereof.

1.24 “Cash and Excess Availability”

“**Cash and Excess Availability**” shall mean the US Dollar Amount as determined by Agent, equal to the sum of (a) Excess Availability, (b) cash, and (c) in Agent’s discretion, highly liquid securities with a known market value.

1.25 “Cash Dominion Event”

“**Cash Dominion Event**” shall mean the occurrence and continuance of the earlier of: (i) an Event of Default; or (ii) the Excess Availability falling below \$5,000,000.

1.26 “CCAA”

“**CCAA**” shall mean the *Companies’ Creditors Arrangement Act* (Canada).

1.27 “CCAA Plan”

“**CCAA Plan**” shall have the meaning set forth in Section 9.18 hereof.

1.28 “Client”

“**Client**” shall mean any Person, other than Borrower, who is now or hereafter becomes a party to a Capital Lease, an Operating Lease, Contract in Backlog and/or a Long Term Receivables Contract, as applicable, and “**Clients**” means all such Persons.

1.29 “Code”

“**Code**” shall mean the *United States Internal Revenue Code* of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

1.30 “Collateral”

“**Collateral**” shall mean, collectively, (a) the Real Property and Collateral (as such term is defined in the General Security Agreement) and (b) all of the undertaking, property and assets, real or personal, tangible or intangible, now existing or hereafter acquired by Borrower or any Obligor that may at any time be or become subject to a Lien in favour of Agent to secure any or

all of the Obligations; provided that, for greater certainty, any and all assets of IMAX China (Hong Kong), Limited and of one or more of the Borrower's Subsidiaries to be organized by the Borrower under the laws of the People's Republic of China shall be excluded from, and not form part of, the Collateral.

1.31 "Commitments"

"Commitments" shall mean (a) as to any Lender with respect to Revolving Loans, the aggregate of such Lender's Revolving Loan Commitment as set forth below such Lender's name on the signature page of this Agreement or, if such Lender's name does not appear on the signature page of this Agreement, in the most recent Assignment Agreement executed by such Lender; (b) as to any Lender with respect to Revolving Term Loans, the aggregate amount of such Lender's Revolving Term Loan Commitment as set forth below such Lender's name on the signature page of this Agreement or, if such Lender's name does not appear on the signature page of this Agreement, in the most recent Assignment Agreement executed by such Lender; and (c) as to all Lenders, the aggregate of all Lenders' Revolving Loan Commitments and Revolving Term Loan Commitments to Borrower, which aggregate commitment is One Hundred Ten Million US Dollars (\$110,000,000).

1.32 "Compliance Certificate"

"Compliance Certificate" shall mean the compliance certificate substantially in the form attached hereto as Schedule 1.32.

1.33 "Contracts and Leases"

"Contracts and Leases" shall mean, collectively, any one or all of the Capital Leases, the Operating Leases, the Contracts in Backlog and the Long Term Receivable Contracts.

1.34 "Contracts in Backlog"

"Contracts in Backlog" shall mean, collectively, contracts designated by Borrower internally as "contracts in backlog" as listed on Schedule 1.34, as may be amended, updated and/or restated from time to time in accordance with requirements set out in Section 7.1(a) hereof.

1.35 "Default"

"Default" shall mean an event, circumstance or omission which, with any of the giving of notice or a lapse of time or both would constitute an Event of Default.

1.36 "DMR Fees"

"DMR Fees" shall mean fees paid to Borrower by film studios in respect of the exhibition of commercial films in the IMAX theatre network.

1.37 “EBITDA”

“EBITDA” shall mean, for any period with respect to Borrower, an amount equal to the consolidated net income or net loss before interest, taxes, depreciation, amortization and any other non-cash and non-operating charges or other impairments as approved by Agent. For purposes of calculating compliance with the financial covenants in Sections 9.13 and 9.24 hereof, EBITDA shall be calculated without taking into account any contribution to consolidated net income or net loss with respect to (i) any Future Permitted Transaction and (ii) non-cash equity income or loss from joint ventures.

1.38 “EDC”

“EDC” shall mean Export Development Canada.

1.39 “EDC Indemnity Agreement”

“EDC Indemnity Agreement” shall mean the indemnity agreement dated April 24, 2008 given by Borrower and certain Obligors in favour of EDC.

1.40 “Eligible Accounts”

“Eligible Accounts” shall mean Accounts created by Borrower which are and continue to be acceptable to Agent based on the criteria set forth below.

In general, Accounts shall be Eligible Accounts if:

- (a) such Accounts arise from the actual and *bona fide* sale and delivery of goods by Borrower or rendition of services by Borrower in the ordinary course of its business which transactions are completed in accordance with the terms and provisions contained in any documents related thereto;
- (b) such Accounts are not unpaid more than sixty (60) days after the original due date for same;
- (c) such Accounts are not unpaid more than ninety (90) days after the date of the original invoice for them;
- (d) such Accounts comply with the terms and conditions contained in Section 7.2(b) hereof;
- (e) such Accounts are not contra accounts, do not arise from sales on consignment, guaranteed sale, sale and return, sale on approval, or other terms under which payment by the account debtor may be conditional or contingent;
- (f) the chief executive office of the account debtor with respect to such Accounts is located in Canada or in the United States of America or, if the chief executive office of the account debtor is not located in Canada or in the United States of America, the Account is payable in Canadian Dollars or US Dollars and, at

Agent's option, if either: (i) the account debtor has delivered to Borrower an irrevocable letter of credit issued or confirmed by a bank satisfactory to Agent and payable only in Canada in the currency in which the Account is denominated, sufficient to cover such Account, in form and substance satisfactory to Agent and, if required by Agent, the original of such letter of credit has been delivered to Agent or Agent's agent and the issuer thereof has been notified of the assignment of the proceeds of such letter of credit to Agent; or (ii) such Account is fully insured under credit insurance payable to Agent issued by an insurer and on terms and in an amount acceptable to Agent; or (iii) such Account is otherwise acceptable in all respects to Agent (subject to such lending formula with respect thereto as Agent may determine);

- (g) such Accounts do not consist of progress billings (other than those in respect of billings to film studios in respect of DMR Fees), bill and hold invoices or retainage invoices, except as to bill and hold invoices, if Agent shall have received an agreement in writing from the account debtor, in form and substance satisfactory to Agent, confirming the unconditional obligation of the account debtor to take the goods related thereto and pay such invoice;
- (h) the account debtor with respect to such Accounts has not asserted a counterclaim, defense or dispute and does not have, and does not engage in transactions which may give rise to, any right of set-off against such Accounts (but the portion of the Accounts of such account debtor in excess of the amount at any time and from time to time owed by Borrower to such account debtor or claimed owed by such account debtor may be deemed Eligible Accounts);
- (i) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of such Accounts or reduce the amount payable or delay payment thereunder;
- (j) such Accounts are subject to the first priority, valid and perfected Lien of Agent and are not subject to any prior ranking Lien or other Lien except Permitted Liens and any goods giving rise thereto are not, and were not at the time of the sale thereof, subject to any Liens except Permitted Liens;
- (k) neither the account debtor nor any officer or employee of the account debtor with respect to such Accounts is an Affiliate of Borrower;
- (l) the account debtors with respect to such Accounts are not any foreign government, the federal government of Canada, any Province, political subdivision, department, agency or instrumentality thereof unless, upon Agent's request, the *Financial Administration Act* (Canada) or any similar provincial or local law, if applicable, has been complied with in a manner satisfactory to Agent;
- (m) there are no proceedings or actions which are threatened or pending against the account debtors with respect to such Accounts which might result in any material adverse change in any such account debtor's financial condition;

- (n) **[Intentionally Deleted];**
- (o) such Accounts are not owed by an account debtor who has Accounts unpaid more than sixty (60) days after the date of the original due date for them which constitute more than fifty percent (50%) of the total Accounts of such account debtor;
- (p) such Accounts are not owed by an account debtor who has Accounts unpaid more than ninety (90) days after the date of the original invoice for them which constitute more than fifty percent (50%) of the total Accounts of such account debtor;
- (q) such Accounts are not subject to any rebates to the account debtors (but the portion of the Accounts remaining unimpaired after reserving for all potentially applicable rebates may be deemed Eligible Accounts);
- (r) such Accounts are not subject to any price protection or other terms, statutory or otherwise, under which payment by the account debtor may be reduced;
- (s) such Accounts do not arise under lease or long term receivables or payments due from joint venturers or under any Contract or Lease and are not given credit under any other Lending Formula;
- (t) such Accounts are owed by account debtors whose total indebtedness to Borrower does not exceed the credit limit with respect to such account debtors as determined by Agent from time to time (but the portion of the Accounts not in excess of such credit limit may be deemed Eligible Accounts); and
- (u) such Accounts are owed by account debtors deemed credit-worthy at all times by Agent, as determined by Agent.

General criteria for Eligible Accounts may be established and revised from time to time by Agent. Any Accounts which are not Eligible Accounts shall nevertheless be part of the Collateral.

1.41 “Eligible Capital Leases”

“**Eligible Capital Leases**” shall mean those leases, from time to time, which are and continue to be acceptable to Agent based on the general criteria set forth below which Agent, in good faith, may revise from time to time. In general, a Capital Lease shall be an Eligible Capital Lease if:

- (a) it is with a Client deemed creditworthy at all times by Agent, as determined by Agent in good faith;
- (b) it is with a Client that has not asserted a *bona fide* counterclaim, defence or dispute (other than as to a *de minimus* amount) under the applicable Capital Lease and if so, the value of such Capital Lease shall be reduced by the amount of such counterclaim, defense or dispute;

- (c) it is with a Client that does not have, and does not engage in transactions which may give rise to, any right of set-off against the Capital Lease; provided that the existence of any such right of set-off shall not by itself cause such Capital Lease to cease to continue to be an Eligible Capital Lease but its appraised value, for purposes of Section 2.1(a)(iii)(B) hereof, will be reduced by Agent by an amount determined by Agent in good faith;
- (d) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of the Capital Lease or materially reduce the amount payable or delay payment thereunder, including any event of default or event which would, with notice or the passage of time, constitute an event of default under the Capital Lease;
- (e) it is subject to the first priority, valid and perfected Lien of Agent and is not subject to any prior ranking Liens or other Liens except Permitted Liens;
- (f) it is with a Client which is not itself, nor any officer or employee thereof, an officer, employee or agent of or affiliated with Borrower, directly or indirectly, by virtue of family membership, ownership, control, management or otherwise;
- (g) there are no proceedings or actions which are threatened or pending against the Client which could reasonably be expected to result in any material adverse change in such Client's financial condition;
- (h) **[Intentionally Deleted];**
- (i) Borrower and/or any Obligor is the lessor under the applicable Capital Lease;
- (j) Borrower and/or any Obligor, as applicable, has not transferred title to the equipment leased to the Client pursuant to the applicable Capital Lease; provided however that Capital Leases pursuant to which title has been transferred to the Client but which are required to be defined as Capital Leases under GAAP shall be deemed to be Capital Leases; and
- (k) notwithstanding that there are any restrictions on assignability in respect of such Capital Lease.

Any Capital Lease, which is not considered to be an Eligible Capital Lease in accordance with the foregoing requirements, is nevertheless considered to form part of the Collateral.

1.42 "Eligible Contracts in Backlog"

"**Eligible Contracts in Backlog**" shall mean Contracts in Backlog, from time to time, which are and continue to be acceptable to Agent based on the general criteria set forth below which Agent, in good faith, may revise from time to time. In general, a Contract in Backlog shall be an Eligible Contract in Backlog if:

- (a) it is with a Client deemed creditworthy at all times by Agent, as determined by Agent in good faith;
- (b) it is with a Client that has not asserted a *bona fide* counterclaim, defence or dispute (other than as to a *de minimus* amount) under the applicable Contract in Backlog and if so, the value of the relevant Eligible Finished Goods Inventory shall be reduced by the amount of such counterclaim, defense or dispute;
- (c) it is with a Client that does not have, and does not engage in transactions which may give rise to, any right of set-off against the Eligible Finished Goods Inventory; provided that the existence of any such right of set-off shall not by itself cause such Eligible Finished Goods Inventory to cease to continue to be Eligible Finished Goods Inventory but its appraised value, for purposes of Section 2.1(a)(iv)(B) hereof, will be reduced by Agent by an amount determined by Agent in good faith;
- (d) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of the Contract in Backlog or materially reduce the amount payable or delay payment thereunder, including any event of default or event which would, with notice or the passage of time, constitute an event of default under the Contract in Backlog;
- (e) it is subject to the first priority, valid and perfected Lien of Agent and is not subject to any prior ranking Lien or other Lien except Permitted Liens;
- (f) it is with a Client which is not itself, nor any officer or employee thereof, an officer, employee or agent of or affiliated with Borrower, directly or indirectly, by virtue of family membership, ownership, control, management or otherwise;
- (g) there are no proceedings or actions which are threatened or pending against the Client which could reasonably be expected to result in any material adverse change in such Client's financial condition;
- (h) **[Intentionally Deleted];**
- (i) notwithstanding that there are restrictions on assignability in respect of such Contracts in Backlog; and
- (j) it is with a Client formed under a joint venture arrangement by Borrower on terms acceptable to Agent.

Any Finished Goods Inventory which is not considered to be Eligible Finished Goods Inventory in accordance with the foregoing requirements, is nevertheless considered to form part of the Collateral.

1.43 “Eligible Contracts, Leases and Inventory”

“Eligible Contracts, Leases and Inventory” shall mean, collectively, any one of or all of the Eligible Capital Leases, Eligible Operating Leases, Eligible Finished Goods Inventory and Eligible Long Term Receivables Contracts.

1.44 “Eligible Finished Goods Inventory”

“Eligible Finished Goods Inventory” means Finished Goods Inventory that has been assigned by Borrower to Eligible Contracts in Backlog.

1.45 “Eligible Long Term Receivables Contracts”

“Eligible Long Term Receivables Contracts” shall mean those contracts of Borrower, from time to time, which are and continue to be acceptable to Agent based on the general criteria set forth below which Agent, in good faith, may revise from time to time. In general, a Long Term Receivables Contract shall be an Eligible Long Term Receivable Contract if:

- (a) it is with a Client deemed creditworthy at all times by Agent, as determined by Agent in good faith;
- (b) it is with a Client that has not asserted a *bona fide* counterclaim, defence or dispute (other than as to a *de minimus* amount) under the applicable Long Term Receivables Contract; provided that the existence of such counterclaim, defence or dispute shall not by itself cause such Long Term Receivables Contract to cease to continue to be Eligible Long Term Receivables Contract but its appraised value, for purposes of Section 2.1(a)(v)(B) hereof, will be reduced by Agent by an amount determined by Agent in good faith;
- (c) it is with a Client that does not have, and does not engage in transactions which may give rise to, any right of set-off against the Long Term Receivables Contract; provided that the existence of any such right of set-off shall not by itself cause such Long Term Receivables Contract to cease to continue to be Eligible Long Term Receivables Contract but its appraised value, for purposes of Section 2.1(a)(v)(B) hereof, will be reduced by Agent by an amount determined by Agent in good faith;
- (d) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of the Long Term Receivables Contract or materially reduce the amount payable or delay payment thereunder, including any event of default or event which would, with notice or the passage of time, constitute an event of default under the Long Term Receivable Contract;
- (e) it is subject to the first priority, valid and perfected Lien of Agent and is not subject to any prior ranking Lien or other Lien except Permitted Liens;

- (f) it is with a Client which is not itself, nor any officer or employee thereof, an officer, employee or agent of or affiliated with Borrower, directly or indirectly, by virtue of family membership, ownership, control, management or otherwise;
- (g) there are no proceedings or actions which are threatened or pending against the Client which could reasonably be expected to result in any material adverse change in such Client's financial condition;
- (h) **[Intentionally Deleted]**; and
- (i) notwithstanding that there are restrictions on assignability in respect of such Long Term Receivables Contracts.

Any Long Term Receivables Contract, which is not considered to be an Eligible Long Term Receivables Contract in accordance with the foregoing requirements, is nevertheless considered to form part of the Collateral.

1.46 "Eligible Operating Leases"

"**Eligible Operating Leases**" shall mean those leases, from time to time, which are and continue to be acceptable to Agent based on the general criteria set forth below which Agent, in good faith, may revise from time to time. In general, an Operating Lease shall be an Eligible Operating Lease if:

- (a) it is with a Client deemed creditworthy at all times by Agent, as determined by Agent in good faith;
- (b) it is with a Client that has not asserted a *bona fide* counterclaim, defence or dispute (other than as to a *de minimus* amount) under the applicable Operating Lease and if so, the value of such Operating Lease shall be reduced by the amount of such counterclaim, defense or dispute;
- (c) it is with a Client that does not have, and does not engage in transactions which may give rise to, any right of set-off against the Operating Lease; provided that the existence of any such right of set-off shall not by itself cause such Operating Lease to cease to continue to be an Eligible Operating Lease but its appraised value, for purposes of Section 2.1(a)(ii), hereof, will be reduced by Agent by an amount determined by Lender in good faith;
- (d) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of the Operating Lease or materially reduce the amount payable or delay payment thereunder, including any event of default or event which would, with notice or the passage of time, constitute an event of default under the Operating Lease;
- (e) it is subject to the first priority, valid and perfected Lien of Agent and is not subject to any prior ranking Lien or other Lien except Permitted Liens;

- (f) it is with a Client which is not itself, nor any officer or employee thereof, an officer, employee or agent of or affiliated with Borrower, directly or indirectly, by virtue of family membership, ownership, control, management or otherwise;
- (g) there are no proceedings or actions which are threatened or pending against the Client which could reasonably be expected to result in any material adverse change in such Client's financial condition;
- (h) **[Intentionally Deleted];**
- (i) Borrower and/or any Obligor is the lessor under the applicable Operating Lease;
- (j) Borrower and/or any Obligor, as applicable, has not transferred title to the equipment leased to the Client pursuant to the applicable Operating Lease; and
- (k) notwithstanding that there are any restrictions on assignability in respect of such Operating Lease.

Any Operating Lease, which is not considered to be an Eligible Operating Lease in accordance with the foregoing requirements, is nevertheless considered to form part of the Collateral.

1.47 "Eligible Transferee"

"Eligible Transferee" shall mean

- (a) any Lender;
- (b) the parent company of any Lender and/or any Affiliate of such Lender;
- (c) any Person that is engaged in the business of making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Lender or with respect to any Lender that is a fund which invests in commercial loans and similar extensions of credit, any other fund that invests in commercial loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor; and
- (d) any other commercial bank, financial institution or "**accredited investor**" (as defined under Ontario Securities Commission Rule 45-106) approved by Agent and, unless an Event of Default has occurred and is continuing, Borrower (each such approval not to be unreasonably withheld or delayed),

provided, however, that,

- (i) neither Borrower nor any Affiliate of Borrower;
- (ii) nor any Person to whom any indebtedness (other than the Obligations) is owed by Borrower or any Obligor;

(iii) nor any natural person;

(iv) nor any Person that is a competitor of Borrower,

in each case of the foregoing clauses (i), (ii) and (iii), and (iv), shall qualify as an Eligible Transferee (each, a “**Prohibited Transferee**”).

1.48 “Environmental Laws”

“**Environmental Laws**” shall mean with respect to any Person all federal (United States of America and Canada), state, provincial, district, local, municipal and foreign laws, statutes, rules, regulations, ordinances, orders, directives, permits, licenses and consent decrees relating to health, safety, hazardous, dangerous or toxic substances, waste or material, pollution and environmental matters, as now or at any time hereafter in effect, applicable to such Person and/or its business and facilities (whether or not owned by it), including laws relating to emissions, discharges, releases or threatened releases of pollutants, contamination, chemicals, or hazardous, toxic or dangerous substances, materials or wastes into the environment (including, ambient air, surface water, ground water, land surface or subsurface strata) or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals, or hazardous, toxic or dangerous substances, materials or wastes.

1.49 “Equipment”

“**Equipment**” shall mean all of Borrower’s now owned and hereafter acquired equipment, machinery, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

1.50 “Equivalent Amount”

“**Equivalent Amount**” in one currency on any day means the amount of that currency into which a specified amount of another currency can be converted at the Spot Rate (or if such rate is not available, such other rate as Agent may determine).

1.51 “ERISA”

“**ERISA**” shall mean the *Employee Retirement Income Security Act of 1974*, together with all rules, regulations and interpretations thereunder or related thereto.

1.52 “ERISA Affiliate”

“**ERISA Affiliate**” shall mean any person required to be aggregated with Borrower or any of its Subsidiaries under Sections 414(b), 414(c), 414(m) or 414(o) of the Code.

1.53 “ERISA Event”

“ERISA Event” shall mean

- (a) any “**reportable event**” as defined in Section 4043(c) of ERISA or the regulations issued thereunder, with respect to a US Pension Plan, other than events as to which the requirement of notice has been waived in regulations by the Pension Benefit Guaranty Corporation;
- (b) the adoption of any amendment to a US Pension Plan that would require the provision of security pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA;
- (c) a complete or partial withdrawal by Borrower or any ERISA Affiliate from a Multiemployer Plan or a cessation of operations which is treated as such a withdrawal or notification that a Multiemployer Plan is in reorganization;
- (d) the filing of a notice of intent to terminate a US Pension Plan under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the Pension Benefit Guaranty Corporation to terminate a US Pension Plan;
- (e) an event or condition which would reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan;
- (f) the imposition of any liability under Title IV of ERISA, other than the Pension Benefit Guaranty Corporation premiums due but not delinquent under Section 4007 of ERISA, upon Borrower or any ERISA Affiliate in excess of \$500,000; and
- (g) any other event or condition with respect to any US Pension Plan subject to Title IV of ERISA maintained, or contributed to, by any ERISA Affiliate that could reasonably be expected to result in liability of Borrower in excess of \$500,000.

1.54 “Euro Dollar Rate”

“**Euro Dollar Rate**” shall mean the rate of interest, based on a 360 day year, appearing on Reuters Screen LIBOR01 Page (or on any successor or substitute page of such service or any successor to or substitute for such service as determined by Agent) as the London interbank offered rate for deposits in US Dollars for a term comparable to the applicable Interest Period as selected by Borrower (but if more than one rate is specified on such page, the rate will be an arithmetic average of all such rates rounded upwards, in Agent’s discretion, to the nearest 1/100th of one percent (1%)) on or about 9:00 a.m. New York time three (3) Business Days prior to the commencement of such Interest Period.

1.55 “Euro Dollar Rate Loans”

“Euro Dollar Rate Loans” shall mean any Loans or portion thereof on which interest is payable based on the Adjusted Euro Dollar Rate in accordance with the terms hereof.

1.56 “Event of Default”

“Event of Default” shall have the meaning set forth in Section 10.1 hereof.

1.57 “Excess Availability”

“Excess Availability” shall mean the US Dollar Amount, calculated at any time and as determined by Agent, equal to:

- (a) the lesser of, subject to the sub-limit in respect of Letter of Credit Accommodations:
 - (i) the amount of the Revolving Loans and Letter of Credit Accommodations available to Borrower as of such time based on the Lending Formulas, as determined by Agent less the Availability Reserves from time to time established by Agent; or
 - (ii) the Maximum Revolving Credit plus \$5,000,000; less
- (b) the sum of:
 - (i) the amount of all then outstanding and unpaid Obligations (not including the then outstanding and unpaid amount of the Revolving Term Loan); and
 - (ii) the aggregate amount of: (A) all due but unpaid tax obligations; and (B) past due trade payables which remain unpaid for more than ninety (90) days past the original invoice for same, of Borrower as of such time.

1.58 “Excluded Accounts”

“Excluded Accounts” means all present and future rights, revenues and bank accounts of Borrower or its Subsidiaries in respect of, and which are used to make or receive payments in relation to: (i) third party film productions; (ii) third party joint ventures; and (iii) owned and operated theatres, each of which is excluded from the Trailing Cash Collections. As of the date hereof, the Excluded Accounts are as set out in Schedule 1.58 hereto.

1.59 “Fair Market Value”

“Fair Market Value” shall mean an estimated amount, determined as of the effective date of the applicable Appraisal, expressed in US Dollars, that may be reasonably realized from an orderly liquidation of the applicable Collateral net of the amount of deductions for all commissions, taxes and other Liquidation Expenses by the Appraiser and set out in the applicable Appraisal.

1.60 “Financing Agreements”

“**Financing Agreements**” shall mean, collectively, this Agreement, the Original Loan Agreement, the Existing Loan Agreement, the General Security Agreement, the Assignment of Capital Leases and Operating Leases, the Assignment of Contracts in Backlog and Long Term Receivables Contracts, the Blocked Account Agreement, the IP Collateral License Agreement and all notes, guarantees, security agreements and other agreements, documents and instruments previously, now or at any time hereafter executed and/or delivered by Borrower or any Obligor in connection with this Agreement, the Original Loan Agreement and the Existing Loan Agreement, in each case, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, but excluding any Secured Hedging Agreement.

1.61 “Finished Goods Inventory”

“**Finished Goods Inventory**” means the finished goods Inventory of Borrower, as listed on Schedule 1.61 as amended, updated and/or restated from time to time in accordance with the reporting requirements set out in Section 7.1(a) hereof, that has been designated by Borrower as a Contract in Backlog.

1.62 “Finished Goods Inventory Lending Formula”

“**Finished Goods Inventory Lending Formula**” shall have the meaning set forth in Section 2.1(a)(iv) hereof.

1.63 “Fiscal Quarter”

“**Fiscal Quarter**” shall mean each of the following three (3) month periods in any fiscal year of Borrower: January 1 to March 31, April 1 to June 30, July 1 to September 30 and October 1 to December 31.

1.64 “Fixed Charge Coverage Ratio”

“**Fixed Charge Coverage Ratio**” shall mean, with respect to Borrower and its Subsidiaries on a consolidated basis for any applicable period, determined in accordance with GAAP, the quotient of, for each applicable period:

- (a) EBITDA minus Unfunded Capital Expenditures minus the sum of taxes paid in the period for which the test relates and taxes due in the period for which the test relates but which have not been paid at the time of the test (less tax refunds in cash received by Borrower and its Subsidiaries in the period for which the test relates) minus the sum of payments made pursuant to Sections 9.10(j) and 9.11(b) (but excluding any such payments to the extent funded through the incurrence of additional indebtedness permitted under Section 9.9(h), or to the extent funded through equity issuances); divided by:
- (b) interest paid and interest due within the period that the test is being done but which has not been paid at the time of the test plus any principal due, excluding

any early principal prepayments of the Revolving Term Loan after the Revolving Term Loan Term Conversion Date permitted hereunder, but including, for the avoidance of doubt, any scheduled interest and principal payments with respect to indebtedness permitted under Section 9.9(h). For the avoidance of doubt, any computations under this clause (b) shall not include any principal payments or repayments in respect of Loans (as defined in the Existing Loan Agreement) under the Existing Loan Agreement made by Agent to give effect to the terms of this Agreement.

For the avoidance of doubt, Agent and Borrower agree that the Compliance Certificate attached hereto as Schedule 1.32 accurately details the method for calculating the Fixed Charge Coverage Ratio.

1.65 “Funded Debt”

“**Funded Debt**” shall mean, at any time:

- (a) all obligations for the deferred purchase price of property or services (other than current trade payables incurred in the ordinary course of business);
- (b) all obligations evidenced by notes, bonds, debentures or similar instruments;
- (c) Capital Lease Obligations;
- (d) the aggregate outstanding amount of all Obligations (other than the Mark to Market Exposure of all Hedging Agreements of Borrower and its Subsidiaries and undrawn amounts under the Letter of Credit Accommodations);
- (e) the Mark to Market Exposure of all Hedging Agreements of Borrower and its Subsidiaries to the extent not reserved by Agent as an Availability Reserve;
- (f) the principal amount of all indebtedness with respect to purchase money security interests;
- (g) the principal amount of any other indebtedness for borrowed money; and
- (h) guarantees of items referenced in subsections (a) through (g) of this definition in each case, of Borrower and its Subsidiaries at such time on a consolidated basis (without duplication).

1.66 “Funding Bank”

“**Funding Bank**” shall have the meaning set forth in Section 3.2(a) hereof.

1.67 “Future Permitted Transaction”

“**Future Permitted Transaction**” shall mean any infrequent or unusual transaction requested by Borrower to be designated as such to the extent any such transaction has been pre-approved in writing by Agent and Required Lenders.

1.68 “FX Guarantee”

“**FX Guarantee**” shall mean the Foreign Exchange Facility Guarantee dated November 27, 2008 given by EDC to BMO.

1.69 “GAAP”

“**GAAP**” shall mean generally accepted accounting principles in the United States of America as in effect from time to time as set forth in the opinions and pronouncements of the relevant U.S. public and private accounting boards and institutes which are applicable to the circumstances as of the date of determination consistently applied.

1.70 “General Security Agreement”

“**General Security Agreement**” shall mean the amended and restated general security agreement dated the date hereof given by Borrower in favour of Agent as security for payment and performance of the Obligations, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.71 “Governmental Authority”

“**Governmental Authority**” shall mean any government, parliament, legislature, municipal or local government, or any regulatory authority, agency, commission or board of any government, parliament or legislature, or any court or (without limitation to the foregoing) any other law, regulation or rule-making entity (including any central bank, fiscal or monetary authority regulating banks), having or purporting to have jurisdiction in the relevant circumstances, or any Person acting or purporting to act under the authority of any of the foregoing (including any arbitrator).

1.72 “Hazardous Materials”

“**Hazardous Materials**” shall mean any hazardous, toxic or dangerous substances, materials and wastes, including hydrocarbons (including naturally occurring or man-made petroleum and hydrocarbons), flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, biological substances, polychlorinated biphenyls, pesticides, herbicides and any other kind and/or type of pollutants or contaminants (including materials which include hazardous constituents), sewage, sludge, industrial slag, solvents and/or any other similar substances, materials, or wastes and including any other substances, materials or wastes that are or become regulated under any Environmental Law (including any that are or become classified as hazardous or toxic under any Environmental Law).

1.73 “Hedging Agreement”

“Hedging Agreement” shall mean any swap agreement (as defined in 11 U.S.C. §101), foreign exchange agreement, interest rate swap, cap or collar agreement, interest rate future or option contract, currency swap agreement, currency future or option contract and other similar hedge or swap agreement.

1.74 “Information Certificate”

“Information Certificate” shall mean the Information Certificate of Borrower constituting Exhibit A hereto containing material information with respect to Borrower, its business and assets provided by or on behalf of Borrower to Agent in connection with the preparation of the Financing Agreements and the financing arrangements provided for herein.

1.75 “Interest Period”

“Interest Period” means, with respect to each Euro Dollar Rate Loan, a period of one (1) month, two (2) months or three (3) months duration as Borrower may elect, the exact duration to be determined in accordance with customary practice in the applicable Euro Dollar Rate market or customary practice of Agent; provided that Borrower may not elect an Interest Period which will end after the Maturity Date.

1.76 “Interest Rate”

“Interest Rate” shall mean:

- (a) as to Revolving Loans, the Adjusted Euro Dollar Rate plus 2.00% per annum or the US Prime Rate plus 0.50% per annum, as applicable; or
- (b) as to the Revolving Term Loan, the Adjusted Euro Dollar Rate plus 2.00% per annum or the US Prime Rate plus 0.50% per annum, as applicable; or
- (c) notwithstanding the rates described in subparagraphs (a) and (b) above, without notice and at Agent’s option, the rate of three percent (3%) per annum in excess of the applicable Interest Rate described above shall apply in respect of the Obligations described below upon the occurrence and continuance of the events described below, without duplication:
 - (i) on non-contingent Obligations: (A) for the period on and after the date of maturity or termination hereof until such time as Agent has received full and final payment of all such Obligations; and (B) for the period from and after the date of the occurrence of an Event of Default so long as such Event of Default is continuing as determined by Agent (notwithstanding entry of any judgment against Borrower); and
 - (ii) on the amount of Revolving Loans and Letter of Credit Accommodations at any time outstanding that is in excess of the amounts available to Borrower under Article 2 hereof (whether or not such excess(es) arise or

are made with or without Agent's or any Lender's knowledge or consent and whether made before or after an Event of Default).

1.77 "Inventory"

"**Inventory**" shall mean all of Borrower's now owned and hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, wherever located.

1.78 "IP Collateral"

"**IP Collateral**" shall mean all of the Intellectual Property as such term is defined in the General Security Agreement.

1.79 "IP Collateral License Agreement"

"**IP Collateral License Agreement**" shall mean the amended and restated intellectual property license agreement dated the date hereof granting Agent and its successors, transferees and assignees, a non-exclusive, royalty free perpetual license to the IP Collateral, but effective only upon the occurrence and continuance of an IP Grace Period, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.80 "IP Grace Period"

"**IP Grace Period**" shall mean the period commencing the date upon which Agent exercises its remedies pursuant to Sections 10.2(a) and/or Section 10.2(b) hereof and ending one hundred and twenty (120) days thereafter.

1.81 "Lenders"

"**Lenders**" shall mean Wells Fargo Capital Finance Corporation Canada (formerly known as Wachovia Capital Finance Corporation (Canada)), EDC, their respective successors and assigns and any other Person party hereto from time to time as a lender.

1.82 "Lending Formulas"

"**Lending Formulas**" shall mean, collectively, the Eligible Accounts Lending Formula, the Operating Leases Lending Formula, the Capital Leases Lending Formula, the Finished Goods Inventory Lending Formula, the Long Term Receivables Contract Lending Formula and the Real Property Lending Formula.

1.83 "Letter of Credit Accommodations"

"**Letter of Credit Accommodations**" shall mean the letters of credit, merchandise purchase or other guarantees denominated in US Dollars which are from time to time either (a) issued or opened by Agent for the account of Borrower or any Obligor or (b) with respect to which Lenders have agreed to indemnify the issuer or guaranteed to the issuer the performance by Borrower or any Obligor of its obligations to such issuer, and shall include the existing letters of

credit, merchandise purchase and other guarantees issued and currently outstanding under the Original Loan Agreement.

1.84 “License Agreements”

“**License Agreements**” shall have the meaning set forth in the General Security Agreement.

1.85 “Lien”

“**Lien**” shall mean any security interest, mortgage, pledge, hypothec, lien, charge or other lien of any nature whatsoever (including those created by statute).

1.86 “Liquidation Expenses”

“**Liquidation Expenses**” shall mean all costs, fees, expenses and all other charges including operating fees, administration fees, trustee’s fees, receiver fees and court mandated costs directly incurred by Agent in connection with the disposition of the Collateral.

1.87 “Loans”

“**Loans**” shall mean collectively the Revolving Loans and the Revolving Term Loan.

1.88 “Long Term Receivable Contracts Lending Formula”

“**Long Term Receivable Contracts Lending Formula**” shall have the meaning set forth in Section 2.1(a)(v) hereof.

1.89 “Long Term Receivables Contracts”

“**Long Term Receivables Contracts**” shall mean, collectively, all of the contracts listed on Schedule 1.89, as may be amended, updated and/or restated from time to time in accordance with the requirements set out in Section 7.1(a) hereof, each of which are contracts that relate to the sale of theatre equipment by Borrower.

1.90 “Mark to Market Exposure”

“**Mark to Market Exposure**” in connection with Borrower’s liability under any of its Hedging Agreements means, as at the Measurement Date, the “**Early Termination Amount**” that would be payable by Borrower under such Hedging Agreement as though such day was an “**Early Termination Date**” and the “**Transaction**” was a “**Terminated Transaction**” in accordance with the payment measures provided for in Section 6(e)(i) of the 2002 ISDA Master Agreement as published by ISDA as amended or replaced from time to time. For the purposes of this Agreement, such liability shall be expressed in the US Dollar Amount as at the end of any such month. Furthermore, the amount of such liability shall be established by Lender, Agent or their respective Affiliates party to the Hedging Agreements (or Agent with respect to any Hedging Agreement to which neither Agent, a Lender nor their respective Affiliates are a party) in good faith (after consultation with the relevant counterparties who themselves shall determine same in accordance with the aforementioned payment measures, as applicable).

1.91 “Maturity Date”

“**Maturity Date**” shall mean the earlier of:

- (a) demand for payment under Section 10.2; and
- (b) October 31, 2015.

1.92 “Maximum Credit”

“**Maximum Credit**” shall mean the amount of \$110,000,000.

1.93 “Maximum Revolving Credit”

“**Maximum Revolving Credit**” shall mean the amount of \$50,000,000.

1.94 “Maximum Revolving Term Credit”

“**Maximum Revolving Term Credit**” shall mean the amount of \$60,000,000.

1.95 “Measurement Date”

“**Measurement Date**” shall mean, as of any date, the last Business Day of the prior calendar month or such other date as the Agent may determine upon providing written notice to Borrower.

1.96 “Multiemployer Plan”

“**Multiemployer Plan**” shall mean a “**multi-employer plan**” as defined in Section 4001(a)(3) of ERISA which is or was at any time during the current year or the immediately preceding six (6) years contributed to by Borrower or any ERISA Affiliate or with respect to which Borrower or any ERISA Affiliate may incur any liability.

1.97 “Net Amount of Eligible Accounts”

“**Net Amount of Eligible Accounts**” shall mean the gross US Dollar Amount of Eligible Accounts less: (a) sales, excise or similar taxes included in the amount thereof; and (b) returns, charge backs, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect to such Eligible Accounts; provided, that, the amounts deducted under clause (a) shall not duplicate items for which Availability Reserves have been established by Agent.

1.98 “Non-Funding Lender”

“**Non-Funding Lender**” shall have the meaning set forth in Section 11.13(a)(iii) hereof.

1.99 “Notice”

“**Notice**” shall have the meaning set forth in Section 13.2 hereof.

1.100 “Obligations”

“**Obligations**” shall mean any and all Loans, Letter of Credit Accommodations and all other obligations, liabilities and indebtedness of every kind, nature and description owing by Borrower to Agent, Lenders and their respective Affiliates including principal, interest, charges, indemnifications for Letter of Credit Accommodations or otherwise, fees, costs and expenses, however evidenced, whether as principal or otherwise, arising under or in connection with the Financing Agreements and Secured Hedging Agreements, as amended, supplemented, restated or superseded, in whole or in part, from time to time and/or applicable laws, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of this Agreement or after the commencement of any proceeding with respect to Borrower or any Obligor under the BIA, the CCAA, or any similar statute in any jurisdiction (including the payment of interest and other amounts which would accrue and become due but for the commencement of such proceeding, whether or not such amounts are allowed or allowable in whole or in part in such proceeding), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured. For greater certainty, the obligations, liabilities and indebtedness owing under or in connection with the BMO FEFC Term Sheet and the BMO Term Sheet are not included in “Obligations”.

1.101 “Obligor”

“**Obligor**” shall mean, other than Borrower, any guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, including IMAX U.S.A. Inc., a corporation incorporated pursuant to the laws of Delaware, 1329507 Ontario Inc., a corporation incorporated pursuant to the laws of Ontario, IMAX II U.S.A. Inc., a corporation incorporated pursuant to the laws of Delaware, and David Keighley Productions 70 MM Inc., a corporation incorporated pursuant to the laws of Delaware.

1.102 “OFAC”

“**OFAC**” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

1.103 “Operating Leases”

“**Operating Leases**” shall mean, collectively, all of the leases listed on Schedule 1.103, as may be amended, updated and/or restated from time to time in accordance with the reporting requirements set out in Section 7.1(a) hereof, each of which are theatre system leases that do not transfer substantially all of the benefits and risks of ownership to Clients.

1.104 “Operating Leases Lending Formula”

“**Operating Leases Lending Formula**” shall have the meaning set forth in Section 2.1(a)(ii) hereof.

1.105 “Other Currency”

“**Other Currency**” shall have the meaning set forth in Section 13.7 hereof.

1.106 “Other Lender”

“Other Lender” shall have the meaning set forth in Section 11.13(d) hereof.

1.107 “Patriot Act”

“Patriot Act” means the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001*, Pub. L. 107-56, signed into law October 26, 2001.

1.108 “Payment Account”

“Payment Account” shall have the meaning set forth in Section 6.3(a) hereof.

1.109 “Pension Plans”

“Pension Plans” shall mean each of the pension plans, *if any*, that are registered in accordance with the *Income Tax Act (Canada)* which Borrower sponsors or administers or into which Borrower makes contributions.

1.110 “Permitted Liens”

“Permitted Liens” shall have the meaning set forth in Section 9.8 hereof.

1.111 “Person” or “person”

“Person” or “person” shall mean any individual, sole proprietorship, partnership, limited partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.112 “Plan”

“Plan” shall mean an employee benefit plan (as defined in Section 3(3) of ERISA) which Borrower sponsors, maintains, or to which it makes, is making, or is obligated to make contributions or, in the case of a Multiemployer Plan, has made contributions at any time during the immediately preceding six (6) plan years or with respect to which Borrower may incur liability. For greater certainty, “Plan” does not include a Pension Plan that is not a US Pension Plan.

1.113 “PPSA”

“PPSA” shall mean the *Personal Property Security Act (Ontario)*, provided that, if the attachment, perfection or priority of Agent’s security in respect of any Collateral is governed by the laws of any jurisdiction other than Ontario, PPSA shall mean those other laws for the purposes hereof relating to attachment, perfection or priority.

1.114 “Priority Payables Reserve”

“**Priority Payables Reserve**” shall mean, at any time, the full amount of the liabilities at such time which have a trust (including a statutory trust) imposed to provide for payment or Lien ranking or capable of ranking senior to or *pari passu* with the Liens securing the Obligations on any of the Collateral under federal, provincial, state, county, municipal, or local law including, but not limited to claims for unremitted and accelerated rents, taxes, wages, vacation pay, workers’ compensation, obligations, government royalties or pension fund obligations excluding the obligations of Borrower pursuant to the USERP together with the aggregate value, determined in accordance with GAAP of all Eligible Finished Goods Inventory which Agent considers or may be or may become subject to a right of a supplier to recover possession thereof under any federal or provincial law, where such supplier’s right may have priority over the Liens securing the Obligations (including Eligible Finished Goods Inventory subject to a right of a supplier to repossess goods pursuant to Section 81.1 of the BIA).

1.115 “Pro Rata Share”

“**Pro Rata Share**” shall mean with respect to a Lender (a) with respect to all Revolving Loans, the percentage obtained by dividing (i) the aggregate Revolving Loan Commitments of such Lender by (ii) the aggregate Revolving Loan Commitments of all Lenders; (b) with respect to all Revolving Term Loans, the percentage obtained by dividing (i) the aggregate Revolving Term Loan Commitments of such Lender by (ii) the aggregate Revolving Term Loan Commitments of all Lenders; and (c) with respect to all Loans on and after the Maturity Date, the percentage obtained by dividing (i) the aggregate outstanding principal balance of the Loans held by such Lender by (ii) the outstanding principal balance of the Loans held by all Lenders.

1.116 “Real Property”

“**Real Property**” means the property known as 2525 Speakman Drive, Mississauga, Ontario L5K 1B1 legally owned by 1329507 Ontario Inc. and beneficially owned by Borrower.

1.117 “Real Property Lending Formula”

“**Real Property Lending Formula**” shall have the meaning set forth in Section 2.1(a)(vi) hereof.

1.118 “Receiver”

“**Receiver**” shall have the meaning set forth in Section 10.2(g) hereof.

1.119 “Records”

“**Records**” shall mean all of Borrower’s present and future books of account of every kind or nature, purchase and sale agreements, invoices, ledger cards, bills of lading and other shipping evidence, statements, correspondence, memoranda, credit files and other data relating to the Collateral or any account debtor, including the Clients, together with the tapes, disks, diskettes and other data and software storage media and devices, file cabinets or containers in or on which

the foregoing are stored (including any rights of Borrower with respect to the foregoing maintained with or by any other person).

1.120 “Report”

“Report” shall have the meaning set forth in Section 11.9(a) hereof.

1.121 “Required Lenders”

“Required Lenders” shall mean Lenders holding at least a 66 2/3 % of the Commitments.

1.122 “Revolving Loans”

“Revolving Loans” shall mean US Prime Rate Loans and/or Euro Dollar Rate Loans, as the case may be, now or hereafter made by Lenders to or for the benefit of Borrower on a revolving basis (involving advances, repayments and re-advances) as set forth in Section 2.1 hereof.

1.123 “Revolving Term Loan”

“Revolving Term Loan” shall mean US Prime Rate Loans and/or Euro Dollar Rate Loans, as the case may be, now or hereafter made by Lenders to Borrower on a revolving basis (involving advances, repayments and re-advances) up to the Revolving Term Loan Term Conversion Date and thereafter on a term basis as set forth in Section 2.3 hereof.

1.124 “Revolving Term Loan Term Conversion Date”

“Revolving Term Loan Term Conversion Date” shall mean the earlier of (a) the date falling twenty-four (24) months after the date hereof, or (b) Agent receives written notice from Borrower designating the date (such date to be (i) no later than ten (10) Business Days from the date of such notice and (ii) reasonably acceptable to Agent) in a written notice to Agent upon which the undrawn portion of the Revolving Term Loan Commitments are to be cancelled and the “Revolving Term Loan Term Conversion Date” will be deemed to occur for purposes of this Agreement.

1.125 “Sanctioned Entity”

“Sanctioned Entity” shall mean (a) an agency of the government of, (b) an organization directly or indirectly controlled by, or (c) a person resident in, in each case, a country that is subject to a sanctions program identified on the list maintained and published by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/programs>, or as otherwise published from time to time as such program may be applicable to such agency, organization or person.

1.126 “Sanctioned Person”

“Sanctioned Person” shall mean a person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

1.127 “Secured Hedging Agreement”

“**Secured Hedging Agreement**” shall mean any Hedging Agreement between (a) Borrower and (b) Agent or a Lender (or an Affiliate of Agent or a Lender).

1.128 “Secured Parties”

“**Secured Parties**” shall collectively mean Agent, Lenders, or their respective Affiliates, (including under any Secured Hedging Agreement) and any other person to which Obligations are owed or who is the beneficiary of or under a guarantee of the Obligations (and, for greater certainty, if such person ceases to be an Agent or a Lender then for any hedge transaction entered into under a Secured Hedging Agreement with that Agent or Lender or any of its Affiliates prior to the date that person ceases to be an Agent or Lender, that person or any of its Affiliates shall continue to be Secured Party hereunder with respect to Borrower’s obligations relating to any such hedge transaction).

1.129 “Settlement Date”

“**Settlement Date**” shall have the meaning set forth in Section 11.13(a)(iii) hereof.

1.130 “Spot Rate”

“**Spot Rate**” shall mean, with respect to a currency, the rate quoted by US Reference Bank as the spot rate for the purchase by US Reference Bank of such currency with another currency at approximately 10:00 a.m. (EST) on the date two (2) Business Days prior to the date as of which the foreign exchange computation is made.

1.131 “Studios”

“**Studios**” shall collectively mean Twentieth Century Film Corporation, Sony Pictures Entertainment, Warner Bros. Distributing Inc., Paramount Pictures Corporation, Walt Disney Studios Motion Pictures, Summit Entertainment LLC, Dreamworks Animation LLC and Universal Pictures and their respective Affiliates and Subsidiaries.

1.132 “Subsidiary”

“**Subsidiary**” shall mean, with respect to any Person, any corporation, partnership or other entity of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person and one or more Subsidiaries of such Person.

1.133 “Trailing Cash Collections”

“**Trailing Cash Collections**” shall mean the aggregate amount of cash collections made by Borrower in the preceding twenty-six (26) week period, measured as at the last day of the applicable week.

1.134 “Unfunded Capital Expenditures”

“**Unfunded Capital Expenditures**” shall mean capital expenditures that are not financed or funded by an arm’s length third party.

1.135 “UCC”

“**UCC**” shall mean the Uniform Commercial Code.

1.136 “US Dollar Amount”

“**US Dollar Amount**” shall mean, at any time, (a) as to any amount denominated in US Dollars, the amount thereof at such time, and (b) as to any amount denominated in any other currency, the equivalent amount in US Dollars as determined by Agent at such time on the basis of the Spot Rate for the purchase of US Dollars with such currency.

1.137 “USERP”

“**USERP**” shall mean the unregistered supplemental executive retirement plan dated July 12, 2000, as amended and restated as of January 1, 2006, made by Borrower in favour of its former Co-Chief Executive Officer and current Chairman of the Board, Bradley J. Wechsler, and its current Chief Executive Officer, Richard L. Gelfond.

1.138 “US First Rate”

“**US First Rate**” shall have the meaning set forth in Section 3.1(c) hereof.

1.139 “US Pension Plan”

“**US Pension Plan**” shall mean a pension plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA which Borrower sponsors, maintains, or to which Borrower or any ERISA Affiliate makes, is making, or is obligated to make contributions, other than a Multiemployer Plan.

1.140 “US Prime Rate”

“**US Prime Rate**” shall mean the rate announced publicly by US Reference Bank from time to time as its prime rate in effect for US Dollar denominated commercial loans, whether or not such announced rate is the best rate available at such bank.

1.141 “US Prime Rate Loans”

“US Prime Rate Loans” shall mean any Loans or portions thereof denominated in US Dollars and on which interest is payable based on the US Prime Rate in accordance with the terms hereof.

1.142 “US Reference Bank”

“US Reference Bank” shall mean Wells Fargo Bank, National Association, or any successor thereto, or such other major bank in the United States as Agent may from time to time designate, in its discretion, after consultation with Borrower

ARTICLE 2 CREDIT FACILITIES

2.1 Revolving Loans

- (a) Subject to, and upon the terms and conditions contained herein, each Lender severally (and not jointly) agrees to make its Pro Rata Share of Revolving Loans by way of Euro Dollar Rate Loan and US Prime Rate Loans to Borrower from time to time in amounts requested by Borrower up to the amount equal to the sum, net of any Availability Reserves, of:
- (i) eighty-five percent (85%) of the Net Amount of Eligible Accounts (the “**Eligible Accounts Lending Formula**”); plus
 - (ii) eighty-five percent (85%) of the appraised value of Eligible Operating Leases, net of estimated Liquidation Expenses, with Appraisals conducted on a Fair Market Value basis at the expense of Borrower by the Appraiser (the “**Operating Leases Lending Formula**”); plus
 - (iii) the lesser of (the “**Capital Leases Lending Formula**”):
 - (A) forty-nine percent (49%) of the aggregate net book value of Eligible Capital Leases; or
 - (B) eighty-five percent (85%) of the appraised value of such Eligible Capital Leases expressed as a percentage of net book value, net of estimated Liquidation Expenses, with Appraisals conducted on a Fair Market Value basis at the expense of Borrower by the Appraiser; plus
 - (iv) the lesser of (the “**Finished Goods Inventory Lending Formula**”):
 - (A) thirty-one percent (31%) of the aggregate net book value of Eligible Finished Goods Inventory; provided however that, for the purposes of this subparagraph (A), the amount of all Eligible Finished Goods Inventory attributable to joint venture

arrangements in accordance with the definition of Eligible Contracts in Backlog in Article 1 herein after applying the foregoing formula shall not exceed \$3,000,000; or

- (B) eighty-five percent (85%) of the appraised value of Eligible Contracts in Backlog expressed as a percentage of net book value, net of estimated Liquidation Expenses, with Appraisals conducted on a Fair Market Value basis at the expense of Borrower by the Appraiser; provided however that, for the purposes of this subparagraph (B), the amount of all Eligible Finished Goods Inventory attributable to joint venture arrangements in accordance with the definition of Eligible Contracts in Backlog in Article 1 herein after applying the foregoing formula shall not exceed \$3,000,000; plus
- (v) the lesser of (the “**Long Term Receivables Contract Lending Formula**”):
 - (A) forty percent (40%) of the aggregate net book value of Eligible Long Term Receivables Contracts; or
 - (B) eighty-five percent (85%) of the appraised value of such Eligible Long Term Receivables Contracts expressed as a percentage of net book value, net of estimated Liquidation Expenses, with Appraisals conducted on a Fair Market Value basis at the expense of Borrower by the Appraiser; plus
- (vi) the lesser of (the “**Real Property Lending Formula**”):
 - (A) \$10,000,000; or
 - (B) $Y \text{ — } [(Y \div 120) \times N]$

For purposes of this Section 2.1(a)(vi), “**Y**” means FMV multiplied by 65% and “**N**” means the number of months (or any part thereof) elapsed since the most recent of (i) the date hereof; and (ii) the date of the most recent Appraisal and “**FMV**” means the Fair Market Value of the Real Property as indicated in the most recent of (X) the Appraisal of Cushman & Wakefield Limited dated October 28, 2009; and (Y) the most recent Appraisal.

An Appraisal of the Real Property will be conducted prior to the date hereof and annually thereafter unless otherwise agreed by Agent, each at the expense of Borrower.

- (b) Agent may, in its discretion, from time to time reduce or otherwise revise the Lending Formulas to the extent that Agent, in good faith, determines that: (i) the general creditworthiness of the Clients has declined; or (ii) the liquidation value of any of the Eligible Contracts, Leases and Inventory or Real Property, or any

category thereof, has decreased; (iii) the nature and quality of the Eligible Contracts, Leases and Inventory, the Real Property, and/or Eligible Accounts has deteriorated; or (iv) the FMV of the Real Property has decreased. In determining whether to reduce or otherwise revise the Lending Formulas, Agent may consider events, conditions, contingencies or risks which are also considered in determining Eligible Contracts, Leases and Inventory, Real Property, and/or Eligible Accounts or in establishing Availability Reserves.

- (c) Except in Lenders' discretion but subject to the terms hereof, the aggregate amount of the Revolving Loans and the Letter of Credit Accommodations outstanding at any time shall not exceed the lesser of:
 - (i) the Maximum Revolving Credit; and
 - (ii) the amount available under the Lending Formulas as determined by Agent less the Availability Reserves from time to time established by Agent
- (d) In the event that the outstanding amount of the Revolving Loans, or the aggregate amount of the outstanding Revolving Loans and Letter of Credit Accommodations, exceed the amounts available under the Lending Formulas, the sub-limit for Letter of Credit Accommodations set forth in Section 2.2(d), the Maximum Revolving Credit, as applicable, or the aggregate amount of the outstanding Revolving Loans, Letter of Credit Accommodation and the Revolving Term Loan exceed the Maximum Credit or the aggregate amount of the outstanding Revolving Term Loans exceeds the Maximum Revolving Term Credit, such event shall not limit, waive or otherwise affect any rights of Agent or Lenders in that circumstance or on any future occasions and Borrower shall, upon demand by Agent or Lenders, which may be made at any time or from time to time, immediately repay to Agent the entire amount of any such excess(es) for which payment is demanded.

2.2 Letter of Credit Accommodations

- (a) Subject to, and upon the terms and conditions contained herein, at the request of Borrower, Agent agrees to provide or arrange for Letter of Credit Accommodations for the account of Borrower in US Dollars containing terms and conditions reasonably acceptable to Agent and the issuer thereof. Any payments made by Agent or Lenders to any issuer thereof and/or related parties in connection with the Letter of Credit Accommodations shall constitute additional Revolving Loans to Borrower pursuant to this Article 2. Each Lender agrees to purchase an irrevocable and unconditional participation in Letter of Credit Accommodations issued hereunder based on its Pro Rata Share.
- (b) In addition to any charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations, Borrower shall pay to Agent, for the account of Lenders based on their respective Pro Rata Shares, a letter of credit fee at a rate equal to one and one half percent (1.5%) per annum on

the daily outstanding balance of the Letter of Credit Accommodations for the immediately preceding month (or part thereof), payable in arrears as of the first day of each succeeding month, except that Borrower shall pay to Agent, for the account of Lenders based on their respective Pro Rata Shares, such letter of credit fee, at Agent's option, without notice, at a rate equal to four and one half percent (4.5%) per annum on such daily outstanding balance for: (i) the period from and after the date of maturity or termination hereof until Lenders have received full and final payment of all Revolving Loans, and cash collateral has been posted in the full amount of any then outstanding Letter of Credit Accommodations (notwithstanding entry of a judgment against Borrower) and (ii) the period from and after the date of the occurrence of an Event of Default for so long as such Event of Default is continuing as determined by Agent. Such letter of credit fee shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed and the obligation of Borrower to pay such fee shall survive the maturity or termination of this Agreement.

- (c) Letter of Credit Accommodations are not available unless, on the date of the proposed issuance thereof, the Revolving Loans available to Borrower (subject to Section 2.1(c)) are equal to, or greater than one hundred (100%) percent of the face amount of the Letter of Credit Accommodation together with all other commitments and obligations made or incurred by Lenders and Agent with respect thereto, including bank fees and the Revolving Loans otherwise available shall be reduced accordingly.
- (d) Except in Agent's discretion, the amount of all outstanding Letter of Credit Accommodations and all other commitments and obligations made or incurred by Agent or Lenders in connection therewith, including bank fees, shall not at any time exceed \$20,000,000. At any time an Event of Default exists or has occurred and is continuing, upon Agent's request, Borrower will either furnish cash collateral to secure the reimbursement obligations to the issuer in connection with any Letter of Credit Accommodations or furnish cash collateral to Agent for the Letter of Credit Accommodations, and in either case, the Revolving Loans otherwise available to Borrower shall not be reduced as provided in Section 2.2(c) to the extent of such cash collateral.
- (e) Borrower shall indemnify and hold Agent and each Lender harmless from and against any and all losses, claims, damages, liabilities, costs and expenses which Agent and each Lender may suffer or incur in connection with any Letter of Credit Accommodations and any documents, drafts or acceptances relating thereto, including, but not limited to, any losses, claims, damages, liabilities, costs and expenses due to any action taken by any issuer or correspondent with respect to any Letter of Credit Accommodation. Borrower assumes all risks with respect to the acts or omissions of the drawer under or beneficiary of any Letter of Credit Accommodation and for such purposes the drawer or beneficiary shall be deemed Borrower's agent. Borrower assumes all risks for, and agrees to pay, all foreign, federal, provincial and local taxes, duties and levies relating to any goods subject to any Letter of Credit Accommodations or any documents, drafts or acceptances

thereunder. Borrower hereby releases and holds Agent and each Lender harmless from and against any acts, waivers, errors, delays or omissions, whether caused by Borrower, by any issuer or correspondent or otherwise, other than acts, waivers, errors, delays or omissions caused by the gross negligence or wilful misconduct of Agent or a Lender, with respect to or relating to any Letter of Credit Accommodation. The provisions of this Section 2.2(e) shall survive the payment of the Obligations and the termination of this Agreement.

- (f) Nothing contained herein shall be deemed or construed to grant Borrower any right or authority to pledge the credit of Agent or a Lender in any manner. None of Agent or Lenders shall have any liability of any kind with respect to any Letter of Credit Accommodation provided by an issuer unless Agent or a Lender has duly executed and delivered to such issuer the application or a guarantee or indemnification in writing with respect to such Letter of Credit Accommodation. Except as a result of Agent's or a Lender's own gross negligence or wilful misconduct, Borrower shall be bound by any interpretation made by Agent or a Lender, or any other issuer or correspondent under or in connection with any Letter of Credit Accommodation or any documents, drafts or acceptances thereunder, notwithstanding that such interpretation may be inconsistent with any instructions of Borrower. At any time an Event of Default exists or has occurred and is continuing, Agent, in its own name or in Borrower's name, shall have the sole and exclusive right and authority to, and Borrower shall not: (i) approve or resolve any questions of non-compliance of documents, (ii) give any instructions as to acceptance or rejection of any documents or goods, or (iii) execute any and all applications for steamship or airway guaranties, indemnities or delivery orders. At all times other than when an Event of Default exists or has occurred and is continuing, Borrower shall be permitted, with the prior written consent of Agent to: (i) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents, and (ii) to agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letter of Credit Accommodations, or documents, drafts or acceptances thereunder or any letters of credit included in the Collateral.
- (g) Any rights, remedies, duties or obligations granted or undertaken by Borrower to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement in favour of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been granted or undertaken by Borrower to Agent and Lenders. Any duties or obligations undertaken by Agent or any Lender to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement by Agent or any Lender in favour of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been undertaken by Agent and Lenders to Borrower.

2.3 Revolving Term Loan

- (a) Subject to, and upon the terms and conditions contained herein, each Lender severally (and not jointly) agrees to make its Pro Rata Share of Revolving Term Loans by way of Euro Dollar Rate Loans and US Prime Rate Loans to Borrower from time to time prior to the Revolving Term Loan Term Conversion Date in amounts requested by Borrower up to the Maximum Revolving Term Credit.
- (b) On the Revolving Term Loan Term Conversion Date, (i) the outstanding amount of the Revolving Term Loan not repaid by Borrower on such date shall convert to a term loan to be repaid, together with interest and other amounts, in accordance with this Agreement, (ii) Borrower may not request further advances under the Revolving Term Loan notwithstanding any other terms of this Agreement, and (iii) the undrawn Revolving Term Loan Commitments shall be cancelled.
- (c) On the Maturity Date, the outstanding balance of the Revolving Term Loan (including principal, accrued and unpaid interest and other amounts due and payable with respect thereto) shall be due and be payable.
- (d) On and after the Revolving Term Loan Term Conversion Date, the Revolving Term Loan may be prepaid in whole or in part at any time without notice or penalty provided that the funds used for any such prepayment (i) are generated from operations of Borrower, (ii) are proceeds of an equity issue by Borrower or (iii) are proceeds of a Revolving Loan. Prepayments of the Revolving Term Loan on and after the Revolving Term Loan Term Conversion Date from any other source will be subject to the early prepayment fees as follows (with such early prepayment fees being deemed included in the Obligations):

<u>Amount</u>	<u>Period of Prepayment</u>
1.5% of Revolving Term Loan being prepaid	From the date hereof to and including the 1st anniversary of the date hereof
1.0% of Revolving Term Loan being prepaid	After the 1st anniversary of the date hereof to and including the 2nd anniversary of the date hereof
0.5% of Revolving Term Loan being prepaid	After the 2nd anniversary of the date hereof to and including the Maturity Date

ARTICLE 3
INTEREST AND FEES

3.1 Interest

- (a) Borrower shall pay to Agent, for the account of Lenders based on their respective Pro Rata Shares, interest on the outstanding principal amount of the non-contingent Obligations at the applicable Interest Rate. Subject to Sections 2.1, 2.3, 3.1 and 3.2 hereof, Borrower may borrow, repay and reborrow funds under the Loans by way of Euro Dollar Rate Loans and US Prime Rate Loans.
- (b) Interest shall be payable by Borrower to Agent, for the account of Lenders based on their respective Pro Rata Shares, monthly in arrears not later than the first Business Day of each calendar month and shall be calculated on the basis of a three hundred and sixty (360) day year and actual days elapsed. The interest rate applicable to US Prime Rate Loans shall increase or decrease by an amount equal to each increase or decrease in the US Prime Rate after any change in such rate is announced. All interest accruing hereunder on and after an Event of Default or maturity or termination hereof shall be payable on demand. In no event shall charges constituting interest payable by Borrower to Agent, for the account of Lenders based on their respective Pro Rata Shares, exceed the maximum amount or the rate permitted under any applicable law or regulation, and if any part or provision of this Agreement is in contravention of any such law or regulation, such part or provision shall be deemed amended to conform thereto.
- (c) For purposes of disclosure under the *Interest Act* (Canada), where interest is calculated pursuant hereto at a rate based upon a three hundred and sixty (360) day year (the “**US First Rate**”), it is hereby agreed that the rate or percentage of interest on a yearly basis is equivalent to such US First Rate multiplied by the actual number of days in the year divided by 360.
- (d) Notwithstanding the provisions of this Article 3 or any other provision of this Agreement, in no event shall the aggregate “**interest**” (as that term is defined in Section 347 of the *Criminal Code* (Canada)) exceed the effective annual rate of interest on the “**credit advanced**” (as defined therein) lawfully permitted under Section 347 of the *Criminal Code* (Canada). The effective annual rate of interest shall be determined in accordance with generally accepted actuarial practices and principles over the term of the Loans, and in the event of a dispute, a certificate of a Fellow of the Canadian Institute of Actuaries appointed by Agent will be conclusive for the purposes of such determination.
- (e) A certificate of an authorized signing officer of Agent as to each amount and/or each rate of interest payable hereunder from time to time shall be conclusive evidence of such amount and of such rate, absent manifest error.
- (f) For greater certainty, whenever any amount is payable under any Financing Agreement by Borrower as interest or as a fee which requires the calculation of an

amount using a percentage per annum, each party to this Agreement acknowledges and agrees that such amount shall be calculated as of the date payment is due without application of the “**deemed reinvestment principle**” or the “**effective yield method**”. As an example, when interest is calculated and payable monthly, the rate of interest payable per month is 1/12 of the stated rate of interest per annum.

- (g) Any Euro Dollar Rate Loan shall automatically, at Agent’s option, either (i) convert to US Prime Rate Loans upon the last day of the applicable Interest Period or (ii) be rolled over for a further one (1) month Interest Period, unless Agent has received and approved a request to continue such Euro Dollar Rate Loan for an Interest Period chosen by Borrower at least three (3) Business Days prior to such last day in accordance with the terms hereof. Any Euro Dollar Rate Loan shall, at Agent’s option, upon notice by Agent to Borrower, be subsequently converted to US Prime Rate Loans upon the occurrence of any Default or Event of Default which is continuing and otherwise upon the Maturity Date. Borrower shall pay to Agent, upon demand by Agent (or Agent may, at its option, charge any loan account of Borrower), any amounts required to compensate Agent and Lenders for any loss, costs or expense incurred by Agent and Lenders as a result of the conversion of Euro Dollar Rate Loans to US Prime Rate Loans pursuant to any of the foregoing. Upon the occurrence of a Default or an Event of Default that is continuing, or if Borrower repays or prepays a Euro Dollar Rate Loan on a day other than the last day of the applicable Interest Period, Borrower shall indemnify Agent and Lenders for any loss or expense suffered or incurred by Agent or Lenders including any loss of profit or expenses Agent or Lenders incur by reason of the liquidation or redeployment of deposits or other funds acquired by it to effect or maintain any and all Euro Dollar Rate Loans or any interest or other charges payable to lenders of funds borrowed by Agent and Lenders in order to maintain such Euro Dollar Rate Loans together with any other charges, costs or expenses incurred by Agent and Lenders relative thereto.
- (h) So long as no Default or Event of Default shall have occurred and be continuing and the circumstances in Section 3.2(b) and 3.2(c) do not exist, Borrower may from time to time request in writing Euro Dollar Rate Loans or may request in writing that US Prime Rate Loans be converted to Euro Dollar Rate Loans or that any existing Euro Dollar Rate Loans continue for an additional Interest Period. Such request from Borrower shall specify the amount of the Euro Dollar Rate Loans or the amount of the US Prime Rate Loans to be converted to Euro Dollar Rate Loans or the amount of the Euro Dollar Rate Loans to be continued (subject to the limits set forth below) and the Interest Period to be applicable to such Euro Dollar Rate Loans. Subject to the terms and conditions contained herein, three (3) Business Days after receipt by Agent of such a written request from Borrower, such Euro Dollar Rate Loans shall be made or US Prime Rate Loans shall be converted to Euro Dollar Rate Loans or such Euro Dollar Rate Loans shall continue, as applicable; provided, that:

- (i) no Default or Event of Default shall exist or have occurred and be continuing;
- (ii) no party hereto shall have sent any notice of termination of this Agreement;
- (iii) Borrower shall have complied with such customary procedures as are generally established by Agent and Lenders for all customers and specified by Agent and Lenders to Borrower from time to time for requests by Borrower for Euro Dollar Rate Loans;
- (iv) no more than six (6) Interest Periods (for all outstanding Euro Dollar Rate Loans) may be in effect at any one time;
- (v) the aggregate amount of the Euro Dollar Rate Loans must be in an amount not less than Five Million US Dollars (\$5,000,000) or an integral multiple of One Million US Dollars (\$1,000,000) in excess thereof; and
- (vi) Agent and Lenders shall have determined that the Interest Period or Adjusted Euro Dollar Rate is available to Agent and Lenders and can be readily determined as of the date of the request for such Euro Dollar Rate Loan by Borrower.

Subject to the terms and conditions contained herein, any request by Borrower to Agent for Euro Dollar Rate Loans or to convert US Prime Rate Loans to Euro Dollar Rate Loans or to continue any existing Euro Dollar Rate Loans shall be in writing and shall be irrevocable. Notwithstanding anything to the contrary contained herein, Agent and Lenders shall not be required to purchase US Dollar deposits in the London interbank market to fund any Euro Dollar Rate Loans, but the provisions hereof shall be deemed to apply as if Agent or Lenders had purchased such deposits to fund the Euro Dollar Rate Loans. Subject to the terms and conditions contained herein, any request by Borrower to Agent for a US Prime Rate Loan shall be in writing, shall be irrevocable and shall be given to Agent no later than 11:00 a.m. on the Business Day upon which Borrower requires such US Prime Rate Loan to be advanced to Borrower and if such request is provided after 11:00 a.m. on a Business Day then such US Prime Rate Loan shall be advanced on the next following Business Day.

3.2 Increased Costs and Changes in Law

- (a) If after the date hereof, either:
 - (i) any change in (other than any change by way of imposition or increase of reserve requirements included in the Reserve Percentage), or in the interpretation of, any law or regulation is introduced, including with respect to reserve requirements, applicable to a Lender or any banking or financial institution from whom a Lender borrows funds or obtains credit (a "**Funding Bank**"); or

- (ii) a Funding Bank or a Lender complies with any future guideline or request from any central bank or other Governmental Authority; or
- (iii) a Funding Bank or a Lender determines that the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof has or would have the effect described below, or a Funding Bank or a Lender complies with any request or directive regarding capital adequacy (whether or not having the force of law where customarily complied with by responsible financial institutions) of any such authority, central bank or comparable agency, and in the case of any event set forth in this clause (iii), such adoption, change or compliance has or would have the direct or indirect effect of reducing the rate of return on a Lender's capital as a consequence of its obligations hereunder to a level below that which Lender could have achieved but for such adoption, change or compliance (taking into consideration the Funding Bank's or Lender's policies with respect to capital adequacy) by an amount deemed by such Lender to be material,

and the result of any of the foregoing events described in clauses (i), (ii) or (iii) is or results in an increase in the cost to a Lender of funding or maintaining the Loans, or its Commitment, then Borrower shall from time to time upon demand by Agent pay to Agent additional amounts sufficient to indemnify Lenders against such increased cost on an after-tax basis (after taking into account applicable deductions and credits in respect of the amount indemnified); provided that a Lender claiming additional amounts under this Section 3.2(a) agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different applicable lending office if the making of such a designation would avoid the need for, or reduce the amount of, such increased cost that may thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate as to the amount of such increased cost shall be submitted to Borrower by Agent and shall be conclusive, absent manifest error.

- (b) If prior to the first day of any Interest Period:
 - (i) Agent shall have determined (which determination shall be conclusive and binding upon Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Adjusted Euro Dollar Rate for such Interest Period;
 - (ii) Agent has received notice from a Lender that that Adjusted Euro Dollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lender of making or maintaining Euro Dollar Rate Loans during such Interest Period; or

- (iii) US Dollar deposits in the principal amounts of the Euro Dollar Rate Loans to which such Interest Period is to be applicable are not generally available in the London interbank market,

Agent shall give notice thereof to Borrower as soon as practicable thereafter (which notice shall be withdrawn whenever such circumstances no longer exist). If such notice is given (A) any Euro Dollar Rate Loans requested to be made on the first day of such Interest Period shall be made as a US Prime Rate Loan, (B) any Loans that were to have been converted on the first day of such Interest Period to or continue as Euro Dollar Rate Loans shall be converted to or continued as US Prime Rate Loans and (C) each outstanding Euro Dollar Rate Loan shall be converted, on the last day of the then-current Interest Period thereof, to US Prime Rate Loans. Until such notice has been withdrawn by Agent, no further Euro Dollar Rate Loans shall be made or continued as such, nor shall Borrower have the right to convert U.S. Prime Rate Loans to Euro Dollar Rate Loans.

- (c) Notwithstanding any other provision herein, if the adoption of or any change in any law, treaty, rule or regulation or final, non-appealable determination of an arbitrator or a court or other Governmental Authority or in the interpretation or application thereof occurring after the date hereof shall make it unlawful for Agent or any Lender to make or maintain Euro Dollar Rate Loans as contemplated by this Agreement:
 - (i) Agent shall promptly give written notice of such circumstances to Borrower (which notice shall be withdrawn whenever such circumstances no longer exist); provided, however, that, before making any such demand, such Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Euro Dollar lending office if the making of such a designation would allow such Lender or its Euro dollar lending office to continue to perform its obligations to make Euro Dollar Rate Loans or to continue to fund or maintain Euro Dollar Rate Loans and would not, in the judgment of such Lender, be otherwise disadvantageous to such Lender;
 - (ii) the commitment of each Lender hereunder to make Euro Dollar Rate Loans, continue Euro Dollar Rate Loans as such and convert US Prime Rate Loans to Euro Dollar Rate Loans shall forthwith be cancelled and, until such time as it shall no longer be unlawful for such Lender to make or maintain Euro Dollar Rate Loans, such Lender shall then have a commitment only to make a US Prime Rate Loan when a Euro Dollar Rate Loan is requested; and
 - (iii) such Lender's Loans then outstanding as Euro Dollar Rate Loans, if any, shall be converted automatically to US Prime Rate Loans on the respective last days of the then current Interest Periods with respect to such Loans or within such earlier period as required by law. If any such conversion of a Euro Dollar Rate Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, Borrower shall pay to

such Lender such amounts, if any, as may be required pursuant to Section 3.2(d) below.

- (d) Borrower shall indemnify Agent and each Lender and shall hold Agent and each Lender harmless from any loss or expense which Agent or such Lender may sustain or incur as a consequence of:
 - (i) default by Borrower in making a borrowing of, conversion into or extension of an Euro Dollar Rate Loan after Borrower has given a notice requesting the same in accordance with the provisions of this Agreement; and
 - (ii) the making of a prepayment of Euro Dollar Rate Loans on a day which is not the last day of an Interest Period with respect thereto.

With respect to Euro Dollar Rate Loans, such indemnification may include an amount equal to the greater of (i) the excess, if any, of (1) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, converted or extended, for the period from the date of such prepayment or of such failure to borrow, convert or extend to the last day of the applicable Interest Period (or, in the case of a failure to borrow, convert or extend, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Euro Dollar Rate Loans provided for herein over (2) the amount of interest (as determined by such Agent or such Lender) which would have accrued to Agent or such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank Euro Dollar market; and (ii) an amount equal to the interest that would have been payable if the Euro Dollar Rate Loan had been a US Prime Rate Loan. This covenant shall survive the termination or non-renewal of this Agreement and the payment of the Obligations.

- (e) In the event that Borrower has hedged a Euro Dollar Rate Loan with an interest rate swap with Agent, a Lender or any of its Affiliates under which Borrower is to make its payments based on a fixed rate and Agent, such Lender or any of its Affiliates is to make its payments based on a rate equal to the Adjusted Euro Dollar Rate, then the fallback rate (being the US Prime Rate in the circumstances described in this Section 3.2) on any given day while the swap with Agent, such Lender or any of its Affiliates is in effect will be the sum of (i) the fallback floating rate payable by Agent, such Lender or any of its Affiliates that is in effect under the interest rate swap for that day (without regard to any interest rate spread added thereto under the terms of the interest rate swap) plus (ii) the percentage spread in the definition of Interest Rate applicable to Euro Dollar Rate Loans.
- (f) In the event any Lender demands payment of costs or additional amounts pursuant to this Section 3.2 or Section 9.4 or asserts, pursuant to Section 3.2(c), that it is unlawful for such Lender to make Euro Dollar Rate Loans or becomes a Non-Funding Lender then (subject to such Lender's right to rescind such demand or assertion within ten (10) Business Days after the notice from the Borrower referred to below) Borrower may, upon twenty (20) Business Days' prior written notice to such Lender and Agent, elect to cause such Lender to assign its Loans

and Commitments in full to one or more Persons selected by Borrower so long as (i) each such Person satisfies the criteria of an Eligible Transferee and is satisfactory to Agent, (ii) such Lender receives payment in full in cash of the outstanding principal amount of all Loans made by it and all accrued and unpaid interest thereon and all other amounts due and payable to such Lender as of the date of such assignment and (iii) each such assignee agrees to accept such assignment and to assume all obligations of such Lender hereunder in accordance with Section 11.1.

3.3 Servicing Fee

Borrower shall pay to Agent monthly a servicing fee in an amount equal to \$5,000 in respect of Agent's services for each month (or part thereof) while this Agreement remains in effect and for so long thereafter as any of the non-contingent Obligations (other than Letter of Credit Accommodations) are outstanding, which fee shall be fully earned as of and payable in advance on the date hereof and on the first day of each month hereafter.

3.4 Unused Line Fee

- (a) Borrower shall pay to Agent, for the account of Lenders based on their respective Pro Rata Shares, monthly an unused line fee at a rate equal to one quarter of one percent (0.25%) per annum calculated upon the amount by which the then applicable Maximum Revolving Credit exceeds the average daily principal balance of the outstanding Revolving Loans and Letter of Credit Accommodations during the immediately preceding month (or part thereof) while this Agreement is in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be payable on the first day of each month in arrears. For further clarity, no Obligations will be outstanding once this Agreement has been terminated and all Obligations have been fully and indefeasibly satisfied and cash collateral has been posted in the full amount then outstanding of any Letter of Credit Accommodations, if any.
- (b) Borrower shall pay to Agent, for the account of Lenders based on their respective Pro Rata Shares, monthly an unused line fee at a rate equal to one quarter of one percent (0.25%) per annum calculated upon the amount by which the then applicable Maximum Revolving Term Credit exceeds the average of the daily principal balance of the outstanding Revolving Term Loans during the immediately preceding month (or part thereof) while this Agreement is in effect and up to and including the Revolving Term Loan Term Conversion Date, which fee shall be payable on the first day of each month in arrears with the final payment thereof due on the Revolving Term Loan Term Conversion Date.

3.5 Closing Fee

Borrower shall pay to Agent, for the account of Lenders based on their respective Pro Rata Shares, a closing fee in the amount of \$200,000, which closing fee shall be fully earned by each Lender and paid by Borrower on the date of the execution of this Agreement.

ARTICLE 4
CONDITIONS PRECEDENT

4.1 Conditions Precedent to the Availability of Loans and Letter of Credit Accommodations

Each of the following is a condition precedent to Lenders making available the Loans and making available the Letter of Credit Accommodations hereunder on the date hereof:

- (a) Agent and Lenders shall have received the Financing Agreements, agreements, instruments and documents listed on the Closing Agenda attached hereto as Schedule 4.1(a), all in form and substance satisfactory to Agent and Lenders;
- (b) no event or circumstance shall have occurred which has had or could be reasonably expected to have a material adverse change in the assets or business of Borrower and Obligors since the date of the most recent audited financial statements of Borrower and Obligors received by Agent and no change or event shall have occurred which would impair the ability of Borrower or any Obligor to perform its obligations under any of the Financing Agreements to which it is a party or of Agent to enforce the Obligations or realize upon the Collateral;
- (c) other than what Borrower and Obligors have disclosed in the Information Certificate, and the information certificates executed and delivered by such Obligors, there shall exist no material pending or threatened litigation, proceeding, bankruptcy or insolvency, injunction, order or claims with respect to Borrower and Obligors or this Agreement and no defaults or events of default under or with respect to any other indebtedness or material contract of Borrower and Obligors;
- (d) Agent and Lenders and their respective counsel shall have completed their business (including field examinations) and legal due diligence with results satisfactory to Agent and Lenders; and
- (e) Agent shall have received evidence, in form and substance reasonably satisfactory to Agent, or be satisfied that there exists no material misstatements in or omissions from the financial and other materials furnished to Agent by Borrower and Obligors.

4.2 Conditions Precedent to the Availability of All Loans and Letter of Credit Accommodations

Each of the following is an additional condition precedent to Lenders making available the Loans and/or making available Letter of Credit Accommodations to Borrower, including the initial Loans and Letter of Credit Accommodations and any future Revolving Loans and Letter of Credit Accommodations:

- (a) all steps required with respect to notice and request for the making available of the Loans and/or making available Letter of Credit Accommodations to Borrower set out or contemplated herein have been completed;
- (b) all representations and warranties contained in the Financing Agreements shall be true and correct in all material respects (except where qualified by materiality, then in all respects) with the same effect as though such representations and warranties had been made on and as of the date of the making of each such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto; and
- (c) no Event of Default or Default shall exist or have occurred and be continuing on and as of the date of the making of such Loan or providing, amending or extending each such Letter of Credit Accommodation and after giving effect thereto.

ARTICLE 5
INTENTIONALLY DELETED

ARTICLE 6
COLLECTION AND ADMINISTRATION

6.1 Borrower's Loan Account

Agent shall maintain one or more loan account(s) on its books in which shall be recorded: (a) all Loans, Letter of Credit Accommodations and other Obligations and the Collateral; (b) all payments made by or on behalf of Borrower; and (c) all other appropriate debits and credits as provided in this Agreement, including fees, charges, costs, expenses and interest. All entries in the loan account(s) shall be made in accordance with Agent's customary practices as in effect from time to time.

6.2 Statements

Agent shall render to Borrower each month a statement setting forth the balance in Borrower's loan account(s) maintained by Agent for Borrower pursuant to the provisions of this Agreement, including principal, interest, fees, costs and expenses. Each such statement shall be subject to subsequent adjustment by Agent but shall, absent manifest errors or omissions, be considered correct and deemed accepted by Borrower and conclusively binding upon Borrower as an account stated except to the extent that Agent receives a written notice from Borrower of any specific exceptions of Borrower thereto within thirty (30) days after the date such statement has been mailed by Agent. Until such time as Agent shall have rendered to Borrower a written statement as provided above, the balance in Borrower's loan account(s) shall be presumptive evidence of the amounts due and owing to Agent and Lenders by Borrower.

6.3 Collection of Accounts

- (a) Borrower shall establish and maintain, at its expense, blocked accounts (the "**Blocked Accounts**"), as Agent may specify, and Agent may establish and

maintain bank accounts of Agent (“**Payment Accounts**”) in each case with such banks as are acceptable to Agent into which Borrower shall, in accordance with Agent’s instructions, promptly deposit and direct its account debtors that remit payments by electronic funds transfers to directly remit, all payments on Accounts and all payments constituting proceeds of Inventory or other Collateral, with the exception of payments received in connection with Excluded Accounts, in the identical form in which such payments are made, whether by cash, cheque or other manner. The banks at which the Blocked Accounts are established shall enter into an agreement, in form and substance satisfactory to Agent, providing that all items received or deposited in the Blocked Accounts are subject to the first priority Lien of Agent, that the depository bank has no Lien upon, or right to set-off against the Blocked Accounts, the items received for deposit therein, or the funds from time to time on deposit therein and that upon receipt of Agent’s notice that a Cash Dominion Event has occurred and is continuing, the depository bank will, without further inquiry, wire, or otherwise transfer, in immediately available funds, on a daily basis, all funds received or deposited into the Blocked Accounts to the Payment Accounts or such other bank account of Agent as Agent may from time to time designate for such purpose. Borrower agrees that all payments made to such Blocked Accounts shall be subject to the first priority security interest of Agent for the benefit of Secured Parties and that all payments made, in accordance with this Section, to such Payment Accounts or other funds received and collected by Agent, whether on the Accounts or as proceeds of Inventory or other Collateral or otherwise shall be the property of Agent on behalf of Secured Parties to the extent of any outstanding Obligations.

- (b) Such payments made to the Payment Account (conditional upon final collection which may be subject to fees, expenses and charges resulting from things such as the dishonour of cheques), will be applied, for all purposes, including for purposes of calculating the amount of the Revolving Loans available to Borrower and of calculating interest on the Loans, to the Loans on the same Business Day of receipt by Agent of immediately available funds in the Payment Account provided such payments and notice thereof are received in accordance with Agent’s usual and customary practices as in effect from time to time and within sufficient time to credit Borrower’s loan account on such day, and if not, then on the next Business Day. If Agent receives funds in a Payment Account at any time at which no Loans are outstanding or in excess of then outstanding Loans, Agent shall hold such funds in trust for Borrower and shall, if no Default or Event of Default has occurred and is continuing, by no later than the Business Day following receipt by Agent of: (i) immediately available funds in the Payment Account, provided such payments and notice thereof are received in accordance with Agent’s usual and customary practices as in effect from time to time; and (ii) a direction from Borrower to advance such funds, advance such excess funds to the Blocked Account. Agent shall no later than the Business Day following the day on which there ceases to be a Cash Dominion Event, deliver to the bank at which the Blocked Account is maintained an executed “**Unblocked Notice**” in the form attached to the Blocked Account Agreement.

- (c) Borrower and all of its affiliates, Subsidiaries, shareholders, directors, employees or agents shall receive, subject to the first priority security interest of Agent, for the benefit of Secured Parties, any monies, cheques, notes, drafts or any other payment relating to and/or proceeds of Accounts or other Collateral, with the exception of Excluded Accounts, which come into their possession or under their control and immediately upon receipt thereof, shall deposit or cause the same to be deposited in the Blocked Accounts, or remit the same or cause the same to be remitted, in kind, to Agent. Borrower agrees to reimburse Agent on demand for any amounts owed or paid by Agent to any bank at which a Blocked Account or Payment Account is established or any other bank or person involved in the transfer of funds to or from the Blocked Accounts or the Payment Accounts arising out of Agent's required payments to or indemnification of such bank or person. The obligation of Borrower to reimburse Agent for such amounts pursuant to this Section 6.3 shall survive the termination of this Agreement.

6.4 Payments

- (a) All Obligations (other than obligations, liabilities and indebtedness in connection with any Secured Hedging Agreement (which shall be paid in accordance with the terms thereof)) shall be payable to the Payment Account as provided in Section 6.3 or such other place in Canada as Agent may designate from time to time. Agent shall apply payments received or collected from Borrower or for the account of Borrower (including the monetary proceeds of collections or of realization upon any Collateral) as follows:
- (i) first, to pay any fees, indemnities or expenses reimbursements then due to Agent or Lenders from Borrower;
 - (ii) second, to pay interest then due in respect of any Loans;
 - (iii) third, to pay principal then due in respect of the Loans and outstanding obligations due under Secured Hedging Agreements;
 - (iv) fourth, to pay the outstanding Loans, and after the occurrence of and during the continuance of an Event of Default, to pay or pre-pay such of the Obligations, whether or not then due, in such order and manner as Agent determines.
- (b) Payments and collections received in any currency other than Canadian Dollars or US Dollars will be accepted and/or applied at the sole discretion of Agent. At Agent's option, all principal, interest, fees, costs, expenses and other charges provided for in the Financing Agreements or the Secured Hedging Agreements may be charged directly to the loan account(s) of Borrower. Borrower shall make all payments to Agent on the Obligations free and clear of, and without deduction or withholding for or on account of, any set-off, counterclaim, defence, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. If after receipt of any payment of, or proceeds of Collateral applied to

the payment of, any of the Obligations, Agent is required to surrender or return such payment or proceeds to any Person for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by Agent. Borrower shall be liable to pay to Agent, and does hereby indemnify and hold Agent harmless for the amount of any payments or proceeds surrendered or returned. Section 6.4 shall remain effective notwithstanding any contrary action which may be taken by Agent in reliance upon such payment or proceeds. The indemnification in the second preceding sentence shall survive the payment of the Obligations and the termination of this Agreement.

6.5 Authorization to Make Loans and Letter of Credit Accommodations

Each Lender is authorized to make the Loans and provide the Letter of Credit Accommodations based upon written instructions received by Agent from the persons authorized by Borrower as notified in writing by Borrower to Agent from time to time or, at the discretion of Lenders, if such Loans are necessary to satisfy any Obligations. All requests for Loans or Letter of Credit Accommodations hereunder shall specify the date on which the requested advance is to be made or Letter of Credit Accommodations established (which day shall be a Business Day) and the amount of the requested Loan. Requests received after 11:00 a.m. Toronto time on any day shall be deemed to have been made as of the opening of business on the immediately following Business Day. All Loans and Letter of Credit Accommodations under this Agreement shall be conclusively presumed to have been made to, and at the request of and for the benefit of, Borrower when deposited to the credit of Borrower or otherwise disbursed or established in accordance with the instructions of Borrower or in accordance with the terms and conditions of this Agreement.

6.6 Use of Proceeds

Borrower shall use the proceeds of the Loans provided by Lenders to Borrower hereunder for (a) costs, expenses and fees in connection with the preparation, negotiation, execution and delivery of the Financing Agreements and (b) any remaining proceeds and all other Loans made or Letter of Credit Accommodations provided by Lenders to Borrower pursuant to the provisions hereof shall be used by Borrower only for general operating, working capital and other proper corporate purposes of Borrower and its Subsidiaries not otherwise prohibited by the terms hereof

6.7 Pro Rata Treatment

Except to the extent otherwise provided in this Agreement, (a) the making and conversion of Loans shall be made by Lenders based on their respective Pro Rata Shares as to the Loans and (b) each payment on account of any Obligations to or for the account of one or more of Lenders or their respective Affiliates in respect of any Obligations due on a particular day shall be allocated among the Lenders and their respective Affiliates, as applicable, entitled to such payments based on their respective Pro Rata Shares or Obligations, as the case may be, and shall be distributed accordingly.

6.8 Obligations Several; Independent Nature of Lenders' Rights

The obligations of each Lender hereunder are several, and no Lender shall be responsible for the obligations or commitment of any other Lender hereunder. Nothing contained in this Agreement or any of the other Financing Agreements and no action taken by the Lenders pursuant hereto or thereto shall be deemed to constitute the Lenders to be a partnership, as association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each Lender shall be a separate and independent debt, and subject to Section 11.13(f) hereof, each Lender shall be entitled to protect and enforce its rights arising out of this Agreement and it shall not be necessary for any other Lender to be joined as an additional party in any proceeding for such purpose.

ARTICLE 7 COLLATERAL REPORTING AND COVENANTS

7.1 Collateral Reporting

- (a) Borrower shall provide Agent with the following documents in a form satisfactory to Agent:
 - (i) on a periodic basis as required by Lender, a schedule of Accounts, sales made, credits issued and cash received;
 - (ii) on a monthly basis within twenty (20) days after each month end or more frequently as Agent may request:
 - (A) agings of accounts payable; and
 - (B) copies of bank statements and trial balances;
 - (iii) within twenty (20) days after each month end or more frequently as Agent may request, a duly completed and executed Borrowing Base Certificate together with any information which Agent reasonably requests in connection therewith which Borrowing Base Certificate shall, in no event, be deemed to limit, impair or otherwise affect Agent and Lenders and their respective rights contained in this Agreement and in the event of any conflict or inconsistency between the calculations made in the Borrowing Base Certificate and those made by Agent, those made by Agent shall be binding and conclusive on Borrower absent manifest error;
 - (iv) on a weekly basis, on the Monday of each week, and if such Monday does not fall on a Business Day then on the next Business Day:
 - (A) details of cash receipts;
 - (B) a schedule, in the form attached herewith as Schedule 7.1(a)(iv)(B), of the aggregate amount of cash collections made by Borrower in the preceding week together with evidence, in form

and substance satisfactory to Agent, of the deposit of such collections into the Blocked Accounts;

(C) a schedule, in the form attached herewith as Schedule 7.1(a)(iv)(C), of the Trailing Cash Collections; and

(D) such other reports as to the Collateral as Agent shall request from time to time;

(v) upon Agent's request:

(A) copies of customer statements and credit memos, remittance advices and reports, and copies of deposit slips and bank statements;

(B) copies of shipping and delivery documents;

(C) copies of purchase orders, invoices and delivery documents for Inventory and Equipment acquired by Borrower;

(D) agings of accounts receivable on a monthly basis within twenty (20) days after the end of each month or more frequently as Agent may request; and

(E) such other reports as to the Collateral as Agent shall request from time to time.

If any of Borrower's records or reports of the Collateral are prepared or maintained by an accounting service, contractor, shipper or other agent, Borrower hereby irrevocably authorizes, at any time that an Event of Default exists or has occurred and is continuing, such service, contractor, shipper or agent to deliver such records, reports, and related documents to Agent and to follow Agent's instructions with respect to further services.

(b) Borrower shall, at its expense, once in any twelve (12) month period, but at any time or times as Agent may request on or after an Event of Default that is continuing, deliver or cause to be delivered to Agent written Appraisals as to all of the Collateral.

7.2 Accounts Covenants

(a) Borrower shall promptly upon becoming aware thereof, notify Agent of: (i) any material delay in Borrower's performance of any of its obligations to any Account debtor or the assertion of any claims, offsets, defences or counterclaims by any Account debtor, or any material disputes with Account debtors, or any material settlement, adjustment or compromise thereof; and (ii) all material adverse information relating to the financial condition of any Account debtor; and (iii) any event or circumstance which, to Borrower's knowledge, would cause Agent to consider any then existing Accounts as no longer constituting Eligible Accounts.

No credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor without Agent's consent, except in the ordinary course of Borrower's business in accordance with good commercial practice. So long as no Event of Default exists or has occurred and is continuing, Borrower shall settle, adjust or compromise any claim, offset, counterclaim or dispute with any account debtor. At any time that an Event of Default exists or has occurred and is continuing, Agent shall, at its option, have the exclusive right to settle, adjust or compromise any claim, offset, counterclaim or dispute with account debtors or grant any credits, discounts or allowances.

- (b) With respect to each Account: (i) the amounts shown on any invoice delivered to Agent or schedule thereof delivered to Agent shall be true and complete; (ii) no payments shall be made thereon except payments immediately deposited into the Blocked Accounts pursuant to the terms of this Agreement; (iii) no credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor except as permitted in this Agreement and except for credits, discounts, allowances or extensions made or given in the ordinary course of Borrower's business in accordance with good commercial practice; (iv) there shall be no set-offs, deductions, contra, defences, counterclaims or material disputes existing or asserted with respect thereto except as reported to Agent in accordance with the terms of this Agreement; and (v) none of the transactions giving rise thereto will violate any applicable federal or provincial laws or regulations, all documentation relating thereto will be legally sufficient under such laws and regulations and all such documentation will be legally enforceable in accordance with its terms.
- (c) At any time that an Event of Default exists or has occurred and is continuing, Agent shall have the right, acting in good faith, in Agent's name or in the name of a nominee of Agent, to verify the validity, amount or any other matter relating to any Account or other Collateral, by mail, telephone, facsimile transmission or otherwise.
- (d) Borrower shall deliver or cause to be delivered to Agent, with appropriate endorsement and assignment, with full recourse to Borrower, all chattel paper and instruments which Borrower now owns or may at any time acquire promptly upon Borrower's receipt thereof, except as Agent may otherwise agree.
- (e) Agent may, at any time or times that an Event of Default exists or has occurred and is continuing: (i) notify any or all account debtors that the Accounts have been assigned to Agent and that Agent has a security interest therein and Agent may direct any or all accounts debtors to make payment of Accounts directly to Agent; (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any other party or parties in any way liable for payment thereof without affecting any of the Obligations; (iii) demand, collect or enforce payment of any Accounts or such other obligations, but without

any duty to do so, and Agent shall not be liable for its failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto; and (iv) take whatever other action Agent may deem necessary or desirable for the protection of its interests. At any time that an Event of Default exists or has occurred and is continuing, at Agent's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Agent and are payable directly and only to Agent and Borrower shall deliver to Agent such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Agent may require.

7.3 Inventory Covenants

With respect to the Inventory: (a) Borrower shall at all times maintain inventory records satisfactory to Agent, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, Borrower's cost therefor and monthly withdrawals therefrom and additions thereto; (b) Borrower shall conduct a physical count of the Inventory at least once each year, but at any time or times as Agent may request on or after an Event of Default that is continuing, and promptly following such physical inventory shall supply Agent with a report in the form and with such specificity as may be satisfactory to Agent concerning such physical count; (c) Borrower shall not, other than as permitted herein, including pursuant to Section 9.7(b), remove any Inventory from the locations set forth or permitted herein, without the prior written consent of Agent, except for sales and movement of Inventory in the ordinary course of Borrower's business and except to move Inventory directly from one location set forth or permitted herein to another such location; (d) Borrower shall produce, use, store and maintain the Inventory, with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable laws; (e) Borrower assumes all responsibility and liability arising from or relating to the production, use, sale or other disposition of the Inventory; (f) Borrower shall not sell Inventory to any customer on approval, or any other basis which entitles the customer to return or may obligate Borrower to repurchase such Inventory; (g) Borrower shall keep the Inventory in good and marketable condition; and (h) Borrower shall not, without prior written notice to Agent, acquire or accept any Inventory on consignment or approval.

7.4 Equipment Covenants

With respect to the Equipment: (a) Borrower shall keep the Equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted); (b) Borrower shall use the Equipment with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws; (c) the Equipment is and shall be used in Borrower's business and not for personal, family or household use; (d) Borrower shall not, other than as permitted herein, including pursuant to Section 9.7(b), remove any Equipment from the locations set forth or permitted herein, without the prior written consent of Agent, except for sales (as permitted in Section 9.7(b) hereof) and movement of Equipment in the ordinary course of Borrower's business and except to move Equipment directly from one location set forth or permitted herein to another such location; (e) the Equipment is now and shall remain personal property and Borrower shall not permit any of the Equipment to be or become a part of or affixed

to real property; and (f) Borrower assumes all responsibility and liability arising from the use of the Equipment.

7.5 IP Collateral Covenants

With respect to the IP Collateral:

- (a) Borrower shall notify Agent forthwith in writing:
 - (i) of the failure of any licensee, if any, to pay or perform any material obligations due to Borrower in respect of the License Agreements;
 - (ii) of any reason any patent, patent application, patent registration, trademark, trademark application, trademark registration, copyright, copyright application, copyright registration, industrial design application or industrial design registration forming part of the material IP Collateral or any other application, registration or proceeding relating to any of the material IP Collateral may become barred, abandoned, refused, rejected, forfeited, withdrawn, expired, lapsed, cancelled, expunged, opposed or dedicated or of any adverse determination or development (including the institution of any proceeding in any Intellectual Property Office or any court or tribunal) regarding Borrower's ownership of or rights in any of the material IP Collateral, its right to register or otherwise protect the same, or to keep and maintain the exclusive rights in same, or the validity of same; or
 - (iii) of any action, proceeding, or allegation that the IP Collateral infringes upon, misappropriates, violates, or otherwise interferes with the rights of any Person.
- (b) Borrower shall do everything commercially necessary or desirable to preserve and maintain the IP Collateral. Particularly, and without limiting the foregoing, unless Borrower receives the prior written consent of Agent to the contrary, Borrower shall do each of the following:
 - (i) perform all obligations pursuant to the License Agreements;
 - (ii) commence and prosecute such suits, proceedings or other actions for infringement, passing off, unfair competition, dilution or other damage as are in its reasonable business judgment necessary to protect the IP Collateral;
 - (iii) enforce its rights under any agreements (including the License Agreements) which enhance the value of and/or protect the IP Collateral;
 - (iv) make all necessary filings and recordings in the Intellectual Property Offices and elsewhere necessary to protect its interest in the Collateral, including protection of any new IP Collateral arising in the Collateral,

including making, maintaining and pursuing (including proceedings before Intellectual Property Offices) each application and registration with respect thereto; and

- (v) promptly notify Agent in writing when it commences any steps referred to in SubSections 7.5(b)(ii) and 7.5(b)(iii) hereof and provide Agent with such information with respect thereto as Agent may request.
- (c) Borrower shall not, other than in the ordinary course of its business prior to an Event of Default that is continuing, without the prior written consent of Agent, terminate, amend, enter into or renew any agreement, oral or written, or any indenture, instrument or undertaking relating to the IP Collateral, including the License Agreements or any other license agreements and/or sub-license agreements; provided however that Borrower may, at any time prior to an Event of Default, terminate, amend, enter into or renew any agreement, oral or written, or any indenture, instrument, undertaking or license (other than exclusive licenses) relating to the IP Collateral, in the ordinary course of its business; it being understood and agreed hereunder that for the purposes of this Section 7.5(c) the “ordinary course of business” shall be deemed to include the entry into license arrangements in connection with new business opportunities by Borrower which would not reasonably be expected to have a material adverse effect on (a) the business, condition (financial or otherwise), operations, performance, properties or prospects of Borrower, (b) the rights and remedies of any Agent or any Lender under any Financing Agreement or (c) the ability of Borrower or any Obligor to perform its obligations under any Financing Agreement to which it is a party.
- (d) Borrower shall at Borrower’s sole cost and expense perform all acts and execute all documents, including grants of security interests or assignments in forms suitable for filing with the Intellectual Property Offices in Canada and the United States, as may be requested by Agent at any time and from time to time to evidence, perfect, maintain, record and enforce Agent’s interest in the IP Collateral, or otherwise in furtherance of the provisions of this Agreement.
- (e) Borrower shall:
 - (i) unless Agent consents in writing otherwise, not do any act or omit to do any act, other than in the ordinary course of its business, whereby any of the IP Collateral, may lapse, become abandoned or dedicated to the public, enter the public domain, lose its quality of confidence, become indistinct, or become unenforceable;
 - (ii) unless Agent consents in writing otherwise, or unless the failure to so act would not reasonably be expected to have a material adverse effect on the business of Borrower, with respect to any Trade-mark forming part of the Collateral:

- (A) continue the use of any such Trade-marks in order to maintain all of the Trade-marks in full force free from any claim of abandonment;
- (B) maintain as in the past the character and quality of the wares and services offered in association with such Trade-marks, and use its reasonable best efforts to require its licensees to maintain as in the past the character and quality of the wares and services offered in association with such Trade-marks; and
- (C) require that all use by any Person of any such Trade-marks shall be pursuant to a license that provides Borrower with the requisite control and other provisions to maintain the distinctiveness of such Trade-marks.

7.6 Real Property Covenants

With respect to the Real Property: (a) Borrower shall, at its expense, at any time or times as Agent may request on or after an Event of Default has occurred and is continuing, deliver or cause to be delivered to Agent written reports or Appraisals as to the Real Property; (b) Borrower shall keep the Real Property in good order, repair and marketable condition (ordinary wear and tear excepted); (c) Borrower shall use the Real Property in accordance with applicable requirements of any insurance and in conformity with all applicable laws, unless the failure to conform would not reasonably be expected singly or when aggregated with any other nonconformity to have a materially adverse effect on its business or undertaking or its ability to fulfil its obligations hereunder; (d) the Real Property is and shall be used in Borrower's business and not for personal, family, household or farming use; (e) Borrower shall defend its title to the Real Property against any adverse claims unless the failure to defend would not reasonably be expected, singly or when aggregated with any other failure to defend, to have a materially adverse effect on its business or undertaking or its ability to fulfil its obligations hereunder; (f) Borrower shall not surrender, quit claim or grant any easement, right-of-way or other right or servitude benefiting or burdening the Real Property without the prior consent of Agent, such consent not to be unreasonably withheld; and (g) Borrower assumes all responsibility and liability arising from the use and occupation of the Real Property.

7.7 Power of Attorney

Borrower hereby irrevocably designates and appoints Agent (and all persons designated by Agent) as Borrower's true and lawful attorney-in-fact, and authorizes Agent, in Borrower's or Agent's name, to: (a) at any time an Event of Default exists or has occurred and is continuing: (i) demand payment on Accounts or other proceeds of the Contracts and Leases or other Collateral, (ii) enforce payment of Accounts by legal proceedings or otherwise, (iii) exercise all of Borrower's rights and remedies to collect any Account or other Collateral, (iv) sell or assign any Account upon such terms, for such amount and at such time or times as Agent deems advisable, (v) settle, adjust, compromise, extend or renew an Account, (vi) discharge and release any Account, (vii) prepare, file and sign Borrower's name on any proof of claim in bankruptcy or other similar document against an account debtor, (viii) notify the post office authorities to

change the address for delivery of Borrower's mail to an address designated by Agent, and open and dispose of all mail addressed to Borrower, (ix) do all acts and things which are necessary, in Agent's determination, to fulfil Borrower's obligations under the Financing Agreements, (x) have access to any lockbox or postal box into which Borrower's mail is deposited, (xi) endorse Borrower's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Account or any goods pertaining thereto or any other Collateral, and (xii) sign Borrower's name on any verification of Accounts and notices thereof to account debtors, (b) at any time an Event of Default and/or a Cash Dominion Event exists or has occurred and is continuing to: (i) endorse Borrower's name upon any items of payment or proceeds thereof and deposit the same in Agent's account for application to the Obligations; and (ii) take control in any manner of any item of payment or proceeds thereof (to the extent that the Blocked Account instructions are not otherwise respected); and (c) at any time, to execute in Borrower's name and file any PPSA, UCC or other financing statements or amendments thereto in respect of the security interests granted to Agent pursuant to any of the Financing Agreements if Borrower has not done so within two (2) days from Agent's request. Borrower hereby releases Agent and its officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Agent's own gross negligence or wilful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

7.8 Right to Cure

Agent may, at any time or times that an Event of Default exists or has occurred and is continuing, at its option: (a) cure any default by Borrower under any agreement with a third party or pay or bond on appeal any judgment entered against Borrower; (b) discharge taxes, Liens at any time levied on or existing with respect to the Collateral; and (c) pay any amount, incur any expense or perform any act which, in Agent's good faith judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Agent with respect thereto. Agent may add any amounts so expended to the Obligations and charge Borrower's account therefor, such amounts to be repayable by Borrower on demand. Agent shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of Borrower. Any payment made or other action taken by Agent under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

7.9 Access to Premises

- (a) From time to time as requested by Agent, at the cost and expense of Borrower: (i) Agent or its designee shall have complete access to all of Borrower's premises during normal business hours and after reasonable notice to Borrower, or at any time and without notice to Borrower if an Event of Default exists or has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of Borrower's books and records, including the Records; and (ii) Borrower shall promptly furnish to Agent such copies of such books and records or extracts therefrom as Agent may request, and (iii) Agent or its designee may use during normal business hours such of Borrower's personnel, equipment, supplies and premises as may be reasonably necessary for the foregoing and if an

Event of Default exists or has occurred and is continuing for the collection of Accounts and realization of other Collateral.

- (b) Provided that an Event of Default has not occurred and is continuing, Agent shall use all reasonable efforts to keep confidential, in accordance with its customary procedures for handling confidential information and safe and sound lending practices, any non-public information made available by Borrower to Agent pursuant to Section 7.9(a), and all copies thereof, provided that, nothing in this Section 7.9(b) shall limit the disclosure of any such information: (i) to the extent required by statute, rule, regulation, subpoena or court order; (ii) to bank examiners and other regulators, auditors and/or accountants; (iii) in connection with any litigation to which Agent or a Lender is a party; (iv) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant), as applicable, shall have first agreed in writing to treat such information as confidential in accordance with this Section 7.9(b); and (v) to counsel for Agent or any Lender or any participant or assignee (or prospective participant or assignee). In no event shall this Section 7.9(b), or any other provision of this Agreement or any applicable law be deemed to: (i) apply to or restrict disclosure of information that has been or is made public by Borrower or any third party without breach by Agent of this Section 7.9(b) or otherwise become generally available to the public other than as a result of a disclosure in violation hereof; (ii) apply to or restrict disclosure of information that was or becomes available to Agent on a non-confidential basis from a person other than Borrower; (iii) require Agent to return any materials furnished by Borrower to Agent; or (iv) prevent Agent from responding to routine informational requests in accordance with applicable industry standards relating to the exchange of credit information.

ARTICLE 8

REPRESENTATIONS AND WARRANTIES

Borrower hereby represents and warrants to Agent and each Lender the following (which shall survive the execution and delivery of this Agreement), the truth and accuracy of which are a continuing condition of the making of Revolving Loans and providing Letter of Credit Accommodations by Lenders to Borrower:

8.1 Corporate Existence, Power and Authority; Subsidiaries; Solvency

Borrower is a corporation duly incorporated, validly existing and duly organized under the laws of its jurisdiction of incorporation and is duly qualified or registered as a foreign or extra-provincial corporation in all provinces, states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on Borrower's financial condition, results of operation or business or the rights of Agent in or to any of the Collateral. The execution, delivery and performance of the Financing Agreements and the transactions contemplated thereunder are all within Borrower's corporate powers, have been duly authorized and are not in contravention of law or the terms of Borrower's

certificate of incorporation, by-laws, or other organizational documentation, or any indenture, agreement or undertaking to which Borrower is a party or by which Borrower or its property are bound. The Financing Agreements constitute legal, valid and binding obligations of Borrower enforceable in accordance with their respective terms. Borrower does not have any Subsidiaries except as set forth on the Information Certificate and on the Borrower's corporate structure chart attached as Schedule 8.1 hereto. Borrower is not insolvent.

8.2 Financial Statements; No Material Adverse Change

All financial statements relating to Borrower which have been or may hereafter be delivered by Borrower to Agent have been prepared in accordance with GAAP and fairly present the financial condition and the results of operation of Borrower as at the dates and for the periods set forth therein. Except as disclosed in any interim financial statements furnished by Borrower to Agent prior to the date of this Agreement, there has been no material adverse change in the assets, liabilities, properties and condition, financial or otherwise, of Borrower, since the date of the most recent audited financial statements furnished by Borrower to Agent prior to the date of this Agreement.

8.3 Chief Executive Office; Collateral Locations

The chief executive office of Borrower and Borrower's Records concerning Accounts are located only at the address set forth on the Borrower's signature page below and its only other places of business and the only other locations of Collateral, if any, are the addresses set forth in the Information Certificate, subject to the right of Borrower to establish new locations in accordance with Section 9.2 below and to move Inventory and Equipment as permitted in Sections 7.3 and 7.4, respectively. The Information Certificate correctly identifies any of such locations which are not owned by Borrower and sets forth the owners and/or operators thereof and to the best of Borrower's knowledge, the holders of any mortgages on such locations.

8.4 Priority of Liens; Title to Properties

The Liens granted to Agent and Original Lender under the Financing Agreements constitute valid and perfected first priority Liens in and upon the Collateral subject only to Permitted Liens. Borrower has good and marketable title to all of its properties and assets subject to no Liens, except Permitted Liens.

8.5 Tax Returns

Borrower has filed, or caused to be filed, in a timely manner (with extensions) all tax returns, reports and declarations which are required to be filed by it (except those in respect of taxes the calculation or payment of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrower and except for those returns for those jurisdictions in which failure to do so would not have a material adverse effect on the financial condition of Borrower). All information in such tax returns, reports and declarations is complete and accurate in all material respects. Borrower has paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books.

Adequate provision has been made for the payment of all accrued and unpaid federal, provincial, municipal, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.

8.6 Litigation

Except as set forth on the Information Certificate, there is no present investigation by any Governmental Authority pending, or to the best of Borrower's knowledge threatened, against or affecting Borrower, its assets or business and there is no action, suit, proceeding or claim by any Person pending, or to the best of Borrower's knowledge threatened, against Borrower or its assets or business, or against or affecting any transactions contemplated by this Agreement, which in each of the foregoing cases, can reasonably be expected to result in any material adverse change in the assets or business of Borrower or would impair the ability of Borrower to perform its obligations under any of the Financing Agreements to which it is a party or of Agent to enforce any Obligations or realize upon any Collateral.

8.7 Compliance with Other Agreements and Applicable Laws

Borrower is not in default in any respect under, or in violation in any respect of any of the terms of, any agreement, contract, instrument, lease or other commitment to which it is a party or by which it or any of its assets are bound, including the Contracts and Leases, and Borrower is in compliance in all respects with all applicable provisions of laws, rules, regulations, licenses, permits, approvals and orders of any foreign, federal, provincial or local governmental authority except for any default or lack of compliance that would not reasonably be expected to have a material adverse effect on (a) the business, condition (financial or otherwise), operations, performance, properties or prospects of Borrower, (b) the rights and remedies of any Agent or any Lender under any Financing Agreement or (c) the ability of Borrower or any Obligor to perform its obligations under any Financing Agreement to which it is a party.

8.8 Bank Accounts

All of the deposit accounts, investment accounts or other accounts in the name of or used by Borrower maintained at any bank or other financial institution are set forth on Schedule 8.8 hereto, subject to the right of Borrower to establish new accounts in accordance with Section 9.17 below.

8.9 Accuracy and Completeness of Information

All information furnished by or on behalf of Borrower in writing to Agent or a Lender in connection with any of the Financing Agreements or any transaction contemplated hereby or thereby, including all information on the Information Certificate, is true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading, in addition, the Information Certificate attaches the form(s) of the agreements generally used for the Capital Leases and Operating Leases, together with a breakdown of which agreements constitute Capital Leases and which agreements constitute Operating Leases, together with any and all exceptions thereto, and have been delivered to Agent for review. Borrower represents and warrants that none of the Contracts and Leases include contractual provisions restricting the assignability

thereof to any Lender or Agent or to an assignee thereof upon exercise of the Financing Agreements, with the exception of those restrictive provisions set out on Schedule 8.9 hereof. No event or circumstance has occurred which has had or could reasonably be expected to have a material adverse affect on the business or assets of Borrower, which has not been fully and accurately disclosed to Agent in writing.

8.10 Status of Pension Plans

To the best knowledge of Borrower:

- (a) The Pension Plans are duly registered under all applicable provincial pension benefits legislation and there are no other Canadian pension plans of Borrower other than the Pension Plans.
- (b) All obligations of Borrower (including fiduciary, funding, investment and administration obligations) required to be performed in connection with the Pension Plans or the funding agreements therefor have been performed in a timely fashion. There are no outstanding disputes concerning the assets held pursuant to any such funding agreement.
- (c) All contributions or premiums required to be made by Borrower to the Pension Plans have been made in a timely fashion in accordance with the terms of the Pension Plans and applicable laws and regulations.
- (d) All employee contributions to the Pension Plans required to be made by way of authorized payroll deduction have been properly withheld by Borrower and fully paid into the Pension Plans in a timely fashion.
- (e) All reports and disclosures relating to the Pension Plans required by any applicable laws or regulations have been filed or distributed in a timely fashion.
- (f) There have been no improper withdrawals, or applications of, the assets of any of the Pension Plans.
- (g) No amount is owing by any of the Pension Plans under the *Income Tax Act* (Canada) or any provincial taxation statute.
- (h) None of the Pension Plans is a defined benefit registered pension plan or contains any defined benefit provision.
- (i) Borrower, after diligent enquiry, has neither any knowledge, nor any grounds for believing, that any of the Pension Plans is the subject of an investigation or any other proceeding, action or claim. There exists no state of facts which after notice or lapse of time or both could reasonably be expected to give rise to any such proceeding, action or claim.
- (j) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or State law. Each Plan which is intended

to qualify under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service and to the best of Borrower's knowledge, nothing has occurred which would cause the loss of such qualification where such loss, when combined with other such occurrences or failures to comply, has or could reasonably be expected to have a material adverse effect on (i) the business, condition (financial or otherwise), operations, performance, properties or prospects of Borrower, (ii) the rights and remedies of any Agent or any Lender under any Financing Agreement or (iii) the ability of Borrower or any Obligor to perform its obligation under any Financing Agreements to which it is party. Each Borrower and its ERISA Affiliates have made all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver has been made with respect to any Plan.

- (k) Except as set forth in the Information Certificate, there are no pending, or to the best of Borrower's knowledge, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan. Except as set forth in the Information Certificate, there has been no prohibited transaction or violation of the fiduciary responsibility rules that would reasonably be expected to result in a material liability to the Plan.
- (l) Except as set forth in the Information Certificate, (i) no ERISA Event has occurred or is reasonably expected to occur that would reasonably be expected to result in a material liability to the Plan; (ii) Borrower and its ERISA Affiliates have not incurred and do not reasonably expect to incur, any liability under Title IV of ERISA with respect to any Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iii) Borrower and its ERISA Affiliates have not incurred and do not reasonably expect to incur any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (iv) Borrower and its ERISA Affiliates have not engaged in a transaction that would be subject to Section 4069 or 4212(c) of ERISA.

8.11 Environmental Compliance

- (a) Borrower has not generated, used, stored, treated, transported, manufactured, handled, produced or disposed of any Hazardous Materials, on or off its premises (whether or not owned by it) in any manner which at any time violates any applicable Environmental Law or any license, permit, certificate, approval or similar authorization thereunder which may be expected to have a material adverse effect on Borrower and the operations of Borrower comply in all material respects with all Environmental Laws and all licenses, permits, certificates, approvals and similar authorizations thereunder.
- (b) There is no investigation, proceeding, complaint, order, directive, claim, citation or notice by any Governmental Authority or any other person nor is any pending or to the best of Borrower's knowledge threatened, with respect to any non-

compliance with or violation of the requirements of any Environmental Law by Borrower or the release, spill or discharge, threatened or actual, of any Hazardous Material or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials or any other environmental, health or safety matter, which affects Borrower or its business, operations or assets or any properties at which Borrower has transported, stored or disposed of any Hazardous Materials.

- (c) Borrower has no material liability (contingent or otherwise) in connection with a release, spill or discharge, threatened or actual, of any Hazardous Materials or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials.
- (d) Borrower has all licenses, permits, certificates, approvals or similar authorizations required to be obtained or filed in connection with the operations of Borrower under any Environmental Law and all of such licenses, permits, certificates, approvals or similar authorizations are valid and in full force and effect.
- (e) Borrower does not maintain and is not required by applicable law or otherwise to establish and maintain a system to assure and monitor its continued compliance with all Environmental Laws in all of its operations. In the event Borrower establishes such a system it shall include annual reviews of such compliance by employees or agents of Borrower who are familiar with the requirements of the Environmental Laws and copies of all environmental surveys, audits, assessments, feasibility studies and results of remedial investigations shall be promptly furnished, or caused to be furnished, by Borrower to Agent all at Borrower's expense.

8.12 Inter-Creditor and Subordination Agreements

There are no intercreditor agreements and/or subordination agreements to which Borrower and/or any Obligor is a party.

8.13 Survival of Warranties; Cumulative

All representations and warranties contained in any of the Financing Agreements shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Agent and each Lender on the date of each additional borrowing or other credit accommodation hereunder and shall be conclusively presumed to have been relied on by Agent and each Lender regardless of any investigation made or information possessed by Agent or any Lender. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Borrower shall now or hereafter give, or cause to be given, to Agent or any Lender.

8.14 U.S. Legislation

- (a) Neither Borrower nor any of its Subsidiaries or Affiliates is in violation of any of the country or list based economic and trade sanctions administered and enforced

by OFAC. Neither Borrower nor any of its Subsidiaries or Affiliates (i) is a Sanctioned Person or a Sanctioned Entity, (ii) has any of its assets in Sanctioned Entities, or (iii) derives any of its operating income from investments in, or transactions with, Sanctioned Persons or Sanctioned Entities. The proceeds of the Loans and other financial accommodation hereunder will not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

- (b) None of the requesting or borrowing of the Loans or the requesting or issuance, extension or renewal of any Letter of Credit Accommodations or the use of the proceeds of any thereof will violate the *Trading With the Enemy Act* (50 USC §1 et seq., as amended) (the “**Trading With the Enemy Act**”) or any of the foreign assets control regulations of the United States Treasury Department (31 C.F.R., Subtitle B, Chapter V, as amended) (the “**Foreign Assets Control Regulations**”) or any enabling legislation or executive order relating thereto (including, but not limited to, (i) Executive order 13224 of September 21, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the “**Executive Order**”) and (ii) the Patriot Act. Neither Borrower nor any of its Subsidiaries or Affiliates is or will become a “**blocked person**” as described in the Executive Order, the Trading with the Enemy Act or the Foreign Assets Control Regulations or engages or will engage in any dealings or transactions, or be otherwise associated, with any such “**blocked person**”.
- (c) No part of the proceeds of the Loans will be used for any purpose that violates the provisions of any of Regulation T, U or X of the Board of Governors of the Federal Reserve System of the United States of America or any other regulation of such Board of Governors, Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System and Borrower does not own any such “**margin stock**”.
- (d) No part of the proceeds of the Loans or other financial accommodations made or provided hereunder will be used by Borrower or any of its Subsidiaries or Affiliates, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the *United States Foreign Corrupt Practices Act of 1977*, as amended.

8.15 Material Operating Subsidiaries

The Obligor is the only material operating subsidiary of Borrower other than IMAX Japan.

ARTICLE 9
AFFIRMATIVE AND NEGATIVE COVENANTS

9.1 Maintenance of Existence

Except to the extent otherwise permitted herein, Borrower shall at all times preserve, renew and keep in full, force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted. Borrower shall give Agent fifteen (15) days prior written notice of any proposed change in its corporate name, which notice shall set forth the new name and Borrower shall deliver to Agent a certified copy of the Articles of Amendment of Borrower providing for the name change immediately following its filing.

9.2 New Collateral Locations

Borrower may open any new location within Canada, the United States of America or any other jurisdiction provided Borrower: (a) gives Agent thirty (30) days prior written notice of the intended opening of any such new location; and (b) executes and delivers, or causes to be executed and delivered, to Agent such agreements, documents, and instruments as Agent may deem necessary or desirable to protect its interests in the Collateral at such location, including PPSA, UCC and other financing statements and such other evidence as Agent may require of the perfection of Agent's first priority Liens where required by Agent. If any Lender determines, acting reasonably, that any applicable law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for such Lender to hold or benefit from a Lien over real property pursuant to any law of the United States or any State thereof, such Lender may notify Agent and disclaim any benefit of such Lien to the extent of such illegality; provided, that such determination or disclaimer shall not invalidate or render unenforceable such Lien for the benefit of Agent, any other Lender or Secured Party.

9.3 Compliance with Laws, Regulations, Etc.

- (a) Borrower shall, at all times, comply in all respects with all laws, rules, regulations, licenses, permits, approvals and orders applicable to it and duly observe all requirements of any Federal, Provincial or local governmental authority, including all statutes, rules, regulations, orders, permits and stipulations relating to environmental pollution and employee health and safety, including all of the Environmental Laws except for any matter (i) that Borrower is contesting in good faith by appropriate proceedings diligently pursued or (ii) which is not reasonably expected to have a material adverse effect on Borrower or its property, operations, business, prospects or conditions (financial or otherwise).
- (b) Borrower shall take prompt and appropriate action to respond to any non-compliance with any of the Environmental Laws and shall regularly report to Agent on such response.
- (c) Borrower shall give both oral and written notice to Agent promptly upon Borrower's receipt of any notice of, or Borrower's otherwise obtaining knowledge

of: (i) the occurrence of any event involving the actual release, spill or discharge of any Hazardous Material that would be in violation of Environmental Laws; or (ii) any investigation, proceeding, complaint, order, directive, claims, citation or notice with respect to: (A) any non-compliance with or violation of any Environmental Law by Borrower, or (B) the release, spill or discharge, threatened or actual, of any Hazardous Material, or (C) the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials, or (D) any other environmental, health or safety matter, which affects any Borrower or its business, operations or assets or any properties at which Borrower transported, stored or disposed of any Hazardous Materials.

- (d) Without limiting the generality of the foregoing, whenever Agent determines that there is non-compliance, or any condition which requires any action by or on behalf of Borrower in order to avoid any material non-compliance, with any Environmental Law, Borrower shall, at Agent's request and Borrower's expense: (i) cause an independent environmental engineer acceptable to Agent to conduct such tests of the site where Borrower's non-compliance or alleged non-compliance with such Environmental Laws has occurred as to such non-compliance and prepare and deliver to Agent a report as to such non-compliance setting forth the results of such tests, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof; and (ii) provide to Agent a supplemental report of such engineer whenever the scope of such non-compliance, or Borrower's response thereto or the estimated costs thereof, shall change in any material respect.
- (e) Borrower shall indemnify and hold harmless Agent and each Lender and their respective directors, officers, employees, agents, invitees, representatives, successors and assigns, from and against any and all losses, claims, damages, liabilities, costs, and expenses (including reasonable legal fees and expenses) directly or indirectly arising out of or attributable to the use, generation, manufacture, reproduction, storage, release, threatened release, spill, discharge, disposal or presence of a Hazardous Material, including the costs of any required or necessary repair, cleanup or other remedial work with respect to any property of Borrower and the preparation and implementation of any closure, remedial or other required plans. All representations, warranties, covenants and indemnifications in this Section 9.3 shall survive the payment of the Obligations and the termination of this Agreement.

9.4 Payment of Taxes and Claims

Borrower shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or assets, except for (a) taxes, assessments, contributions and governmental charges the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books or (b) taxes, assessments, contributions and governmental charges for which the failure to pay (i) is not reasonably expected to have a material adverse effect on Borrower or its property, operations, business, prospects or conditions

(financial or otherwise) and (ii) does not, and could not, have a trust (including a statutory trust) imposed to provide for payment or Lien ranking or capable of ranking senior to or *pari passu* with the Liens securing the Obligations on any of the Collateral under federal, provincial, state, county, municipal or local law. Borrower shall be liable for any tax or penalties imposed on Agent or a Lender as a result of the financing arrangements provided for herein and Borrower agrees to indemnify and hold Agent and each Lender harmless with respect to the foregoing, and to repay to Agent and/or a Lender, as the case may be, on demand the amount thereof, and until paid by Borrower such amount shall be added and deemed part of the Revolving Loans, provided, that, nothing contained herein shall be construed to require Borrower to pay any income, capital, financial institution or franchise taxes attributable to the income of Agent or Lenders from any amounts charged or paid hereunder to Agent or Lenders, and provided, further that any Lender claiming any additional amounts hereunder agrees to use reasonable efforts (consistent with the internal policy and legal and regulatory restrictions) to change its applicable lending office if the making of such a change would avoid the need for, or reduce the amount of any such additional amount that may thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. The foregoing indemnity shall survive the payment of the Obligations and the termination of this Agreement.

9.5 Insurance

- (a) Borrower shall, at all times, maintain with financially sound and reputable insurers insurance with respect to the Collateral against loss or damage and all other insurance of the kinds and in the amounts customarily insured against or carried by corporations of established reputation engaged in the same or similar businesses and similarly situated. Said policies of insurance shall be satisfactory to Agent, acting in good faith, as to form, amount and insurer. Borrower shall furnish certificates, policies or endorsements to Agent as Agent shall require as proof of such insurance, and, if Borrower fails to do so Agent is authorized, but not required, to obtain such insurance at the expense of Borrower. All policies shall provide for at least thirty (30) days prior written notice to Agent of any cancellation or reduction of coverage and that Agent may act as attorney for Borrower in obtaining, and at any time an Event of Default exists or has occurred and is continuing, adjusting, settling, amending and cancelling such insurance.
- (b) Borrower shall cause Agent to be named as a loss payee and/or an additional insured, as applicable (but without any liability for any premiums) under such insurance policies and Borrower shall obtain non-contributory lender's loss payable endorsements to all insurance policies (other than third party liability policies) in form and substance satisfactory to Agent. Such lender's loss payable endorsements shall specify that at any time an Event of Default exists or has occurred and is continuing, the proceeds of such insurance shall all be payable to Agent as its interests may appear and at all other times in accordance with Section 9.5(c).
- (c) Subject to Section 9.5(b) hereof, the proceeds of insurance:

- (i) which are equal to or less than \$2,000,000 per occurrence shall be payable to Borrower;
 - (ii) which are greater than \$2,000,000 and less than \$10,000,000 per occurrence, shall be payable to Borrower and Borrower shall provide Agent with evidence, satisfactory to Agent in its discretion, that such Collateral can be repaired and/or replaced within one hundred and eighty (180) days from the date Borrower receives such proceeds. Borrower shall forthwith apply such proceeds to the costs of repairing and/or replacing the Collateral within such one hundred and eighty (180) day period otherwise Borrower shall remit all such proceeds directly into the Payment Account and to be dealt with in accordance with Section 6.3 hereof; or
 - (iii) which are greater than \$10,000,000 per occurrence, shall be payable directly to Agent and in the event that such Collateral can be repaired and/or replaced within one hundred and eighty (180) days from the date Agent receives such proceeds, Borrower shall provide evidence, within five (5) days from the date Agent receives such proceeds, to Agent that such Collateral can be repaired and/or replaced within such one hundred and eighty (180) days and if such evidence is satisfactory Agent, in its discretion, Agent shall release such insurance proceeds to Borrower. Borrower shall forthwith apply such proceeds to the costs of repairing and/or replacing the Collateral within such one hundred and eighty (180) days, in the event Borrower does not provide Agent with the evidence required within five (5) days from the date Agent receives such proceeds, Agent shall forthwith remit such proceeds to the Payment Account to be dealt with in accordance with Section 6.3 hereof.
- (d) notwithstanding anything to the contrary contained in Section 9.5(c) hereof, insurance proceeds received in respect of:
- (i) Collateral comprised of real property shall be payable directly into the Payment Account and dealt with in accordance with Section 6.3 hereof;
 - (ii) proceeds of any keyman insurance policies, or cash surrender value thereof, assigned to Agent, shall be payable to the Payment Account and dealt with in accordance with Section 6.3 hereof; and
 - (iii) proceeds of business interruption insurance assigned to Agent, shall be payable to the Payment Account and dealt with in accordance with Section 6.3 hereof.

9.6 Financial Statements and Other Information

- (a) Borrower shall keep proper books and records in which true and complete entries shall be made of all dealings or transactions of or in relation to the Collateral and the business of Borrower and its Subsidiaries (if any) in accordance with GAAP

and Borrower shall furnish or cause to be furnished to Agent, all to be in form, scope and substance satisfactory to Agent:

- (i) within thirty (30) days after the end of each fiscal month, monthly unaudited consolidated financial statements (including in each case balance sheets, statements of income and loss, statements of cash flow and statements of shareholders' equity with comparisons to projections and same period in previous fiscal year), all in reasonable detail, fairly presenting the financial position and the results of the operations of Borrower and its Subsidiaries as of the end of and through such fiscal month together with a management discussion of such financial position and results in form acceptable to Agent;
 - (ii) within one hundred and twenty (120) days after the end of each fiscal year, audited consolidated financial statements of Borrower and its Subsidiaries (including in each case balance sheets, statements of income and loss, statements of changes in financial position and statements of shareholders' equity), and the accompanying notes thereto, including any consolidating worksheets prepared on a quarterly basis in connection therewith, all in reasonable detail, fairly presenting the financial position and the results of the operations of Borrower and its Subsidiaries as of the end of and for such fiscal year, together with the unqualified opinion of independent chartered accountants, which accountants shall be an independent accounting firm selected by Borrower and acceptable to Agent, that such financial statements have been prepared in accordance with GAAP, and present fairly the results of operations and financial condition of Borrower and its Subsidiaries as of the end of and for the fiscal year then ended;
 - (iii) by February 28 of each fiscal year or earlier if and when available (including in draft form), projections for such fiscal year; and
 - (iv) as Agent may from time to time reasonably request, and provided that Borrower prepares such information in the ordinary course of business, budgets, management letters, forecasts, business plans, cash flows and other information respecting the Collateral and the business of Borrower.
- (b) Borrower shall promptly notify Agent in writing of the details of (i) any loss, damage, investigation, action, suit, proceeding or claim relating to the Collateral or any other property which is security for the Obligations and which would result in any material adverse change in Borrower's business, properties, assets, goodwill or condition, financial or otherwise and (ii) the occurrence of any Event of Default or Default.
- (c) Borrower shall promptly after the sending or filing thereof furnish or cause to be furnished to Agent copies of all reports which Borrower sends to its shareholders generally and copies of all reports and registration statements which Borrower files with any provincial securities commission or securities exchange.

- (d) Agent is hereby authorized to deliver a copy of any financial statement or any other information relating to the business of Borrower to any court or other government agency, if legally required to do so, or to any participant or assignee or prospective participant or assignee. Borrower hereby irrevocably authorizes and directs, at any time an Event of Default exists or has occurred and is continuing, all accountants or auditors to deliver to Agent, at Borrower's expense, copies of the financial statements of Borrower and any reports or management letters prepared by such accountants or auditors on behalf of Borrower and to disclose to Agent such information as they may have regarding the business of Borrower. Any documents, schedules, invoices or other papers delivered to Agent may be destroyed or otherwise disposed of by Agent one (1) year after the same are delivered to Agent, except as otherwise designated by Borrower to Agent in writing.
- (e) Borrower shall within ten (10) days after the end of each month provide a certificate of a senior officer of Borrower, in form and content satisfactory to Agent, certifying that Borrower has paid or caused to be paid (or the obligors listed in Schedule 9.10A hereto have paid) in full: (i) all rent and other amounts due and payable with respect to any premises, with the exception of theatres owned and operated by Borrower, leased by Borrower or any Obligor (or the obligors listed in Schedule 9.10A hereto) during such month; and (ii) all payments and other amounts due and payable from it with respect to any Pension Plan during such month.
- (f) Borrower shall within thirty (30) days after the end of each month provide a Compliance Certificate, in form and content satisfactory to Agent, providing details of guarantees entered into by Borrower and such other matters relating to Borrower as Agent may from time to time request.

9.7 Sale of Assets, Consolidation, Amalgamation, Dissolution, Etc.

- (a) Borrower shall not, directly or indirectly, without the prior written consent of Agent which is not to be unreasonably withheld or unless otherwise permitted herein: (i) amalgamate with any other Person or permit any other Person to amalgamate with it, or (ii) sell, assign, lease, transfer, abandon or otherwise dispose of any Collateral to any other Person, or (iii) form or acquire any Subsidiaries, or (d) wind up, liquidate or dissolve or (iv) agree to do any of the foregoing.
- (b) Notwithstanding Section 9.7(a) hereof and provided that an Event of Default does not then exist, Borrower shall be permitted to: (i) sell Inventory in the ordinary course of business; (ii) sell Equipment at fair market value in the ordinary course of business; (iii) dispose of worn-out or obsolete Equipment or Equipment no longer used in the business of Borrower; (iv) except as permitted in this Section 9.7(b), sell assets at fair market value provided that such assets are not the Real Property or IP Collateral; (v) sell assets which include intellectual property as an incidental component of such asset, provided such sale does not materially

diminish or impair the IP Collateral to be retained by Borrower hereunder; (vi) amalgamate with an Affiliate or permit an Affiliate to amalgamate with it provided that prior to the completion of such amalgamation Agent shall be entitled to obtain and perfect a Lien from such Affiliate and/or amalgamated entity, in form and substance substantially similar to that obtained from the Obligors existing as at the date hereof, or that obtained from Borrower, if applicable; (vii) form or acquire any Subsidiaries provided that Agent shall be provided with thirty (30) days prior written notice of same and further provided that Agent shall be entitled to obtain and perfect a Lien from such Subsidiary, in form and substance substantially similar to that obtained from Obligors existing as at the date hereof; and (viii) form or acquire any single purpose Subsidiaries for the purpose of entering into the joint ventures and the third party productions permitted pursuant to Section 9.10 hereof.

9.8 Liens

Borrower shall not create, incur, assume or suffer to exist any Lien on any of its assets or properties, including the Collateral, except: (a) liens and security interests of Agent; (b) liens securing the payment of taxes, either not yet overdue or the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books; (c) non-consensual statutory liens (other than liens securing the payment of taxes) arising in the ordinary course of Borrower's business to the extent: (i) such liens secure indebtedness which is not overdue or (ii) such liens secure indebtedness relating to claims or liabilities which are fully insured and being defended at the sole cost and expense and at the sole risk of the insurer or being contested in good faith by appropriate proceedings diligently pursued and available to Borrower, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books; (d) zoning restrictions, rights-of-way, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the business of Borrower as presently conducted thereon or materially impair the appraised value of the real property which may be subject thereto and the Liens permitted in the Mortgage/Charge registered in favour of Agent in respect of the Real Property; (e) purchase money security interests in Equipment (including capital leases) and purchase money mortgages on real estate not to exceed, in the case of such purchase money security interests and purchase money mortgages, \$500,000 in the aggregate at any time outstanding so long as such security interests and mortgages do not apply to any property of Borrower other than the Equipment or real estate so acquired, and the indebtedness secured thereby does not exceed the cost of the Equipment or real estate so acquired, as the case may be; (f) Liens set forth on Schedule 8.4 hereto; (g) liens securing performance of bids, contracts, statutory obligations, surety, performance and appeal bonds and other like obligations incurred in the ordinary course of business; (h) pledges or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security legislation; (i) liens securing indebtedness of a person acquired by or amalgamated with Borrower or liens securing indebtedness incurred in connection with an acquisition, provided in all such cases that such acquisition or amalgamation, as the case may be, is not prohibited hereunder and provided further that such liens were in existence prior to the date of such acquisition, and were not

incurred in anticipation thereof and do not extend to assets other than those acquired; and (j) liens in favour of EDC over deposits of collateral given by Borrower in favour of EDC pursuant to the terms of Section 5(l)(2) of the EDC Indemnity Agreement; provided however that (i) the Liens and interest of EDC in such collateral shall at all times be subject to and subordinate to any and all interests and Liens of Agent in such collateral and (ii) Agent shall have provided its prior written consent to Borrower to make such deposit of collateral with EDC (all of the foregoing being sometimes collectively referred to herein as “**Permitted Liens**”).

9.9 Indebtedness

Borrower shall not incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations, liabilities or indebtedness (including under or in connection with capital leases), except: (a) the Obligations including obligations, liabilities and indebtedness under or in connection with Secured Hedging Agreements; (b) trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which Borrower is contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to Borrower, and with respect to which adequate reserves have been set aside on its books; (c) purchase money indebtedness (including capital leases) to the extent not incurred or secured by Liens (including capital leases) in violation of any other provision of this Agreement; (d) the indebtedness set forth on Schedule 9.9 hereto; (e) the indebtedness incurred pursuant to the BMO Term Sheet; provided however that the indebtedness of Borrower under (i) the BMO LC Facility shall not exceed \$10,000,000, (ii) the Mastercard Facility shall not exceed CDN\$35,000 and (iii) the FX Facility shall not exceed \$3,000,000; (f) the indebtedness and indemnity obligations incurred pursuant to the EDC Indemnity Agreement; provided that such indebtedness and indemnity obligations shall relate solely to CIB Products (as defined in the EDC Indemnity Agreement) issued by EDC in support of the BMO LC Facility and not to exceed \$10,000,000 in the aggregate; (g) the indebtedness incurred pursuant to the BMO FEFC Term Sheet and the Application; provided however that: (i) the foreign exchange forward contracts to be entered into with respect to the BMO FEFC Term Sheet shall be entered into for hedging purposes only and not for speculative purposes; (ii) the mark to market exposure of all such existing foreign exchange forward contracts in the aggregate shall not exceed US\$10,000,000; (iii) the notional amount of all such existing foreign exchange forward contracts in the aggregate shall not exceed US\$33,333,333; (iv) if Borrower fails to settle a foreign exchange forward contract entered into with respect to the BMO FEFC Term Sheet on its settlement date and/or fails to pay any part of the Guaranteed Amount (as defined in the FX Guarantee) to BMO within ten (10) Business Days of BMO’s demand to Borrower to pay the Guaranteed Amount (as defined in the FX Guarantee), BMO may submit a payment request to EDC under the FX Guarantee and BMO is required to demand payment from Borrower before submitting a payment request under the FX Guarantee to EDC unless BMO is prevented from making a demand by reason of an Insolvency Event Stay (as defined in the FX Guarantee) or by reason of an Injunction (as defined in the FX Guarantee); and (v) EDC’s sole recourse against Borrower with respect to amounts paid by EDC pursuant to the FX Guarantee shall be against Borrower pursuant to the unsecured indemnity in the Application not to exceed US\$5,000,000 in aggregate plus applicable costs, expenses, and interest as set out therein; and (h) any subordinated indebtedness in the aggregate principal amount not to exceed \$50,000,000; provided that:

- (A) both before and after giving effect to the incurrence of such indebtedness, Borrower is in compliance with all the terms of the Financing Agreements including the financial covenants set forth in Sections 9.13, 9.14, 9.23 and 9.24 hereof and no Default or Event of Default exists and is continuing or would occur as a result thereof;
- (B) prior to the indefeasible payment in full in cash of the Revolving Term Loan after the Revolving Term Loan Term Conversion Date, such indebtedness incurred under this Section 9.9(h) must be subject to an intercreditor or subordination agreement between Agent, Borrower and subordinated lender, in form, content and substance satisfactory to Agent, in its sole and absolute discretion; and
- (C) after the indefeasible payment in full in cash of the Revolving Term Loan after the Revolving Term Loan Term Conversion Date, such indebtedness incurred under this Section 9.9(h) must be subject to an intercreditor or subordination agreement (which shall contain standard market terms for intercreditor or subordination agreements between a senior first secured lender and a subordinate junior lender) between Agent, Borrower and subordinated lender, in form, content and substance satisfactory to Agent, acting reasonably.

For greater certainty and without limiting the foregoing Borrower shall not, directly or indirectly, (a) amend, modify, alter or change the terms of such indebtedness or any agreement, document or instrument related thereto as in effect on the date hereof or (b) prepay, redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose. Borrower shall furnish to Agent all notices or demands in connection with such indebtedness either received by Borrower or on its behalf, promptly after the receipt thereof, or sent by Borrower or on its behalf, concurrently with the sending thereof, as the case may be.

9.10 Loans, Investments, Guarantees, Etc.

Borrower shall not, directly or indirectly, without the prior written consent of Agent which is not to be unreasonably withheld, make any loans or advance money or property to any person, or invest in (by capital contribution, dividend or otherwise) or purchase or repurchase the shares or indebtedness or all or a substantial part of the assets or property of any person, or guarantee, assume, endorse, or otherwise become responsible for (directly or indirectly) the indebtedness, performance, obligations or dividends of any Person or agree to do any of the foregoing, except: (a) the endorsement of instruments for collection or deposit in the ordinary course of business; (b) investments in: (i) short-term direct obligations of the Canadian Government and the U.S. Government, (ii) negotiable certificates of deposit issued by any bank satisfactory to Agent, payable to the order of Borrower or to bearer and delivered to Agent, (iii) commercial paper rated A1 or P1, and (iv) term deposits with the Bank of Montreal and The Toronto-Dominion

Bank existing as of the date hereof provided, that, as to any of the foregoing, unless waived in writing by Agent, Borrower shall take such actions as are deemed necessary by Agent to perfect the first-ranking Lien of Agent in such investments; (c) financial guarantees and letters of credit to support Borrower's operations in China and other financial guarantees in an aggregate amount not to exceed \$35,000,000; (d) the guarantees by Borrower of the real property lease obligations of the obligors and in the amounts set forth on Schedule 9.10A hereto (and any renewals or replacements thereof not to exceed in the aggregate the amounts set forth on Schedule 9.10A hereto) and the loans, advances and guarantees set forth on Schedule 9.10B hereto; provided, that, as to such loans, advances and guarantees set forth on Schedule 9.10B hereto, (i) Borrower shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such loans, advances or guarantees or any agreement, document or instrument related thereto, or (B) as to such guarantees, redeem, retire, defease, purchase or otherwise acquire the obligations arising pursuant to such guarantees, or set aside or otherwise deposit or invest any sums for such purpose, and (ii) Borrower shall furnish to Agent all notices or demands in connection with such loans, advances or guarantees or other indebtedness subject to such guarantees either received by Borrower or on its behalf, promptly after the receipt thereof, or sent by Borrower or on its behalf, concurrently with the sending thereof, as the case may be; (e) purchase or repurchase any and all shares, interest, participations or other equivalents in Borrower's capital stock or other equity interests at any time outstanding, and any and all rights, warrants or options exchangeable for or convertible into such capital stock or other interests (excluding any debt security that is exchangeable for or convertible into such capital stock); (f) enter into joint ventures, acting as a prudent investor, with strategic partners for the purpose of advancing Borrower's business provided that Borrower's investment in such joint ventures, whether direct or indirect, shall not, at any time and in the aggregate, exceed \$25,000,000 and shall not result in a derogation of the value of the Collateral or Agent's, subject to Permitted Liens, first priority Liens therein; (g) make loans or advance money to Affiliates in the ordinary course of Borrower's business with the proceeds of issuance of shares in the capital of Borrower, provided such proceeds are used in the ordinary course of business and shall not, for further clarity, be subject to any other restrictions on use contained herein; (h) make payments to employees in connection with the repurchase of phantom stock (including stock appreciation rights) in the ordinary course of business; (i) payments to counterparties under or in connection with Hedging Agreements entered into in accordance with the terms of this Agreement; and (j) loans, investments, purchases of shares, indebtedness, assets or properties of an arm's length third party and guarantees; provided that (i) such loans, investments, purchases and guarantees shall not exceed an aggregate amount (when combined with the amount of dividend payments made under Section 9.11(b)) of \$35,000,000, (ii) such loans, investments and purchases (and the assets resulting therefrom) shall be subject to the first priority Liens of Agent, (iii) such loans shall only be made to Obligors whose assets and properties are subject to the first priority Liens of Agent, (iv) such guarantees shall not be secured by any Liens on the assets or properties of Borrower and (v) both before and after giving effect thereto, Borrower is in compliance with all terms of the Financing Agreements including the financial covenants set forth in Sections 9.13, 9.14, 9.23 and 9.24 hereof and no Default or Event of Default exists and is continuing or would occur as a result thereof. Borrower shall pay, or shall cause the obligors listed in Schedule 9.10A hereto to pay, all amounts due and owing under the leases that Borrower has guaranteed as set out in Schedule 9.10A hereto.

Any Future Permitted Transaction by Borrower and any investment, license, purchase or other transaction reasonably related thereto and in furtherance thereof shall be permitted hereunder and the amount of any such investment, license, purchase or other transaction shall not be included in (or count against) any of the foregoing basket amounts described in this Section 9.10.

9.11 Dividends and Redemptions

Subject to Section 9.10 hereof, Borrower shall not, directly or indirectly, declare or pay any dividends on account of any shares of Borrower now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other than common shares or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or agree to do any of the foregoing with the exception of (a) redemptions of any securities, shares and/or options of Borrower which are held by employees and/or insiders thereof and (b) dividends not to exceed an aggregate amount (when combined with the aggregate amount of loans, investments, purchases and guarantees made under Section 9.10(j)) of \$35,000,000 provided that (i) the Revolving Term Loan has been indefeasibly repaid in full in cash after the Revolving Term Loan Term Conversion Date and (ii) both before and after giving effect thereto, Borrower is in compliance with all terms of the Financing Agreements including the financial covenants set forth in Sections 9.13, 9.14, 9.23 and 9.24 hereof and no Default or Event of Default exists and is continuing or would occur as a result thereof.

9.12 Transactions with Affiliates

Borrower shall not, directly or indirectly, (a) purchase, acquire or lease any property from, or sell, transfer or lease any property to, any officer, director, agent or other person affiliated with Borrower, except in the ordinary course of and pursuant to the reasonable requirements of Borrower's business and upon fair and reasonable terms no less favorable to Borrower than Borrower would obtain in a comparable arm's length transaction with an unaffiliated person or (b) make any payments of management, consulting or other fees for management or similar services, or of any indebtedness (including under the USERP) owing to any officer, employee, shareholder, director or other person affiliated with Borrower except (i) reasonable compensation to officers, employees and directors for services rendered to Borrower in the ordinary course of business and (ii) payments to Bradley J. Wechsler and Richard L. Gelfond in accordance with the USERP so long as such payments are set out in Borrower's budget or forecast and then only in accordance with such budget or forecast.

9.13 Fixed Charge Coverage Ratio

- (a) Borrower shall maintain a Fixed Charge Coverage Ratio of not less than 1.1:1.0 calculated at the end of each Fiscal Quarter on a trailing four (4) Fiscal Quarter basis.
- (b) It is agreed that, notwithstanding anything herein to the contrary, the amounts expended by Borrower with respect to any Future Permitted Transaction (whether or not final accounting treatment of same affects EBITDA or the Fixed Charge

Coverage Ratio) will not be considered in determining the Fixed Charge Coverage Ratio.

9.14 Excess Availability

Borrower shall maintain a minimum Excess Availability of \$5,000,000 at all times.

9.15 Intentionally Deleted.

9.16 Intellectual Property

In the event Borrower obtains or applies for any material intellectual property rights or obtains any material licenses with respect thereto, Borrower shall promptly notify Agent thereof and shall provide to Agent copies of all written materials including, but not limited to, applications and licenses with respect to such intellectual property rights. At Agent's request, Borrower shall promptly execute and deliver to Agent an intellectual property security agreement granting to Agent a perfected security interest in such intellectual property rights in form and substance satisfactory to Agent.

9.17 Additional Bank Accounts

Borrower shall not, without the prior consent of Agent, directly or indirectly, open, establish or maintain any deposit account, investment account or any other account with any bank or other financial institution, other than the Blocked Accounts and the accounts set forth in Schedule 8.8 hereto, except: (a) as to any new or additional Blocked Accounts and other such new or additional accounts which contain any Collateral or proceeds thereof, with the prior written consent of Agent and subject to such conditions thereto as Agent may establish; (b) as to any accounts used by Borrower to make payments of payroll, taxes or other obligations to third parties, after prior written notice to Agent; and (c) as to any new Excluded Accounts.

9.18 Applications under the Companies' Creditors Arrangement Act

Borrower acknowledges that its business and financial relationships with Agent and each Lender are unique from its relationship with any other of its creditors. Borrower agrees that it shall not file any plan of arrangement under the CCAA ("CCAA Plan") which provides for, or would permit directly or indirectly, Agent or any Lender to be classified with any other creditor of Borrower for purposes of such CCAA Plan or otherwise.

9.19 Supplemental Executive Retirement Plan

Borrower shall not, directly or indirectly, in respect of the USERP: (i) pay or declare any payments thereunder other than those required to be paid and due pursuant to the terms thereof; (ii) commence payment of contributions which Borrower had not previously been contributing; (iii) amend, modify, alter or otherwise change the terms thereof except for the purpose of reducing the pension benefit to the applicable Borrower executive; or (iv) register the USERP or otherwise establish a new similar registered plan.

9.20 Operation of Pension Plans

- (a) Borrower shall administer the Pension Plans in accordance with the requirements of the applicable pension plan texts, funding agreements, the *Income Tax Act* (Canada) and applicable provincial pension benefits legislation.
- (b) Borrower shall use commercially reasonable efforts to obtain and to deliver to Agent, upon Agent's request, an undertaking of the funding agent for each of the Pension Plans stating that the funding agent will notify Agent within thirty (30) days of Borrower's failure to make any required contribution to the applicable Pension Plan.
- (c) Borrower shall not accept payment of any amount from any of the Pension Plans without the prior written consent of Agent other than payments for forfeitures in connection with terminated employees to be set-off against future contribution obligations.
- (d) Without the prior written consent of Agent, Borrower shall not terminate, or cause to be terminated, any of the Pension Plans, if such plan would have a solvency deficiency on termination.
- (e) Borrower shall promptly provide Agent with any documentation relating to any of the Pension Plans as Agent may request. Borrower shall notify Agent within 30 days of: (i) a material increase in the liabilities of any of the Pension Plans; (ii) the establishment of a new registered pension plan; (iii) commencing payment of contributions to a Pension Plan to which Borrower had not previously been contributing; and (iv) any failure to make any required contribution to a Pension Plan when due.
- (f) Borrower shall, and shall cause each of its ERISA Affiliates to (i) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal and State law, (ii) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification, (iii) not terminate any US Pension Plan so as to incur any liability to the Pension Benefit Guaranty Corporation, (iv) not allow or suffer to exist any prohibited transaction involving any Plan or any trust created thereunder which would subject Borrower or such ERISA Affiliate to a tax or other liability on prohibited transactions imposed under Section 4975 of the Code or ERISA in an aggregate amount in excess of \$500,000, (v) make all required contributions to any Plan which it is obligated to pay under Section 302 of ERISA, Section 412 of the Code or the terms of such Plan, (vi) not allow or suffer to exist any accumulated funding deficiency, whether or not waived, with respect to any such US Pension Plan, (vii) not engage in a transaction that could be subject to Section 4069 or 4212(c) of ERISA, or (viii) not allow or suffer to exist any occurrence of a reportable event or any other event or condition which presents a risk of termination by the Pension Benefit Guaranty Corporation of any Plan that is a single employer plan,

which termination could result in any liability to the Pension Benefit Guaranty Corporation.

9.21 Costs and Expenses

Upon demand by Agent, Borrower shall pay to Arranger, Agent and Lenders all reasonable costs, expenses, filing fees and taxes paid or payable in connection with the structuring, arrangement, syndication, preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, restructuring, enforcement and defense of the Obligations, Agent and each Lender's rights in the Collateral, the Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including: (a) all costs and expenses of filing or recording or searching (including PPSA and UCC financing statement and other similar filing and recording fees and taxes, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable); (b) all insurance premiums, appraisal fees and search fees; (c) reasonable costs and expenses of remitting loan proceeds, collecting cheques and other items of payment, and establishing and maintaining the Blocked Accounts, if any, and the Payment Accounts, together with Agent's customary charges and fees with respect thereto; (d) charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations; (e) costs and expenses of preserving and protecting the Collateral; (f) reasonable costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the security interests and liens of each Agent, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of the Financing Agreements or defending any claims made or threatened against Agent and Lenders arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); (g) all reasonable out-of-pocket expenses and costs heretofore and from time to time hereafter incurred by Agent during the course of periodic field examinations of the Collateral and Borrower's operations, plus a *per diem* charge at the rate of \$1,200 per person per day for Agent's examiners in the field and office; provided that with respect to such periodic field examinations: (i) Borrower shall permit same at the request of Agent; and (ii) Borrower shall only be responsible for paying such expenses, costs and *per diem* for two (2) such periodic field examinations in any twelve (12) month period with no such restrictions applicable after the occurrence and continuation of an Event of Default; (h) all reasonable out-of-pocket expenses including due diligence, audit and appraisal expenses and legal fees incurred in the structuring, negotiation, arrangement, syndication, restructuring, administration and amending of this Agreement and the Original Loan Agreement; and (i) the reasonable fees and disbursements of counsel (including legal assistants) to Arranger, Agent and Lenders in connection with any of the foregoing.

9.22 Further Assurances

At the request of Agent at any time and from time to time, Borrower shall, at its expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary to evidence, perfect, maintain and enforce the Liens and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of any of the Financing Agreements. Agent may at any time and from time to time request a certificate from an officer of Borrower representing

that all conditions precedent to the making of Revolving Loans and providing Letter of Credit Accommodations contained herein are satisfied. In the event of such request by Agent, Agent and each Lender may, at its option, cease to make any further Revolving Loans or provide any further Letter of Credit Accommodations until Agent has received such certificate and, in addition, Agent has determined that such conditions are satisfied. Where permitted by law, Borrower hereby authorizes Agent to execute and file one or more PPSA, UCC or other financing statements or notices signed only by Agent or Agent's representative.

9.23 Cash and Excess Availability Covenant

Borrower shall, at all times, maintain minimum Cash and Excess Availability, calculated monthly by Agent on the first day of each month, of not less than \$15,000,000.

9.24 Funded Debt

Borrower shall ensure that the ratio of Funded Debt to trailing twelve (12) month EBITDA shall not be more than 2.0:1.0 calculated on a consolidated basis at the end of each Fiscal Quarter.

9.25 No Material Changes

Borrower shall not, without the prior written consent of Agent (a) change its Fiscal Quarters or its fiscal year (currently January 1 to December 31), (b) make any material change to its business or the conduct thereof from that existing or being conducted as of the date hereof, other than changes that would not be reasonably expected to have a material adverse effect on (i) the business, condition (financial or otherwise), operations, performance, properties or prospects of Borrower and its Subsidiaries, taken as a whole, (ii) the rights and remedies of any Agent or any Lender under any Financing Agreement or (iii) the ability of Borrower or any Obligor to perform its obligations under any Financing Agreement to which it is or is to be a party (c) make any material changes to its accounting policies in effect as of the date hereof, except as required or permitted by GAAP or (d) make any material amendments to its organizational documents or material contracts other than amendments that would not be reasonably expected to have a material adverse effect on (i) the business, condition (financial or otherwise), operations, performance, properties or prospects of Borrower and its Subsidiaries, taken as a whole, (ii) the rights and remedies of any Agent or any Lender under any Financing Agreement or (iii) the ability of Borrower or any Obligor to perform its Obligations under any Financing Agreement to which it is or is to be a party.

9.26 Hedging Transactions

- (a) Agent or a Lender (or their respective Affiliates) may offer to make available Hedging Agreements to Borrower from time to time (it being understood that nothing contained herein shall be construed to commit any person to enter into any Hedging Agreement) upon terms mutually acceptable to Agent or such Lender or such Affiliate and Borrower. Except as otherwise permitted under Section 9.9(e) and (g), Borrower shall require the prior written consent of Agent and Required Lenders (each such consent not to be unreasonably withheld) before entering into any Hedging Agreement.

- (b) Borrower shall provide Agent with written notice forthwith upon entering into a Hedging Agreement. Such notice shall specify the name of the counterparty and the other details of the Hedging Agreement and the aggregate Mark to Market Exposure of outstanding Hedging Agreements immediately prior to entering into such Hedging Agreement. Borrower shall advise Agent in writing of the aggregate Mark to Market Exposure of its outstanding Hedging Agreements as at the end of each month by the next following Business Day, and such other times as Agent shall request. For greater certainty, Agent and any Lender or their respective Affiliates that makes a Hedging Agreement available to Borrower covenants and agrees (and shall cause any of its applicable Affiliates) to provide within five (5) Business Days of a written request therefor by Borrower, a determination of the Mark to Market Exposure of each Hedging Agreement that such Agent or Lender (or such Affiliate) has with Borrower.

ARTICLE 10
EVENTS OF DEFAULT AND REMEDIES

10.1 Events of Default

The occurrence or existence of any one or more of the following events are referred to herein individually as an “**Event of Default**”, and collectively as “**Events of Default**”:

- (a) Borrower fails to:
- (i) pay when due any principal due and payable hereunder, or subject to Section 10.1(a)(ii) hereof, fails to perform any of the covenants contained in Sections 9.14 and 9.23 of this Agreement or fails to perform any of the covenants contained in Sections 9.13, 9.18 and 9.24 of this Agreement;
 - (ii) perform any of the covenants contained in Sections 9.14 and 9.23 of this Agreement, where such failure to perform is caused solely by the exercise of discretion on the part of Agent pursuant to Section 2.1(b) hereof and where such failure to perform is not remedied to the satisfaction of Agent, in its sole discretion, within three (3) days of the date on which such term covenant, condition or provision was to be performed;
 - (iii) perform any of the covenants contained in Section 6.3 of this Agreement, where such failure to perform is not remedied to the satisfaction of Agent, in its sole discretion, within one (1) day of the original date on which such term, covenant, condition or provision was to be performed;
 - (iv) pay when due any Obligations (other than principal) under the Financing Agreements or fails to perform any of the covenants contained in Sections 6.6, 7.1, 7.2, 9.1, 9.2, 9.3, 9.5, 9.7, 9.8, 9.9, 9.10, 9.12, or 9.19 of this Agreement, where such failure to pay or perform, as applicable, is not remedied to the satisfaction of Agent, in its sole discretion, within three (3) days of the original date on which such term, covenant, condition or provision was to be performed; or

- (v) perform any other terms, covenants, conditions or provisions, or if any representations and warranties hereunder proves to be false or inaccurate when made, contained in this Agreement or any of the other Financing Agreements, where such failure to perform or to revise such representation or warranty is not remedied to the satisfaction of Agent, in its sole discretion, within fifteen (15) days from notice by Agent;
- (b) any Obligor:
 - (i) revokes or terminates any of the terms, covenants, conditions or provisions of any Financing Agreement;
 - (ii) fails to pay principal required pursuant to the terms, covenants, conditions or provisions of any Financing Agreement;
 - (iii) fails to pay Obligations (other than principal) required pursuant to the terms covenants, conditions or provisions of any Financing Agreement where such failure to pay is not remedied to the satisfaction of Agent, in its sole discretion, within three (3) days of the original date on which such payment was to be made; or
 - (iv) fails to perform any other terms covenants, conditions or provisions of any Financing Agreement, where such failure to perform is not remedied to the satisfaction of Agent, in its sole discretion, within fifteen (15) days from notice by Agent;
- (c) (i) any final non-appealable judgment for the payment of money is rendered against Borrower or any Obligor in excess of \$2,500,000 in any one case or in excess of \$10,000,000 in the aggregate and (A) shall remain undischarged or unvacated for a period in excess of sixty (60) days or (B) execution shall at any time not be effectively stayed; provided that no Event of Default shall occur if the applicable judgment is covered by third-party insurance as to which the insurer has been notified of such judgment and has confirmed full coverage thereof in writing to Borrower; or (ii) any final non-appealable judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against Borrower or any Obligor or any of their assets that could reasonably be expected to have a material adverse effect on Borrower or any Obligor or their property, operations, business, prospects or condition (financial or otherwise) and (A) shall remain undischarged or unvacated for a period in excess of sixty (60) days or (B) execution shall at any time not be effectively stayed;
- (d) Borrower dissolves, suspends or discontinues doing business, any Obligor (which is a partnership, limited liability company, limited partnership, limited liability partnership or a corporation) or any general partner of an Obligor that is a general partnership dissolves, suspends or discontinues doing business or any Obligor (who is a natural person) dies;

- (e) Borrower or any Obligor becomes insolvent, makes an assignment for the benefit of creditors, proposes to make, makes or sends notice of a bulk sale or calls a meeting of its creditors or principal creditors;
- (f) a petition, case or proceeding under the bankruptcy laws of Canada or similar laws of any foreign jurisdiction now or hereafter in effect or under any insolvency, arrangement, reorganization, moratorium, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed or commenced against Borrower or any Obligor or all or any part of its properties and such petition or application is not dismissed within thirty (30) days after the date of its filing or Borrower or any Obligor shall file any answer admitting or not contesting such petition or application or indicates its consent to, acquiescence in or approval of, any such action or proceeding or the relief requested is granted sooner;
- (g) a petition, case or proceeding under the bankruptcy laws of Canada or similar laws of any foreign jurisdiction now or hereafter in effect or under any insolvency, arrangement, reorganization, moratorium, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at a law or equity) is filed or commenced by Borrower or any Obligor for all or any part of its property including if Borrower or any Obligor shall:
 - (i) apply for or consent to the appointment of a receiver, trustee or liquidator of it or of all or a substantial part of its property and assets;
 - (ii) be unable, or admit in writing its inability, to pay its debts as they mature, or commit any other act of bankruptcy;
 - (iii) make a general assignment for the benefit of creditors;
 - (iv) file a voluntary petition or assignment in bankruptcy or a proposal seeking a reorganization, compromise, moratorium or arrangement with its creditors;
 - (v) take advantage of any insolvency or other similar law pertaining to arrangements, moratoriums, compromises or reorganizations, or admit the material allegations of a petition or application filed in respect of it in any bankruptcy, reorganization or insolvency proceeding; or
 - (vi) take any corporate action for the purpose of effecting any of the foregoing;
- (h) any default by Borrower or any Obligor under any agreement, document or instrument relating to any indebtedness for borrowed money owing to any person other than Lenders, contingent indebtedness in connection with any guarantee, letter of credit, indemnity or similar type of instrument in favour of any person other than Agent or Lenders, in any case in an amount in excess of \$2,000,000, which default continues for more than the applicable cure period, if any, with

respect thereto, or any default by Borrower or any Obligor under any material contract, lease, license or other obligation to any person other than Agent or Lenders, in any case in an amount in excess of \$2,000,000, which default continues for more than the applicable cure period, if any, with respect thereto;

- (i) any acquisition of control or change in the controlling ownership of Borrower, if any, which may reasonably be expected to have a material adverse effect on Borrower's financial condition;
- (j) there shall be a change in the business or assets of Borrower or any Obligor after the date hereof which is reasonably expected to have a material adverse effect on Borrower or any Obligor;
- (k) a requirement from the Minister of National Revenue for payment pursuant to Section 224 or any successor section of the *Income Tax Act* (Canada) or Section 317, or any successor section or any other Person in respect of Borrower of the *Excise Tax Act* (Canada) or any comparable provision of similar legislation shall have been received by Agent or any other Person in respect of Borrower or otherwise issued in respect of Borrower;
- (l) there shall be a default under any Secured Hedging Agreement or other Hedging Agreement to which Borrower is a party and such default continues for more than the applicable cure period, if any, with respect thereto;
- (m) any material loss, damage or destruction of the collateral purported to be covered by the Financing Agreements (including the Collateral) that is not covered in full by insurance proceeds payable to Agent thereunder or under the other Financing Agreements;
- (n) any Lien created by a Financing Agreement shall cease to be a valid and perfected first priority Lien (except as permitted herein or therein) in any material amount of the collateral purported to be covered thereby (including the Collateral); or
- (o) an ERISA Event shall occur which results in or could reasonably be expected to result in liability of Borrower in an aggregated amount in excess of \$500,000.

10.2 Remedies

- (a) At any time an Event of Default exists or has occurred and is continuing, Agent shall have all rights and remedies provided in the Financing Agreements, the PPSA, UCC and other applicable law, all of which rights and remedies may be exercised without notice to or consent by Borrower or any Obligor (and shall be exercised if directed by Required Lenders), except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Agent and Lenders, under any of the Financing Agreements, the PPSA, UCC or other applicable law, are cumulative, not exclusive and enforceable, in Agent's or Lenders' discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include the

right to apply to a court of equity for an injunction to restrain a breach or threatened breach by Borrower of any of the Financing Agreements. Agent may, (and shall upon the instruction of Required Lenders) at any time or times, proceed directly against Borrower or any Obligor to collect the Obligations (except under or in connection with Secured Hedging Agreements (which shall be collected in accordance with the terms thereof)) without prior recourse to the Collateral.

- (b) Without limiting the foregoing and subject to Section 10.2(c) hereof, at any time an Event of Default exists or has occurred and is continuing, Agent may (and shall upon the instruction of Required Lenders), in its discretion: (i) accelerate the payment of all outstanding Obligations (other than Obligations in connection with Secured Hedging Agreements which may be terminated in accordance with their own terms) and demand immediate payment thereof to Agent (~~provided, that~~, upon the occurrence of any Event of Default described in Sections 10.1(f) and 10.1(g), all outstanding Obligations (other than Obligations in connection with Secured Hedging Agreements which may be terminated in accordance with their own terms) shall automatically become immediately due and payable); (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral and carry on the business of Borrower; (iii) require Borrower, at Borrower's expense, to assemble and make available to Agent any part or all of the Collateral at any place and time designated by Agent; (iv) collect, foreclose, receive, appropriate, set-off and realize upon any and all Collateral; (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose; (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Agent or elsewhere) at such prices or terms as Agent may deem reasonable, for cash, upon credit or for future delivery, with Agent having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Borrower, which right or equity of redemption is hereby expressly waived and released by Borrower; (vii) without limiting clause (vi), grant a general, special or other license in respect of any aspect of the Collateral on an exclusive or non-exclusive basis to any person throughout the world or any part of it and on such terms and on such conditions as Agent may consider appropriate; (viii) enforce against any licensee or other person all rights and remedies of Borrower with respect to all or any part of the Collateral, and take or refrain from taking any action that Borrower might take with respect to any of those rights and remedies, and for this purpose Agent shall have the exclusive right to enforce or refrain from enforcing those rights and remedies, and may in the name of Borrower and at its expense retain and instruct counsel and initiate any court or other proceeding that Agent considers necessary or expedient; (ix) take any step necessary to preserve, maintain or insure the whole or any part of the Collateral or to realize upon any of it put it in vendable condition, and any amount paid as a result of any

taking any such steps shall be a cost the payment of which is secured by this Agreement; (x) borrow money and use the Collateral directly or indirectly in carrying on Borrower's business or as security for loans or advances for any such purposes; (xi) require Borrower to immediately begin using commercially reasonable efforts to obtain all consents and to provide all notices to any Client, as applicable, which may be required to permit Agent to assign the Eligible Contracts and Leases; (xii) grant extensions of time and other indulgences, take and give up security, accept compositions, grant releases and discharges, and otherwise deal with Borrower, debtors of Borrower, sureties and others as Agent may see fit without prejudice to the liability of Borrower or Agent's right to hold and realize the security interest created under any Financing Agreement; and/or (xiii) terminate this Agreement. If any of the Collateral is sold or leased by Agent upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Agent. If notice of disposition of Collateral is required by law, five (5) days prior notice by Agent to Borrower designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and Borrower waives any other notice. In the event Agent institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, Borrower waives the posting of any bond which might otherwise be required.

- (c) Notwithstanding anything to the contrary contained in this Section 10.2:
- (i) for the duration of the IP Grace Period, Agent shall not be permitted to enforce its security interest against the IP Collateral, or to exercise its rights under Section 10.2(b)(vii) hereof except as permitted pursuant to the IP Collateral License Agreement;
 - (ii) for the duration of the IP Grace Period, Borrower shall be permitted to use the IMAX name to carry on business;
 - (iii) upon the commencement of the IP Grace Period, Agent shall have, pursuant to the IP Collateral License Agreement, a royalty-free, freely assignable perpetual license to use the IP Collateral required to enable Agent to perform the obligations of Borrower under the Contracts and Leases;
 - (iv) upon the commencement of the IP Grace Period, Agent may sell, transfer, assign and/or otherwise dispose of the Collateral, other than the IP Collateral, to any transferee or assignee, and
 - (v) subsequent to the expiry of the IP Grace Period, provided that an Event of Default is then continuing, Agent may sell, transfer, assign and/or otherwise dispose of any of the IP Collateral up to a maximum amount equal to the outstanding Obligations together with all costs, charges and expenses incurred by Agent as a result of enforcing against the IP

Collateral and Borrower hereby irrevocably designates and appoints Agent (and all persons designated by Agent) as Borrower's true and lawful attorney-in-fact and authorizes Agent (and all persons designated by Agent) to effect the foregoing.

- (d) Agent may apply the cash proceeds of Collateral actually received by Agent from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations in the order set forth in Section 6.4(a).
- (e) Borrower shall remain liable to Agent for the payment of any deficiency with interest at the highest rate provided for herein and all costs and expenses of enforcement including legal costs and expenses.
- (f) Without limiting the foregoing, upon the occurrence of an Event of Default that is continuing, Agent or Lenders may, at their option, without notice, (i) cease making Revolving Loans or arranging Letter of Credit Accommodations or reduce the Lending Formulas or amounts of Revolving Loans and Letter of Credit Accommodations available to Borrower and/or (ii) terminate any provision of this Agreement providing for any future Revolving Loans or Letter of Credit Accommodations to be made by Lenders to Borrower.
- (g) Agent may appoint, remove and reappoint any person or persons, including an employee or agent of Agent or a Lender to be a receiver (the "**Receiver**") which term shall include a receiver and manager of, or agent for, all or any part of the Collateral. Any such Receiver shall, as far as concerns responsibility for his acts, be deemed to be the agent of Borrower and not of Agent or Lenders, and Agent and Lenders shall not in any way be responsible for any misconduct, negligence or non-feasance of such Receiver, his employees or agents. Except as otherwise directed by Agent, all money received by such Receiver shall be received in trust for and paid to Agent. Such Receiver shall have all of the powers and rights of Agent described in this Section 10.2. Agent may, either directly or through its agents or nominees, exercise any or all powers and rights of a Receiver.
- (h) Where Agent realizes upon any of the Collateral, and in particular upon any of the IP Collateral, Borrower shall provide without charge its know-how and expertise relating to the use and application of the Collateral, and in particular shall instruct Agent, and any purchaser of the Collateral designated by Agent, concerning any IP Collateral including any confidential information or trade secrets of Borrower. For greater certainty, the parties agree that unless such confidential information or trade secrets form part of the Collateral being realized upon, such confidential information or trade secrets shall be provided for use only subject to any agreement regarding the confidentiality thereof or for the protection thereof as may be reasonably requested by Borrower.
- (i) Borrower shall pay all reasonable costs, charges and expenses incurred by Agent or Lenders or any Receiver or any nominee or agent of Agent or Lenders, whether directly or for services rendered (including solicitor's costs on a solicitor and his

own client basis, auditor's costs, other legal expenses and Receiver remuneration) in enforcing any Financing Agreement and in enforcing or collecting Obligations and all such expenses together with any money owing as a result of any borrowing permitted hereby shall be a charge on the proceeds of realization and shall be secured hereby.

ARTICLE 11

ASSIGNMENT AND PARTICIPATIONS; APPOINTMENT OF AGENT

11.1 Assignment and Participations

- (a) Subject to the terms of this Section 11.1, any Lender may make an assignment or sale of participations in, at any time or times, the Financing Agreements, Loans and any Commitment or any portion thereof or interest therein, including any Lender's rights, title, interests, remedies, powers or duties thereunder. Any assignment by a Lender shall:
- (i) be in a minimum amount of \$5,000,000;
 - (ii) require the consent of Agent and Borrower provided that:
 - (A) such consent is not to be unreasonably withheld, conditioned or delayed; and
 - (B) the consent of Borrower shall not be required if:
 - (1) an Event of Default or Default shall have occurred and be continuing; or
 - (2) such assignment is to an Eligible Transferee;
 - (iii) not be to a Prohibited Transferee;
 - (iv) be effected by the execution of an assignment Agreement (an "**Assignment Agreement**") substantially in the form attached hereto as Schedule 11.1(a)(iv) and otherwise in form and substance reasonably satisfactory to, and acknowledged by, Agent;
 - (v) be conditioned on such assignee Lender representing to the assigning Lender and Agent that it is purchasing the applicable Loans to be assigned to it for its own account, for investment purposes and not with a view to the distribution thereof; and
 - (vi) include a payment to Agent of an assignment fee of Three Thousand Five Hundred US Dollars (\$3,500).

In the case of an assignment by a Lender under this Section 11.1, the assignee shall have, to the extent of such assignment, the same rights, benefits and obligations as all other Lenders

hereunder. The assigning Lender shall be relieved of its obligations hereunder with respect to its Commitments or assigned portion thereof from and after the date of such assignment. Borrower hereby acknowledges and agrees that any assignment shall give rise to a direct obligation of Borrower to the assignee and that the assignee shall be considered to be a “**Lender**”. In all instances, each Lender’s liability to make Loans hereunder shall be several and not joint and shall be limited to such Lender’s Pro Rata Share of the applicable Commitment. In the event any Lender assigns or otherwise transfers all or any part of the Obligations, such Lender shall so notify Borrower and Borrower shall, upon the request of Agent or such Lender, execute new Term Notes in exchange for the Term Notes, if any, being assigned. Notwithstanding the foregoing provisions of this Section 11.1(a), any Lender may at any time pledge the Obligations held by it and such Lender’s rights under this Agreement and the other Financing Agreements to the Bank of Canada or the Canada Deposit Insurance Corporation; provided, that no such pledge to the Bank of Canada or the Canada Deposit Insurance Corporation shall release such Lender from such Lender’s obligations hereunder or under any other Financing Agreement.

- (b) Any sale of a participation by a Lender of all or any part of its Commitments shall be made with the understanding that all amounts payable by Borrower hereunder shall be determined as if that Lender had not sold such participation, and that the holder of any such participation shall not be entitled to require such Lender to take or omit to take any action hereunder except actions directly affecting (i) any reduction in the principal amount of, or interest rate or fees payable with respect to any Loan in which such holder participates, (ii) any extension of the scheduled amortization of the principal amount of any Loan in which such holder participates or the final maturity date thereof, and (iii) any release of all or substantially all of the Collateral (other than in accordance with the terms of this Agreement or the other Financing Agreements). Neither Agent nor any Lender (other than a Lender selling a participation) shall have any duty to any participant and may continue to deal solely with Lenders selling a participation as if no such sale had occurred. No consent of Borrower is required with respect to the sale of a participation by a Lender of all or any part of its Commitment. No sale of a participation by a Lender of all or any part of its Commitment shall be made to a Prohibited Transferee.
- (c) Except as expressly provided in this Section 11.1, no Lender shall, as between Borrower and that Lender, or Agent and that Lender, be relieved of any of its obligations hereunder as a result of any sale, assignment, transfer or negotiation of, or granting of participation in, all or any part of the Loans, the Term Notes or other Obligations owed to such Lender.
- (d) Borrower shall assist any Lender permitted to sell assignments or participations under this Section 11.1 as reasonably required to enable the assigning or selling Lender to effect any such assignment or participation, including the execution and delivery of any and all agreements, notes and other documents and instruments as shall be requested, the preparation of informational materials for, and the participation of management in meetings with, potential assignees or participants. Borrower shall certify the correctness, completeness and accuracy of all descriptions of Borrower and its respective affairs contained in any selling

materials provided by it and all other information provided by it and included in such materials.

- (e) A Lender may furnish any information concerning Borrower in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants) provided such Persons agree to maintain the confidentiality of such information.
- (f) Borrower may not assign its rights under the Financing Agreements and any other document referred to herein or therein without the prior written consent of Agent and all Lenders.

11.2 Appointment of Agent

- (a) Agent is hereby appointed to act on behalf of Lenders as Agent under this Agreement and the other Financing Agreements. The provisions of this Section 11.2 are solely for the benefit of Agent and Lenders and neither Borrower nor any other Person shall have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement and the other Financing Agreements, Agent shall act solely as an agent and mandatory of Lenders and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency, mandatory or trust with or for Borrower or any Person other than Lenders. Agent shall have no duties or responsibilities except for those expressly set forth in this Agreement and the other Financing Agreements. The duties of Agent shall be mechanical and administrative in nature and Agent shall not have, or be deemed to have, by reason of this Agreement, any other Financing Agreement or otherwise a fiduciary relationship in respect of any Lender. Except as expressly set forth in this Agreement and the other Financing Agreements, Agent shall not have any duty to disclose, and shall not be liable for failure to disclose, any information relating to Borrower, Obligors or any of their respective Subsidiaries or any account debtor that is communicated to or obtained by Agent or any of its affiliates in any capacity. Neither Agent nor any of its Affiliates nor any of their respective officers, directors, employees, agents or representatives shall be liable to any Lender for any action taken or omitted to be taken by it hereunder or under any other Financing Agreement, or in connection herewith or therewith, except for damages caused by its or their own gross negligence or wilful misconduct as determined by a final and non-appealable judgment or court order binding on them.
- (b) If Agent shall request instructions from all Lenders, all affected Lenders or Required Lenders, as the case may be, with respect to any act or action (including failure to act) in connection with this Agreement or any other Financing Agreement, then Agent shall be entitled to refrain from such act or taking such action unless and until Agent shall have received instructions from all Lenders, all affected Lenders or Required Lenders, as the case may be, and Agent shall not incur liability to any Person by reason of so refraining. Agent shall be fully

justified in failing or refusing to take any action hereunder or under any other Financing Agreement (i) if such action would, in the opinion of Agent, be contrary to law or the terms of this Agreement or any other Financing Agreement; (ii) if such action would, in the opinion of Agent, expose Agent to liabilities under Environmental Laws; or (iii) if Agent shall not first be indemnified to its satisfaction against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Without limiting the foregoing, no Lender shall have any right of action whatsoever against Agent as a result of Agent acting or refraining from acting hereunder or under any other Financing Agreement in accordance with the instructions of all Lenders, all affected Lenders or Required Lenders, as the case may be.

11.3 Agent's Reliance, Etc.

Neither Agent nor any of its Affiliates nor any of their respective directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement or the other Financing Agreements, except for damages caused by its or their own negligence or wilful misconduct as determined by a final and non-appealable judgment or court order binding on them. Without limiting the generality of the foregoing, Agent: (i) may treat the payee of any Term Note as the holder thereof until Agent receives written notice of the assignment or transfer thereof signed by such payee and in form reasonably satisfactory to Agent; (ii) may consult with legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with this Agreement or the other Financing Agreements; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or the other Financing Agreements on the part of Borrower or to inspect the Collateral (including the books and records) of Borrower; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Financing Agreements or any other instrument or document furnished pursuant hereto or thereto; and (vi) shall incur no liability under or in respect of this Agreement or the other Financing Agreements by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopy, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

11.4 Agent and Affiliates

With respect to any of its Commitments hereunder, Agent shall have the same rights and powers under this Agreement and the other Financing Agreements as any other Lender and may exercise the same as though it were not Agent; and the term "**Lender**" or "**Lenders**" shall, unless otherwise expressly indicated, include Agent in its individual capacity. Agent and its Affiliates may lend money to, invest in, and generally engage in any kind of business with Borrower, any of its Affiliates and any Person who may do business with or own securities of Borrower or any such Affiliate, all as if Agent were not Agent and without any duty to account therefor to Lenders. Agent and its Affiliates may accept fees and other consideration from Borrower for

services in connection with this Agreement or otherwise without having to account for the same to Lenders. Each Lender acknowledges the potential conflict of interest between Agent as a Lender and Agent as agent hereunder.

11.5 Lender Credit Decision

Each Lender acknowledges that it has, independently and without reliance upon Agent or any other Lender and based on the Information Certificate and such other documents and information as it has deemed appropriate, made its own credit and financial analysis of Borrower and its own decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement. Each Lender acknowledges the potential conflict of interest of each other Lender as a result of Lenders holding disproportionate interests in the Loans, and expressly consents to, and waives any claim based upon, such conflict of interest.

11.6 Indemnification

Lenders agree to indemnify Agent (to the extent not reimbursed by Borrower and without limiting the obligations of Borrower hereunder), rateably according to their respective Pro Rata Shares, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of this Agreement or any other Financing Agreement or any action taken or omitted to be taken by Agent in connection therewith; provided, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Agent's gross negligence or wilful misconduct as determined by a final and non-appealable judgment or court order binding on Agent. Without limiting the foregoing, each Lender agrees to reimburse Agent promptly upon demand for its rateable share according to its Pro Rata Share of any out-of-pocket expenses (including reasonable fees of counsel) incurred by Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement and each other Financing Agreement, to the extent that Agent is not reimbursed for such expenses by Borrower.

11.7 Failure to Act

Except for action expressly required of Agent hereunder and under the other Financing Agreements, Agent shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction from Lenders of their indemnification obligations under Section 11.6 hereof against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action.

11.8 Concerning the Collateral and the Related Financing Agreements

Each Lender authorizes and directs Agent to enter into this Agreement and the other Financing Agreements. Each Lender agrees that any action taken by Agent in accordance with the terms of this Agreement or the other Financing Agreements and the exercise by Agent of its powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon Lenders.

11.9 Field Audit, Examination Reports and other Information; Disclaimer by Lenders.

By signing this Agreement, each Lender:

- (a) deemed to have requested that Agent furnish such Lender, within a reasonable time after it becomes available to Agent, a copy of each field audit, examination report, Compliance Certificate, Borrowing Base Certificate and/or other documentation (each such audit, report, certificate or documentation being referred to herein as a “**Report**” and collectively, “**Reports**”);
- (b) expressly agrees and acknowledges that Agent (i) does not make any representation or warranty as to the accuracy of any Report, or (ii) shall not be liable for any information contained in any Report;
- (c) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that Agent or any other party performing any audit or examination will inspect only specific information regarding Borrower and will rely significantly upon Borrower’s books and records, as well as on representations of Borrower’s personnel; and
- (d) agrees to keep all Reports confidential and strictly for its internal use and not to distribute or use any Report in any other manner.

11.10 Collateral Matters

- (a) Lenders hereby irrevocably authorize Agent at its option and in its discretion to release any Lien upon any of the Collateral (i) upon termination of the Commitments and payment and satisfaction of all of the Obligations and delivery of cash collateral to the extent required under Section 13.1 below; or (ii) constituting property being sold or disposed of if Borrower certifies to Agent that the sale or disposition is made in compliance with Section 9.7 hereof (and Agent may rely conclusively on any such certificate, without further enquiry); or (iii) constituting property in which Borrower did not own an interest at the time the Lien was granted or at any time thereafter; or (iv) if required under the terms of any of the other Financing Agreements, including any intercreditor agreement; or (v) approved, authorized or ratified in writing in accordance with Section 11.15 hereof. Except as provided above, Agent will not release any Lien upon any of the Collateral without the prior written authorization required in accordance with Section 11.15 hereof.

- (b) Without any manner limiting Agent's authority to act without any specific or further authorization or consent by applicable Lenders, each Lender, as applicable, agrees to confirm in writing, upon request by Agent, the authority to release Collateral conferred upon Agent under this Section. Agent shall (and is hereby irrevocably authorized by Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to Agent upon any Collateral to the extent set forth above; provided, that, (i) Agent shall not be required to execute any such document on terms which, in Agent's opinion, would expose Agent to liability or create any obligations or entail any consequence other than the release of such Lien without recourse or warranty and (ii) such release shall not in any manner discharge, affect or impair the Obligations or any Lien upon (or obligations of any Borrower in respect of) the Collateral retained by Borrower.
- (c) Agent shall have no obligation whatsoever to any Lender or any other Person to investigate, confirm or assure that the Collateral exists or is owned by Borrower or is cared for, protected or insured or has been encumbered, or that any particular items of Collateral meet the eligibility criteria applicable in respect of the Loans hereunder, or whether any particular reserves are appropriate, or that the Liens granted to Agent pursuant hereto or any of the Financing Agreements or otherwise have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent in this Agreement or in any of the other Financing Agreements, it being understood and agreed that in respect of Collateral, or any act, omission or event related thereto, Agent may act in any manner it may deem appropriate, in its discretion, given Agent's own interest in the Collateral as a Lender and that Agent shall have no duty or liability whatsoever to any other Lender.

11.11 Successor Agent

Agent may resign at any time by giving not less than thirty (30) days' prior written notice thereof to Lenders and Borrower. Upon any such resignation, Required Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by Required Lenders and shall have accepted such appointment within thirty (30) days after the resigning Agent's giving notice of resignation, then the resigning Agent may, on behalf of Lenders, appoint a successor Agent, which shall be a Lender, if a Lender is willing to accept such appointment, or otherwise shall be a commercial bank or financial institution or a subsidiary of a commercial bank or financial institution if such commercial bank or financial institution or other entity whose business includes making commercial loans, in each case, is organized under the laws of Canada or of any province thereof. If no successor Agent has been appointed pursuant to the foregoing, within thirty (30) days after the date such notice of resignation was given by the resigning Agent, such resignation shall become effective and Required Lenders shall thereafter perform all the duties of Agent hereunder until such time, if any, as Required Lenders appoint a successor Agent as provided above. Any successor Agent appointed by Required Lenders hereunder shall be subject to the approval of Borrower, such approval not to be unreasonably

withheld or delayed; provided, that such approval shall not be required if an Event of Default has occurred and is continuing. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent. Upon the earlier of the acceptance of any appointment as Agent hereunder by a successor Agent or the effective date of the resigning Agent's resignation, the resigning Agent shall be discharged from its duties and obligations under this Agreement and the other Financing Agreements, except that any indemnity rights or other rights in favour of such resigning Agent shall continue. After any resigning Agent's resignation hereunder, the provisions of this Article 11 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was acting as Agent under this Agreement and the other Financing Agreements.

11.12 Setoff and Sharing of Payments

In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default and subject to Section 11.13(f), each Lender is hereby authorized at any time or from time to time, without notice to Borrower or to any other Person other than Agent, any such notice being hereby expressly waived, to setoff and to appropriate and to apply any and all balances held by it at any of its offices for the account of Borrower (regardless of whether such balances are then due to Borrower) and any other properties or assets at any time held or owing by that Lender to or for the credit or for the account of Borrower against and on account of any of the Obligations that are not paid when due; provided, that Lenders exercising such setoff rights shall give notice thereof to Borrower promptly after exercising such rights. Any Lender exercising a right of setoff or otherwise receiving any payment on account of the Obligations in excess of its Pro Rata Share thereof shall purchase for cash (and the other Lender shall sell) such participations in each such other Lender's Pro Rata Share of the Obligations as would be necessary to cause such Lender to share the amount so setoff or otherwise received with the other Lender in accordance with their respective Pro Rata Shares. Borrower agrees, to the fullest extent permitted by law that (a) any Lender may exercise its right to setoff with respect to amounts in excess of its Pro Rata Share of the Obligations and may sell participations in such amounts so setoff to the other Lenders; and (b) any Lender so purchasing a participation in a Loan made or other Obligations held by the other Lenders may exercise all rights of setoff, bankers' lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of the Loan and the other Obligations in the amount of such participation. Notwithstanding the foregoing, if all or any portion of the setoff amount or payment otherwise received is thereafter recovered from a Lender that has exercised the right of setoff, the purchase of participations by that Lender shall be rescinded and the purchase price restored without interest.

11.13 Advances; Payments; Non-Funding Lenders; Information; Actions in Concert

(a) Advances; Payments

- (i) In each funding notice provided by Agent to a Lender hereunder, Agent shall provide such Lender with written confirmation (by telephone, telecopy or email (if such Lender has provided email notice coordinates to

Agent)) that all conditions precedent hereunder to such funding have been satisfied or waived in accordance with the terms hereof.

- (ii) Each Lender shall make the amount of such Lender's Pro Rata Share of such Loan available to Agent in same day funds by wire transfer to Agent's account not later than 11:00 a.m. (Toronto time) on the requested funding date (which must be a Business Day). After receipt of such wire transfers (or, in Agent's sole discretion, before receipt of such wire transfers), subject to the terms hereof, Agent shall make the requested Loan to Borrower. All payments by each Lender shall be made without setoff, counterclaim or deduction of any kind.
- (iii) On the 2nd Business Day of each calendar month or more frequently at Agent's election (each, a "**Settlement Date**"), Agent shall advise each Lender by telephone, telecopy or email (if such Lender has provided email notice coordinates to Agent) of the amount of such Lender's Pro Rata Share of principal, interest and fees paid for the benefit of Lenders with respect to each applicable Loan. Provided that each Lender has funded all payments and Loans required to be made by it and purchased all participations required to be purchased by it under this Agreement and the other Financing Agreements as of such Settlement Date, Agent shall pay to each Lender such Lender's Pro Rata Share of principal, interest and fees paid by Borrower since the previous Settlement Date for the benefit of such Lender on the portion of the Loans held by it. To the extent that any Lender (a "**Non-Funding Lender**") has failed to fund all such payments and Loans or failed to fund the purchase of all such participations, Agent shall be entitled to set off the funding short-fall against that Non-Funding Lender's Pro Rata Share of all payments received from Borrower. Such payments shall be made by wire transfer to such Lender's account not later than 2:00 p.m. (Toronto time) on the next Business Day following each Settlement Date.
- (b) Availability of Lender's Pro Rata Share. Agent may assume that each Lender will make its Pro Rata Share of each Loan available to Agent on each funding date (which must be a Business Day). If such Pro Rata Share is not, in fact, paid to Agent by such Lender when due, Agent will be entitled to recover such amount on demand from such Lender without setoff, counterclaim or deduction of any kind. If any Lender fails to pay the amount of its Pro Rata Share forthwith upon Agent's demand, Agent shall promptly notify Borrower and Borrower shall immediately repay such amount to Agent. Nothing in this Section 11.13(b) or elsewhere in this Agreement or the other Financing Agreements shall be deemed to require Agent to advance funds on behalf of any Lender or to relieve any Lender from its obligation to fulfil its Commitment hereunder or to prejudice any rights that a Borrower may have against any Lender as a result of any default by such Lender hereunder. To the extent that Agent advances funds to Borrower on behalf of any Lender and is not reimbursed therefor on the same Business Day as

such Loan is made, Agent shall be entitled to retain for its account all interest accrued on such advance until reimbursed by the applicable Lender.

- (c) Return of Payments.
- (i) If Agent pays an amount to a Lender under this Agreement in the belief or expectation that a related payment has been or will be received by Agent from Borrower and such related payment is not received by Agent, then Agent will be entitled to recover such amount from such Lender on demand without setoff, counterclaim or deduction of any kind.
 - (ii) If Agent determines at any time that any amount received by Agent under this Agreement must be returned to Borrower or paid to any other Person pursuant to any bankruptcy or insolvency law or otherwise, then, notwithstanding any other term or condition of this Agreement or any other Financing Agreement, Agent will not be required to distribute any portion thereof to any Lender. In addition, each Lender will repay to Agent on demand any portion of such amount that Agent has distributed to such Lender, together with interest at such rate, if any, as Agent is required to pay to Borrower or such other Person, without setoff, counterclaim or deduction of any kind.
- (d) Non-Funding Lenders. The failure of any Non-Funding Lender to make any Loan or any payment required by it hereunder on the date specified thereof, shall not relieve the other Lenders (each such other Lender, an “**Other Lender**”) of its obligations to make such Loan or purchase such participation on such date, but neither any Other Lender nor Agent shall be responsible for the failure of any Non-Funding Lender to make a Loan, purchase a participation or make any other payment required hereunder. Notwithstanding anything set forth herein to the contrary, a Non-Funding Lender shall not have any voting or consent rights under or with respect to any Financing Agreement or constitute a “**Lender**” for any voting or consent rights under or with respect to any Financing Agreement. At Borrower’s request, Agent or a Person acceptable to Agent shall have the right with Agent’s consent and in Agent’s sole discretion (but shall have no obligation) to purchase from any Non-Funding Lender, and each Non-Funding Lender agrees that it shall, at Agent’s request, sell and assign to Agent or such Person, all of the Commitments of that Non-Funding Lender for an amount equal to the principal balance of all Loans held by such Non-Funding Lender and all accrued interest and fees with respect thereto through the date of sale, such purchase and sale to be consummated pursuant to an executed Assignment Agreement.
- (e) Dissemination of Information. Agent shall use reasonable efforts to provide Lenders with any notice of any Event of Default received by Agent from, or delivered by Agent to Borrower, with notice of any Event of Default of which Agent has actually become aware and with notice of any action taken by Agent following any Event of Default and with any notice received from Borrower pursuant to Section 9.7(b)(vii); provided, that Agent shall not be liable to any

Lender for any failure to do so, except to the extent that such failure is attributable to Agent's gross negligence or wilful misconduct as determined by a final and non-appealable judgment or court order binding on Agent.

- (f) Actions in Concert. Anything in this Agreement to the contrary notwithstanding, each Lender hereby agrees with Agent and each other Lender that no Lender shall take any action to protect or enforce its rights arising out of this Agreement or the other Financing Agreements (including exercising any rights of setoff) without first obtaining the prior written consent of Agent and all other Lenders, it being the intent of Lenders that any such action to protect or enforce rights under this Agreement and the other Financing Agreements shall be taken in concert and at the direction or with the consent of Agent, all Lenders, affected Lenders or Required Lenders, as the case may be.

11.14 Meetings of Lenders

Any Lender is entitled to call a meeting of all Lenders on not less than ten (10) Business Days prior written notice to all other Lenders for the purposes of considering any matters relevant to this Agreement, the other Financing Agreements and/or in respect of the Obligations

11.15 Approval of Lenders and Agent

- (a) Notwithstanding any other provision of this Agreement but subject to Section 11.15(b), no amendment or waiver of any provision of this Agreement, nor consent to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given;
- (i) provided that no amendment, waiver or consent shall, unless in writing and signed by all affected Lenders (other than a Non-Funding Lender) do any of the following at any time:
- (A) reduce the rate or amount of any principal, interest or fees payable by Borrower or alter the currency or mode of calculation or computation thereof;
 - (B) extend the time for payments required to be made by Borrower or the Maturity Date;
 - (C) increase any Lender's Commitment;
 - (D) change the definition of Required Lenders, any provision of this Section 11.15 or reduce the voting percentages hereunder, or
 - (E) change the payment waterfall in Section 6.4(a) hereof,

- (ii) provided further that no amendment, waiver or consent shall, unless in writing and signed by all Lenders (other than a Non-Funding Lender) do any of the following at any time:
 - (A) release all or substantially all of the value of the collateral under any Financing Agreement or any guarantee of the Obligations;
 - (B) permit Borrower or any Obligor to assign its rights under the Financing Agreements;
 - (C) amend the Pro Rata sharing provisions hereunder; or
 - (D) amend the voting percentages hereunder.
- (b) Notwithstanding Section 11.15(a), Agent may, without the consent of Lenders, make amendments to the Financing Agreements that are for the sole purpose of curing any immaterial or administrative ambiguity, defect or inconsistency. Agent shall, within a reasonable time, notify Lenders or any such action. Notwithstanding Section 11.15(a), no amendment, waiver or consent shall, unless in writing and signed by Agent in addition to Lenders required above to take such action, affect the rights or duties of Agent under this Agreement or any of the other Financing Agreements. Notwithstanding Section 11.15(a), no amendment, waiver or consent shall, unless in writing and signed by the applicable counterparty (being Agent, a Lender or their respective Affiliates) to a Secured Hedging Agreement (other than Borrower), in addition to Lenders required above to take such action, release all or substantially all of the value of the collateral under any Financing Agreement or any guarantee of the Obligations or amend Section 6.4(a) or Section 11.15(b).

ARTICLE 12

JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

12.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver

- (a) The validity, interpretation and enforcement of the Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.
- (b) Borrower, Lenders and Agent irrevocably consent and submit to the non-exclusive jurisdiction of the Superior Court of Justice (Ontario) and waive any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under any of the Financing Agreements or in any way connected with or related or incidental to the dealings of the parties hereto in respect of any of the Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that Agent

and Lenders shall have the right to bring any action or proceeding against Borrower or its property in the courts of any other jurisdiction which Agent or Lenders deem necessary or appropriate in order to realize on the Collateral or to otherwise enforce their respective rights against Borrower or its property).

- (c) To the extent permitted by law, Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the Canadian mails, or, at Agent's option, by service upon Borrower in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Borrower shall appear in answer to such process, failing which Borrower shall be deemed in default and judgment may be entered by Agent or Lenders against Borrower for the amount of the claim and other relief requested.
- (d) TO THE EXTENT PERMITTED BY APPLICABLE LAW BORROWER, LENDERS AND AGENT EACH HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER ANY OF THE FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO IN RESPECT OF ANY OF THE FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. TO THE EXTENT PERMITTED BY APPLICABLE LAW, BORROWER, LENDERS AND AGENT EACH HEREBY AGREE AND CONSENT THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT BORROWER, AGENT OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
- (e) Lenders and Agent shall not have any liability to Borrower (whether in tort, contract, equity or otherwise) for losses suffered by Borrower in connection with, arising out of, or in any way related to the transactions or relationships contemplated by any Financing Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Agent or a Lender, that the losses were the result of acts or omissions constituting gross negligence or wilful misconduct and Borrower hereby waives any claims for special, punitive, exemplary, indirect or consequential damages in respect of any breach or alleged breach by Agent or any Lender of any of the terms of this Agreement or the other Financing Agreements except in the case of gross negligence or wilful misconduct of Agent or any Lender as determined by a final and non-appealable judgment or court order binding on Agent or Lender.

- (f) Borrower hereby expressly waives all rights of notice and hearing of any kind prior to the exercise of rights by Agent from and after the occurrence of an Event of Default that is continuing to repossess the Collateral with judicial process or to replevy, attach or levy upon the Collateral or other security for the Obligations. Borrower waives the posting of any bond otherwise required of Agent in connection with any judicial process or proceeding to obtain possession of, replevy, attach or levy upon the Collateral or other security for the Obligations, to enforce any judgment or other court order entered in favour of Agent, or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction or any other Financing Agreement.

12.2 Waiver of Notices

Borrower hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonour with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on Borrower which Agent may elect to give shall entitle Borrower to any other or further notice or demand in the same, similar or other circumstances.

12.3 Amendments and Waivers

Subject to [Section 11.15](#), neither this Agreement nor any provision hereof shall be amended or waived, nor consent to any departure by Borrower therefrom permitted, orally or by course of conduct, but only by a written agreement signed by an authorized officer of each Lender and Agent, and as to amendments, as also signed by an authorized officer of Borrower. Agent shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Agent. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent would otherwise have on any future occasion, whether similar in kind or otherwise.

12.4 Waiver of Counterclaim

Borrower waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other than compulsory counterclaims) in any action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

12.5 Indemnification

Borrower shall indemnify and hold Arranger, Agent and each Lender, and their respective directors, officers, agents, representatives, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery,

enforcement, performance or administration of any Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto or the relationship between any of Borrower and Obligor, on the other hand, and Arranger, Agent, each Lender and their respective directors, officers, agents, representatives, employees and counsel, on the other hand, including amounts paid in settlement, court costs, and the fees and expenses of counsel and others incurred in connection with investigating, preparing to defend or defending any such litigation, investigation, claim or proceeding. Such indemnification shall not apply to losses, claims, damages, liabilities, costs or expenses resulting from the bad faith, fraud, gross negligence or wilful misconduct of Arranger, Agent, any Lender and/or their respective directors, officers, agents, representatives, employees and counsel as determined pursuant to a final non-appealable order of a court of competent jurisdiction or to losses, claims, damages, liabilities, costs or expenses to the extent relating to disputes among such indemnified parties or to a breach of their obligations to Borrower hereunder as determined pursuant to a final non-appealable order of a court of competent jurisdiction. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section 12.5 may be unenforceable because it violates any law or public policy, Borrower shall pay the maximum portion which it is permitted to pay under applicable law to Arranger, Agent, each Lender and their respective directors, officers, agents, representatives, employees and counsel in satisfaction of indemnified matters under this Section 12.5. The foregoing indemnity shall survive the payment of the Obligations and the termination of this Agreement.

ARTICLE 13

TERM OF AGREEMENT; MISCELLANEOUS

13.1 Term

- (a) The Financing Agreements shall continue in full force and effect for a term ending on the Maturity Date unless sooner terminated pursuant to the terms hereof. Upon the Maturity Date or effective date of termination of the Financing Agreements, Borrower shall pay to Agent, in full, all outstanding and unpaid Obligations (except under or in connection with any Secured Hedging Agreement) and shall furnish cash collateral to Agent in such amounts as Agent determines are reasonably necessary to secure Agent, Lenders and Secured Parties from loss, cost, damage or expense, including legal fees and expenses, issued and outstanding Letter of Credit Accommodations, outstanding Secured Hedging Agreements and cheques or other payments provisionally credited to the Obligations and/or as to which Agent and Lenders have not yet received final and indefeasible payment. Such payments in respect of the Obligations and cash collateral shall be remitted by wire transfer in US Dollars to such bank account of Agent, as Agent may, in its discretion, designate in writing to Borrower for such purpose. Interest shall be due until and including the next Business Day, if the amounts so paid by Borrower to the bank account designated by Agent are received in such bank account later than 12:00 noon, Toronto time.
- (b) No termination of any of the Financing Agreements shall relieve or discharge Borrower of its respective duties, obligations and covenants under the Financing Agreements until all Obligations have been fully and finally discharged and paid,

and Agent's continuing security interest in the Collateral and the rights and remedies of Agent and Lenders, under the Financing Agreements and applicable law, shall remain in effect until all such Obligations have been fully and finally discharged and paid.

- (c) If this Agreement is terminated by Borrower prior to October 31, 2015 or by Agent pursuant to its right to terminate pursuant to Section 10.2, in view of the impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Lenders' lost profits as a result thereof, Borrower agrees to pay to Agent, for the account of Lenders based on their respective Pro Rata Share, upon the effective date of such termination, an early termination fee in the amount set forth below if such termination is effective in the period indicated:

<u>Amount</u>	-	<u>Period</u>
(a) 1.5% of: the Maximum Revolving Credit and (i) the Maximum Revolving Term Credit on or before the Revolving Term Loan Term Conversion Date or (ii) the outstanding balance of the Revolving Term Loan after the Revolving Term Loan Term Conversion Date	-	From the date hereof to and including the 1st anniversary of the date hereof.
(b) 1.0% of: the Maximum Revolving Credit and (i) the Maximum Revolving Term Credit on or before the Revolving Term Loan Term Conversion Date or (ii) the outstanding balance of the Revolving Term Loan after the Revolving Term Loan Term Conversion Date	-	After the 1st anniversary of the date hereof to and including the 2nd anniversary of the date hereof.
(c) 0.5% of Maximum Revolving Credit and outstanding balance of the Revolving Term Loan	-	After the 2nd anniversary of the date hereof to and including the Maturity Date.

Such early termination fee shall be presumed to be the amount of damages sustained by Lenders as a result of such early termination and Borrower agrees that it is reasonable under the circumstances currently existing. In addition, Agent, on behalf of Lenders, shall be entitled to such early termination fee upon the occurrence of any Event of Default described in Sections 10.1(f) and 10.1(g) hereof, even if Agent does not exercise its right to terminate this Agreement, or a Lender elects, at its option, to provide financing to Borrower or permit the use

of cash collateral under any applicable reorganization or insolvency legislation. The early termination fee provided for in this Section 13.1 shall be deemed included in the Obligations.

13.2 Notice

All notices, requests and demands hereunder shall be in writing and (a) made to Agent and Lenders at their respective addresses set forth below and to Borrower at its chief executive office set forth below, or to such other address as any party may designate by written notice to the other in accordance with this provision, and (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next Business Day, one (1) Business Day after sending; and if by registered mail, return receipt requested, five (5) days after mailing.

13.3 Partial Invalidity

If any provision of this Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Agreement as a whole, but this Agreement shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.

13.4 Successors

The Financing Agreements and any other document referred to herein or therein shall be binding upon and inure to the benefit of and be enforceable by Agent, Lenders and Borrower and their respective successors and permitted assigns.

13.5 Entire Agreement

The Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto, and supersede all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written. In the event of any inconsistency between the terms of this Agreement and any schedule or exhibit hereto, the terms of this Agreement shall govern.

13.6 Headings

The division of this Agreement into sections and the insertion of headings and a table of contents are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

13.7 Judgment Currency

To the extent permitted by applicable law, the obligations of Borrower in respect of any amount due under this Agreement shall, notwithstanding any payment in any other currency (the “**Other Currency**”) (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the “**Agreed Currency**”) that Lender may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the Business Day immediately after the day on which Agent receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Borrower shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Borrower not discharged by that payment shall, to the extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this section, continue in full force and effect.

13.8 Counterparts and Facsimile

This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and such counterparts together shall constitute one and the same agreement. The delivery of a facsimile or pdf copy of an executed counterpart of this Agreement shall be deemed to be valid execution and delivery of this Agreement, but the party delivering a facsimile or pdf copy shall deliver to the other party an original copy of this Agreement as soon as possible after delivering the facsimile or pdf copy.

13.9 Patriot Act Notice

Agent and each Lender which is subject to the *Patriot Act* hereby notifies Borrower that pursuant to the requirements of the *Patriot Act*, it is required to obtain, verify and record information that identifies each person or corporation who opens an account and/or enters into a business relationship with it, which information includes the name and address of Borrower and its Subsidiaries and other information that will allow Agent and such Lender to identify such person in accordance with the *Patriot Act* and any other applicable law. Borrower is hereby advised that any Loans or Letter of Credit Accommodations hereunder are subject to satisfactory results of such verification.

ARTICLE 14

ACKNOWLEDGMENT AND RESTATEMENT

14.1 Existing Obligations

Borrower hereby acknowledges, confirms and agrees that Borrower is indebted to Lenders for outstanding loans, advances and letter of credit accommodations to Borrower under the Existing Loan Agreement together with all interest accrued and accruing thereon (to the extent applicable), and all fees, costs, expenses and other charges relating thereto, all of which are unconditionally owing by Borrower to Lenders to the extent set forth in the Existing Loan Agreement, without setoff, defense or counterclaim of any kind, nature or description whatsoever. The Loans and other financial accommodations provided for in this Agreement are

an extension of the "Loans" and other financial accommodations provided for under the Existing Loan Agreement and shall continue without novation.

14.2 Acknowledgment of Security Interests

- (a) Borrower hereby acknowledges, confirms and agrees that Agent, on behalf of itself and Secured Parties, shall continue to have a Lien upon the collateral heretofore granted to Original Lender or Agent pursuant to and in connection with the Original Loan Agreement or Existing Loan Agreement, as the case may be, to secure the Obligations, as well as any collateral granted under or in connection with this Agreement or under any of the other Financing Agreements or otherwise granted to or held by Agent, any Lender, Original Lender, any Secured Party or any of their respective Affiliates.
- (b) The Liens of Agent, on behalf of itself and Secured Parties, in the Collateral shall be deemed to be continuously granted and perfected from the earliest date of the granting and perfection of such Liens to Original Lender or Agent under the Financing Agreements or any Secured Hedging Agreements.
- (c) Notwithstanding any term of any Financing Agreement, Borrower acknowledges, confirms and agrees that all security granted by it under, or in connection with, the Original Loan Agreement, the Existing Loan Agreement and the other Financing Agreements shall be held by Agent, on behalf of itself and Secured Parties (including those under Secured Hedging Agreements), to secure the Obligations (including those arising under the Secured Hedging Agreements).

14.3 Existing Loan Agreement

Borrower hereby acknowledges, confirms and agrees that: (a) the Existing Loan Agreement has been duly executed and delivered by Borrower is in full force and effect as of the date hereof; (b) the agreements and obligations of Borrower contained in the Existing Loan Agreement constitutes the legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with its terms and Borrower has no valid defense to the enforcement of such obligations; and (c) Agent and Lenders are entitled to all of the rights, remedies and benefits provided for in or arising pursuant to the Existing Loan Agreement.

14.4 Restatement

- (a) Except as otherwise stated in Section 14.2 hereof and this Section 14.4, as of the date hereof, the terms, conditions, agreements, covenants, representations and warranties set forth in the Existing Loan Agreement are simultaneously amended and restated in their entirety, and as so amended and restated, replaced and superseded by the terms, conditions, agreements, covenants, representations and warranties set forth in this Agreement and the other Financing Agreements executed and/or delivered on or after the date hereof, except that nothing herein or in the other Financing Agreements shall impair or adversely affect the continuation of the liability of Borrower for the Obligations heretofore incurred and the Liens and other interests in the collateral heretofore granted, pledged

and/or assigned by Borrower to Agent, Original Lender, any Lender, any Secured Party or any of their respective Affiliates (whether directly, indirectly or otherwise).

- (b) The amendment and restatement contained herein shall not, in any manner, be construed to constitute payment of, or impair, limit, cancel or extinguish, or constitute a novation in respect of, the Obligations and other obligations, liabilities and indebtedness of Borrower evidenced by or arising under the Existing Loan Agreement, and the Liens of Agent, on behalf of itself and Secured Parties, securing such Obligations and other obligations, liabilities and indebtedness, which shall not in any manner be impaired, limited, terminated, waived or released, but shall continue in full force and effect in favor of Agent, for the benefit of itself and Secured Parties.
- (c) All loans, advances and other financial accommodations under the Existing Loan Agreement and all other obligations, liabilities and indebtedness of Borrower to Lenders outstanding and unpaid as of the date hereof pursuant to the Existing Loan Agreement or otherwise shall be deemed Obligations of Borrower pursuant to the terms hereof. The principal amount of the Loans and the amount of the Letters of Credit Accommodations outstanding as of the date hereof under the Existing Loan Agreement shall be allocated to the Loans and Letter of Credit Accommodations hereunder in such manner and in such amounts as Agent shall determine in accordance with the terms hereof.

[The remainder of this page is intentionally left blank]

IN WITNESS WHEREOF, Lenders, Agent and Borrower have caused these presents to be duly executed as of the day and year first above written.

AGENT AND LENDER

**WELLS FARGO CAPITAL FINANCE CORPORATION
CANADA**

By: /s/ Sean M. Noonan
Name: Sean M. Noonan
Title: Vice President, Relationship Manager

By: _____
Name: _____
Title: _____

Revolving Loan Commitment:
\$25,000,000

Revolving Term Loan Commitment:
\$30,000,000

Address:
40 King Street West, Suite 2500
Toronto, Ontario, M5H 3Y2
Attention: Senior Vice President
Fax: (416) 775-2991

BORROWER

IMAX CORPORATION

By: /s/ Joseph Sparacio
Name: Joseph Sparacio
Title: Executive Vice President and Chief Financial Officer

By: /s/ Ed MacNeil
Name: Ed MacNeil
Title: Senior Vice President, Finance

Address of Chief Executive Office:
110 East 59th Street
Suite 2100
New York, New York, 10022
Attention: Senior Executive Vice President and General Counsel
Fax: (212) 371-7584

LENDER

EXPORT DEVELOPMENT CANADA

By: /s/ Trevor Kuhn
Name: Trevor Kuhn
Title: Financing Manager

By: /s/ Stephano Carrera
Name: Stephano Carrera
Title: Sr. Financing Manager

Revolving Loan Commitment:
\$25,000,000

Revolving Term Loan Commitment:
\$30,000,000

Address:
151 O'Connor Street
Ottawa, Ontario K1A 1K3
Attention: Loan Services
Fax: (613) 598-2514
Attention: Asset Management/Covenants Officer
Fax: (613) 598-3186

Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002

I, Richard L. Gelfond, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2011

By: /s/ Richard L. Gelfond

Name: Richard L. Gelfond

Title: Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002

I, Joseph Sparacio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2011

By: /s/ Joseph Sparacio
Name: Joseph Sparacio
Title: Executive Vice President & Chief Financial Officer

IMAX CORPORATION

Exhibit 32.1

CERTIFICATIONS

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), I, Richard L. Gelfond, Chief Executive Officer of IMAX Corporation, a Canadian corporation (the "Company"), hereby certify, to my knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 28, 2011

/s/ Richard L. Gelfond

Richard L. Gelfond

Chief Executive Officer

IMAX CORPORATION

Exhibit 32.2

CERTIFICATIONS

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), I, Joseph Sparacio, Executive Vice President & Chief Financial Officer of IMAX Corporation, a Canadian corporation (the "Company"), hereby certify, to my knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 28, 2011

/s/ Joseph Sparacio

Joseph Sparacio

Executive Vice President & Chief Financial Officer