

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

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010
- 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)

98-0140269

(I.R.S. Employer
Identification Number)

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

L5K 1B1
(Postal Code)

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

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

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

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

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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 Act). Yes No

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, computed by reference to the last sale price of such shares as of the close of trading on June 30, 2010 was \$763.6 million (52,302,294 common shares times \$14.60).

As of January 31, 2011, there were 64,164,723, common shares of the registrant outstanding.

Document Incorporated by Reference

Portions of the registrant's definitive Proxy Statement to be filed within 120 days of the close of IMAX Corporation's fiscal year ended December 31, 2010, with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors and the annual meeting of the stockholders of the registrant (the "Proxy Statement") are incorporated by reference in Part III of this Form 10-K to the extent described therein.

IMAX CORPORATION

December 31, 2010

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IMAX CORPORATION**EXCHANGE RATE DATA**

Unless otherwise indicated, all dollar amounts in this document are expressed in United States (“U.S.”) dollars. The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in the City of New York for cable transfers in foreign currencies as certified for customs purposes by the Bank of Canada (the “Noon Buying Rate”). Such rates quoted are the number of U.S. dollars per one Canadian dollar and are the inverse of rates quoted by the Bank of Canada for Canadian dollars per U.S. \$1.00. The average exchange rate is based on the average of the exchange rates on the last day of each month during such periods. The Noon Buying Rate on December 31, 2010 was U.S. \$1.0054.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Exchange rate at end of period	1.0054	0.9555	0.8170	1.0120	0.8582
Average exchange rate during period	0.9709	0.8757	0.9381	0.9425	0.8818
High exchange rate during period	1.0054	0.9716	1.0291	1.0908	0.9100
Low exchange rate during period	0.9278	0.7692	0.7710	0.8437	0.8528

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 investigation by the Securities and Exchange Commission (the “SEC”) and the ongoing inquiry by the Ontario Securities Commission (the “OSC”); and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this annual 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.

PART I

Item 1. *Business*

GENERAL

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 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 multiplex cinemas), 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 is also engaged in the production and distribution of original large-format films, the provision of post-production services for large-format films, the conversion of two-dimensional (“2D”) and three-dimensional (“3D”) Hollywood feature films for exhibition on IMAX theater systems around the world, the provision of services in support of IMAX theaters and the IMAX theater network throughout the globe and the operation of four IMAX theaters.

The Company believes the IMAX theater network is the most extensive premium theater network in the world with 518 theater systems (396 commercial, 122 institutional) operating in 46 countries as at December 31, 2010. This compares to 430 theater systems (309 commercial, 121 institutional) operating in 48 countries as at December 31, 2009. The success of the Company’s digital and joint revenue sharing strategies and the strength of its film slate has enabled the Company’s theater network to expand significantly since 2008, with the Company’s overall network increasing by 47.6% and the Company’s commercial network increasing by 71.4%. This network growth has increased revenue in several of the Company’s segments. In 2010, the Company achieved a record number of theater signings, which is expected to drive additional growth in 2011 and thereafter.

IMAX theater systems combine: (i) IMAX DMR (Digital Re-Mastering) conversion technology, which results in higher image and sound fidelity than conventional cinema experiences; (ii) advanced, high-resolution projectors with film handling equipment and automated theater control systems, which result in significantly more contrast and brightness than conventional theater systems; (iii) sound system components, which result in more expansive sound imagery and pinpointed origination of sound to any specific spot in an IMAX theatre; (iv) large screens and proprietary theatre geometry, which result in a substantially larger field of view so that the screen extends to the edge of a viewer’s peripheral vision and creates more realistic images; and (v) theatre acoustics, which results in a four-fold reduction in background noise. The combination of these components causes audiences in IMAX theaters to feel as if they are a part of the on-screen action, creating a more intense, immersive and exciting experience than in a traditional theater. In addition, the Company’s IMAX 3D theater systems combine the same theater systems with 3D images that further enhance the audience’s feeling of being immersed in the film. An IMAX film can also benefit from enhancements made by individual filmmakers exclusively for the IMAX release, including by using IMAX cameras in select scenes to further enhance the audience’s immersion in the film. Filmmakers such as Christopher Nolan and Michael Bay have used IMAX cameras to film select scenes in their films *The Dark Knight: The IMAX Experience* and *Transformers: Revenge of the Fallen: The IMAX Experience*. Brad Bird is using IMAX cameras to film certain sequences in his upcoming *Mission: Impossible — Ghost Protocol: The IMAX Experience*, set for release in December 2011. Mr. Nolan is also using IMAX cameras to film sequences in his upcoming film, *The Dark Knight Rises: The IMAX Experience*, set for release in July 2012.

While the Company’s roots are in the institutional market, such as museums and science centers, the Company’s expanded commercial theater network and its initiatives to facilitate the production and reduce the cost of exhibiting IMAX content have permitted IMAX to evolve into a key distribution platform for Hollywood blockbuster films.

The Company believes that one of the key steps to becoming an important distribution platform for Hollywood’s biggest event films was the Company’s development of a proprietary technology known as IMAX DMR (Digital Re-Mastering) that can digitally convert live-action 35mm or digital films to its large-format, while meeting the Company’s high standards of image and sound quality. In a typical IMAX DMR film arrangement, the Company will receive a percentage of box-office receipts of the film, which generally range from 10-15%, from a film studio for conversion of the film to the IMAX DMR format. At January 31, 2011, the Company had released 60 IMAX DMR films since the introduction of IMAX DMR in 2002. As digital technology has been introduced to the DMR process and improvements have been made in conversion time, the number of films converted through the DMR process that have

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been released annually has increased as well. Accordingly, 15 films converted through the IMAX DMR process were released in 2010 (2009 — 12), as compared to 4 in 2005.

An important step in becoming a distribution platform for Hollywood's biggest event films was the Company's development of an IMAX digital projection system. Prior to 2008, when the Company's digital projector was introduced, all of IMAX's large format projectors were film-based and required analog film prints. The IMAX digital projection system, which operates without the need for such film prints, was designed specifically for use by commercial multiplex operators and allows operators to reduce the capital and operating costs required to run an IMAX theater without sacrificing the image and sound quality of the "The IMAX Experience." By making *The IMAX Experience* more accessible for commercial multiplex operators, the introduction of the IMAX digital projection system paved the way for several important joint revenue sharing arrangements which have allowed the Company to rapidly expand its theater network. Since announcing that the Company was developing digital projection technology, the vast majority of the Company's theater system signings have been for digital systems. As at January 31, 2011, the Company has signed agreements for 498 digital systems since 2007 (including the upgrade of film-based systems and agreements), 219 of which were signed in 2010 alone. As at December 31, 2010, 276 IMAX digital projection systems were in operation, an 83% increase compared to the 151 digital projection systems in operation as at December 31, 2009.

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

The Company continues to expand its international business, with more than half of 2010 theater signings coming from outside the United States and Canada, as the Company believes growth in international markets will be an important driver of future revenues. The Company also intends to explore new areas of brand extension in: 3D in-home entertainment technology, such as 3net, a new 3D television channel operated by a Limited Liability Corporation owned by the Company, Discovery Communications and Sony Corporation; alternative theater content; and partnerships with technology, studio, programming, content and consumer electronics companies.

IMAX Corporation, a Canadian corporation, was formed in March 1994 as a result of an amalgamation between WGIM Acquisition Corp. and the former IMAX Corporation ("Predecessor IMAX"). Predecessor IMAX was incorporated in 1967.

On January 31, 2011, the Company provided notice to the NASDAQ Global Select Market ("NASDAQ") that the Company intended to voluntarily delist its common shares, without par value, from NASDAQ and intended to subsequently list such common shares on the New York Stock Exchange ("NYSE"). Trading commenced on the NYSE on February 11, 2011 under the Company's current trading symbol, "IMAX." The Company's common shares continued to trade on NASDAQ until the transfer of listing to the NYSE was completed. The trading of the Company's common shares on the Toronto Stock Exchange ("TSX"), under the ticker symbol "IMX" remains unchanged.

PRODUCT LINES

The Company is the pioneer and leader in the large-format film industry. The Company believes it is the world's largest designer and manufacturer of specialty projection and sound system components for large-format theaters around the world, as well as a significant producer and distributor of large-format films. The Company's theater systems include specialized IMAX projectors, advanced sound systems and specialty screens. The Company derives its revenues from: IMAX theater systems (the sale and lease of, and provision of services related to, its theater systems); films (production and digital re-mastering of films, the distribution of film products to the IMAX theater network, post-production services for films); joint revenue sharing arrangements (the provision of its theater system to an exhibitor in exchange for a certain percentage of theater revenue); theater system maintenance (the use of maintenance services related to its theater systems); theater operations (owning equipment, operating, managing or participating in the revenues of IMAX theaters); and other activities, which include the sale of after market parts and camera rentals. Segmented information is provided in note 20 to the accompanying audited consolidated financial statements in Item 8.

IMAX Systems, Theater System Maintenance and Joint Revenue Sharing Arrangements

The Company's primary products are its theater systems. Traditional IMAX film-based theater systems include a unique rolling loop 15/70-format projector that offers superior image quality and stability and a digital theater control system; a 6-channel, digital audio system delivering up to 12,000 watts of sound; a screen with a proprietary coating technology; and, if applicable, 3D glasses

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cleaning equipment. The Company's digital projection system includes all of the above components (including a digital projector rather than a rolling-loop projector) and operates without the need for analog film prints. Since its introduction in 2008, the majority of the Company's theater sales have been digital systems and the Company expects a majority of its future theater systems sales to be IMAX digital systems. As part of the arrangement to sell or lease its theater systems, the Company provides extensive advice on theater planning and design and supervision of installation services. Theater systems are also leased or sold with a license for the use of the world-famous IMAX brand. IMAX theater systems come in five configurations:

- the GT projection systems, film-based theater systems for the largest IMAX theaters;
- the SR system, film-based theater systems for smaller theaters than the GT systems;
- the IMAX MPX systems, which are film-based systems targeted for multiplex theaters ("MPX" theater systems);
- the IMAX digital systems, which are the replacement to the IMAX MPX systems and which are accordingly targeted for multiplex theaters; and
- theater systems featuring heavily curved and tilted screens that are used in dome shaped theaters.

The GT, SR, IMAX MPX and IMAX digital systems are "flat" screens that have a minimum of curvature and tilt and can exhibit both 2D and 3D films, while the screen components in dome shaped theaters are 2D only and are popular with the Company's institutional clients. All IMAX theaters, with the exception of dome configurations, feature a steeply inclined floor to provide each audience member with a clear view of the screen. The Company holds patents on the geometrical design of IMAX theaters.

The Company's analog projectors use the largest commercially available film format (15-perforation film frame, 70mm), which is nearly 10 times larger than conventional film (4-perforation film frame, 35mm) and therefore are able to project significantly more detail on a larger screen. The Company believes these projectors, which utilize the Company's rolling loop technology, are unsurpassed in their ability to project film with maximum steadiness and clarity with minimal film wear, while substantially enhancing the quality of the projected image. As a result, the Company's projectors deliver a higher level of clarity and detail as compared to conventional movies and competing projectors.

In order to compete and evolve with the market, the Company introduced a digital projection system in 2008 that provides a premium and differentiated experience to moviegoers that is consistent with what they have come to expect from the IMAX brand. The shift from a film-based projection system to a digital projection system for a large portion of the Company's customer base has been compelling for a number of reasons. The savings to the studios as a result of eliminating film prints are considerable, as the typical cost of an IMAX film print ranges from \$20 thousand per 2D print to \$45 thousand per 3D print whereas a digital file delivery totals approximately \$200 per movie per system. Removing those costs significantly increases the profit of an IMAX release for a studio which, the Company believes, has provided more incentive for studios to release their films to IMAX theaters. The Company similarly believes that economics change favorably for its exhibition clients since the costs associated with installing and operating an IMAX digital system are lower than those for a film-based system, the print costs are eliminated (digital file delivery totals approximately \$200 per movie per system), and digital delivery provides increased programming flexibility that allows theaters to program significantly more IMAX DMR films per year, thereby increasing customer choice and potentially increasing total box-office revenue. In 2010, 15 films converted through the IMAX DMR process were released to the IMAX theater network (2009 — 12), as compared to 4 films in 2005. To date, the Company has contracted for the release of 21 DMR films to its theater network in 2011, plus one IMAX original production. The Company remains in active discussions with every major Hollywood studio regarding future titles. Digital projectors also typically require lower installation costs for exhibitors and potentially allow for the opportunity to show attractive alternate programming, such as live sporting events and concerts, in the immersive environment of an IMAX theater. Digital systems represent 97% of the Company's current backlog and 53% of the Company's theater network. The Company continues to expect a majority of its future theater system arrangements to be for digital systems.

To complement its viewing experience, the Company provides digital sound system components which are specifically designed for IMAX theaters. These components are among the most advanced in the industry and help to heighten the realistic feeling of an IMAX presentation, thereby providing IMAX theater systems with an important competitive edge over other theater systems. The Company believes it is a world leader in the design and manufacture of digital sound system components for applications including traditional movie theaters, auditoriums and IMAX theaters.

The Company's arrangements for theater system equipment involve either a lease or sale. As part of the arrangement for an IMAX theater system, the Company also advises the customer on theater design, supervises the installation of the theater systems and

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provides projectionists with training in using the equipment. Theater owners or operators are responsible for providing the theater location, the design and construction of the theater building, the installation of the system components and any other necessary improvements, as well as the marketing and programming at the theater. The supervision of installation requires that the equipment also be put through a complete functional start-up and test procedure to ensure proper operation. The Company's typical arrangement also includes the trademark license rights which commence on execution of the agreement with terms generally of 10 to 20 years that may be renewed. The theater system equipment components (including the projector, sound system, screen system, and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and trademark rights are all elements of what the Company considers the system deliverable (the "System Deliverable"). For a separate fee, the Company provides ongoing maintenance and extended warranty services for the theater system. The Company's contracts are generally denominated in U.S. dollars, except in Canada, Japan and parts of Europe, where contracts are sometimes denominated in local currency.

Leases, other than joint revenue sharing arrangements, generally have 10-20 year initial terms and are typically renewable by the customer for one or more additional 5 to 10-year terms. Under the terms of the typical lease agreement, the title to the theater system equipment (including the projector, the sound system and the projection screen) remains with the Company. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally not cancelable by the customer unless the Company fails to perform its obligations.

The Company also enters into sale agreements with its customers. Under a sales arrangement, the title to the theater system remains with the customer. In certain instances, however, the Company retains title or a security interest in the equipment until the customer has made all payments required under the agreement.

The typical lease or sales arrangement provides for three major sources of cash flows for the Company: (i) initial fees; (ii) ongoing minimum fixed and contingent fees; and (iii) ongoing maintenance and extended warranty fees. Initial fees generally are received over the period of time from the date the arrangement is executed to the date the equipment is installed and customer acceptance has been received. However, in certain cases, the payments of the initial fee may be scheduled over a period after the equipment is installed and customer acceptance has been received. Ongoing minimum fixed and contingent fees and ongoing maintenance and extended warranty fees are generally received over the life of the arrangement and are usually adjusted annually based on changes in the local consumer price index. The ongoing minimum fixed and contingent fees generally provide for a fee which is the greater of a fixed amount or a certain percentage of the theater box-office. The terms of each arrangement vary according to the configuration of the theater system provided and the geographic location of the customer.

Over the last several years, the Company has increasingly entered into joint revenue sharing arrangements with customers, pursuant to which the Company provides the System Deliverable in return for a portion of the customer's IMAX box-office receipts and concession revenue. Under these revenue sharing arrangements, the Company retains title to the theater system (including the projector, the sound system and the projection screen) and rent payments are contingent, instead of fixed or determinable. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally not cancelable by the customer unless the Company fails to perform its obligations. In rare cases, the contract provides certain performance thresholds that, if not met by either party, allows the other party to terminate the agreement. Joint revenue sharing arrangements generally have a 7 to 10-year initial term and may be renewed by the customer for an additional term. By offering arrangements whereby exhibitors do not need to invest the initial capital required in a lease or a sale arrangement, the Company has been able to expand its theater network at a significantly faster pace than it had previously. As at January 31, 2011, the Company has entered into joint revenue sharing arrangements for 230 systems with 14 partners, 171 of which were in operation as at December 31, 2010.

Sales Backlog. Signed contracts for theater systems are listed as sales backlog prior to the time of revenue recognition. The value of sales backlog represents the total value of all signed theater system sales and sales-type lease agreements that are expected to be recognized as revenue in the future. Sales backlog includes initial fees along with the estimated present value of contractual fixed minimum fees due over the term, but excludes contingent fees in excess of contractual minimums and maintenance and extended warranty fees that might be received in the future.

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The Company's sales backlog is as follows:

	December 31, 2010		December 31, 2009	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sales-type lease arrangements	165 (1)	\$ 184,588	94 (1)	\$ 117,157
Joint revenue sharing arrangements	59	n/a	42	n/a
	<u>224 (2)</u>	<u>\$ 184,588</u>	<u>136</u>	<u>\$ 117,157</u>

- (1) Includes 25 upgrades from film-based IMAX theater systems to IMAX digital theater systems as at December 31, 2010, and 1 upgrade from a film-based IMAX theater system to an IMAX digital theater system as at December 31, 2009.
- (2) Reflects the minimum number of theaters arising from signed contracts in backlog. Up to an additional 25 theaters (2009 — 1) may be installed pursuant to certain provisions in signed contracts in backlog.

The value of the sales backlog does not include anticipated revenues from theaters in which the Company has an equity-interest, joint revenue sharing arrangements, agreements covered by letters of intent or conditional sale or lease commitments, though the number of systems contracted for under these arrangements is included.

The following chart shows the number of the Company's theater systems by configuration, opened theater network base and backlog as at December 31:

	2010		2009	
	Theater Network Base	Backlog	Theater Network Base	Backlog
Flat Screen (2D)	30 (1)	—	36	—
Dome Screen (2D)	66	—	65	1
IMAX 3D Dome (3D)	3	—	2	—
IMAX 3D GT (3D)	80 (1)	2	88	5
IMAX 3D SR (3D)	44 (1)	1	51	2
IMAX MPX (3D)	19 (1)	4	37 (2)	13
IMAX digital (3D)	<u>276 (1)</u>	<u>217 (3)</u>	<u>151 (2)</u>	<u>115 (3)</u>
Total	<u>518</u>	<u>224</u>	<u>430</u>	<u>136</u>

- (1) In 2010, the Company upgraded 32 film-based IMAX theater systems across various categories to IMAX digital theater systems (30 sales arrangements and 2 joint revenue sharing arrangements).
- (2) In 2009, the Company upgraded 25 film-based IMAX theater systems across various categories to IMAX digital theater systems (14 sales arrangements, 2 treated previously as operating lease arrangements and 9 systems under joint revenue sharing arrangements).
- (3) Includes 59 and 42 theater systems as at December 31, 2010 and 2009, respectively, under joint revenue sharing arrangements.

IMAX Flat Screen and IMAX Dome Systems. IMAX flat screen and IMAX Dome systems comprise 99 of the Company's opened theater base and primarily reside in institutions such as museums and science centers. Flat screen IMAX theaters were introduced in 1970, while IMAX Dome theaters, which are designed for tilted dome screens, were introduced in 1973. There have been several significant proprietary and patented enhancements to these systems since their introduction.

IMAX 3D GT and IMAX 3D SR Systems. IMAX 3D theaters utilize a flat screen 3D system, which produces realistic 3D images on an IMAX screen. The Company believes that the IMAX 3D theater systems offer consumers one of the most realistic 3D experiences available today. To create the 3D effect, the audience uses either polarized or electronic glasses that separate the left-eye and right-eye

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images. The IMAX 3D projectors can project both 2D and 3D films, allowing theater owners the flexibility to exhibit either type of film.

In 1997, the Company launched a smaller IMAX 3D system called IMAX 3D SR, a patented theater system configuration that combines a proprietary theater design, a more automated projector and specialized sound system components to replicate the experience of a larger IMAX 3D theater in a smaller space.

As at December 31, 2010, there were 124 IMAX 3D GT and IMAX 3D SR theaters in operation compared to 139 IMAX 3D GT and IMAX 3D SR theaters in operation as at December 31, 2009. The decrease in the number of 3D GT and 3D SR systems is largely attributable to the conversion of existing 3D GT and 3D SR systems to IMAX digital systems.

IMAX MPX. In 2003, the Company launched a large-format theater system designed specifically for use in multiplex theaters. Known as IMAX MPX, this system had lower capital and operating costs than other IMAX systems and was intended to improve a multiplex owner's financial returns and to allow for the installation of IMAX theater systems in markets that might previously not have been able to support one. As at December 31, 2010, there were 19 MPX systems in operation compared to 37 MPX systems as at December 31, 2009. The IMAX digital system has supplanted the MPX system as the Company's multiplex product. The decrease in the number of MPX systems is largely attributable to the upgrade of existing MPX systems to IMAX digital systems.

IMAX Digital. In July 2008, the Company introduced a proprietary IMAX digital projection system operating on a digital platform that it believes delivers higher quality imagery compared with other digital systems and that is consistent with the Company's brand. As at December 31, 2010, the Company had installed 276 digital theater systems, including 59 digital upgrades, and has an additional 217 digital systems in its backlog. Digital theater systems represent 97% of the total backlog and 53% of the total theater network, and the Company expects a majority of its future theater system arrangements to be for digital systems. Moreover, the Company believes that some of the film-based systems currently in its backlog, particularly uninstalled MPX systems, will ultimately become digital installations.

Films

Film Production and Digital Re-mastering (IMAX DMR)

Films produced by the Company are typically financed through third parties, whereby the Company will generally receive a film production fee in exchange for producing the film and a distribution fee for distributing the film. The ownership rights to such films may be held by the film sponsors, the film investors and/or the Company.

In 2002, the Company developed technology that makes it possible for live-action film footage to be digitally transformed into IMAX's large-format at a cost of roughly \$1.0 million — \$1.5 million per film. This proprietary system, known as IMAX DMR, has opened up the IMAX theater network to film releases from Hollywood's broad library of films. In a typical IMAX DMR film arrangement, the Company will receive a percentage of box-office receipts of the film, which generally range from 10-15%, from a film studio for the conversion of the film to the IMAX DMR format. In 2010, gross box office from IMAX DMR films was \$545.9 million, compared to \$270.8 million in 2009, an increase of 102%. The Company may also have certain distribution rights to the films produced using its IMAX DMR technology.

The IMAX DMR process involves the following:

- in certain instances, scanning, at the highest possible resolution, each individual frame of the movie and converting it into a digital image;
- optimizing the image using proprietary image enhancement tools;
- enhancing the digital image using techniques such as sharpening, color correction, grain and noise removal and the elimination of unsteadiness and removal of unwanted artifacts;
- recording the enhanced digital image onto IMAX 15/70-format film or IMAX digital cinema package ("DCP") format;
- specially re-mastering the sound track to take full advantage of the IMAX theater's unique sound system; and
- in certain instances, performing the Company's proprietary live-action 2D to 3D conversion.

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The first IMAX DMR film, *Apollo 13: The IMAX Experience*, produced in conjunction with Universal Pictures and Imagine Entertainment, was released in September 2002 to 48 IMAX theaters. One of the more recent IMAX DMR films at December 31, 2010, *Tron Legacy*, was released to 366 IMAX theaters. Since the release of *Apollo 13: The IMAX Experience*, an additional 59 IMAX DMR films have been released to the IMAX theater network as at January 31, 2011.

The highly automated IMAX DMR process typically allows the re-mastering process to meet aggressive film production schedules. The Company is continuing to decrease the length of time it takes to reformat a film with its IMAX DMR technology. *Apollo 13: The IMAX Experience*, was re-mastered in 16 weeks, while *Iron Man 2: The IMAX Experience*, released in May 2010, was re-mastered in approximately 7 days. The IMAX DMR conversion of simultaneous, or “day-and-date” releases are done in parallel with the movie’s filming and editing, which is necessary for the simultaneous release of an IMAX DMR film with the domestic release to conventional theaters.

The Company demonstrated its ability to convert computer-generated animation to IMAX 3D with the 1999 release of *Cyberworld*, the 2004 release of the full length computer generated imagery (“CGI”) feature, *The Polar Express: The IMAX 3D Experience* and the release of four CGI 3D features in 2005-2007, including *Beowulf: An IMAX 3D Experience* released in November 2007. In addition, the Company has developed proprietary technology to convert live action 2D films to IMAX 3D films, which the Company believes can offer potential benefits to the Company, studios and the IMAX theater network. This technology was used to convert scenes from 2D to 3D in the film *Superman Returns: An IMAX 3D Experience* in 2006. In July 2007, *Harry Potter and the Order of the Phoenix: An IMAX 3D Experience*, was released with approximately 20 minutes of the film converted from 2D to 3D using such technology. In addition, the 2009 release of *Harry Potter and the Half-Blood Prince: An IMAX 3D Experience* included certain scenes of the film converted to IMAX 3D.

For IMAX DMR releases, the original soundtrack of the movie is re-mastered for the IMAX five or six-channel digital sound systems. Unlike the soundtracks played in conventional theaters, IMAX re-mastered soundtracks are uncompressed and full fidelity. IMAX sound systems use proprietary loudspeaker systems and proprietary surround sound configurations that ensure every theater seat is in a good listening position.

In 2010, 15 films were converted through the IMAX DMR process and released to IMAX theaters by film studios as compared to 12 films in 2009. These 15 films were:

- *Alice In Wonderland: An IMAX 3D Experience* (Disney, March 2010);
- *How To Train Your Dragon: An IMAX 3D Experience* (Dreamworks Animation Paramount, March 2010);
- *Iron Man 2: The IMAX Experience* (Marvel and Paramount, May 2010);
- *Shrek Forever After: An IMAX 3D Experience* (Dreamworks Animation Paramount, May 2010);
- *Prince of Persia: The Sands of Time: The IMAX Experience* (Disney, May 2010);
- *Toy Story 3: An IMAX 3D Experience* (Disney, June 2010);
- *The Twilight Saga: Eclipse: The IMAX Experience* (Summit Entertainment, June 2010);
- *Inception: The IMAX Experience* (Warner Bros. Pictures (“WB”)), July 2010);
- *Aftershock: The IMAX Experience* (Huayi Brothers Group, July 2010, primarily distributed in China and other parts of Asia);
- *Resident Evil: Afterlife: An IMAX 3D Experience* (Sony, September 2010);
- *Legends of the Guardian: The Owls of Ga’Hoole: An IMAX 3D Experience* (WB, September 2010);
- *Paranormal Activity 2: The IMAX Experience* (Paramount, October 2010);
- *Megamind: An IMAX 3D Experience* (Dreamworks Animation Paramount, November 2010);
- *Harry Potter and the Deathly Hallows: Part I: The IMAX Experience* (WB, November 2010); and
- *Tron Legacy: An IMAX 3D Experience* (Disney, December 2010).

The Company believes that the box-office performance of IMAX DMR releases has positioned IMAX theaters as a key premium distribution platform for Hollywood films, which is separate and distinct from their wider theatrical release. IMAX theaters therefore serve as an additional distribution platform for Hollywood films, just as home video and pay-per-view are ancillary distribution platforms.

In addition, the Company, in conjunction with WB and with the cooperation of National Aeronautics and Space Administration (“NASA”), released the original film *Hubble 3D: An IMAX 3D Experience* in March 2010.

To date, the Company has signed contracts for 21 DMR films that will play in the IMAX theater network in 2011:

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- *TRON: Legacy: An IMAX 3D Experience* (Walt Disney Studios, continued from 2010);
- *The Green Hornet: An IMAX 3D Experience* (Sony, January 2011);
- *Tangled: An IMAX 3D Experience* (Disney, February 2011, released in select Asian markets on respective regional release dates);
- *Sanctum: An IMAX 3D Experience* (Universal, February 2011);
- *I Am Number Four: The IMAX Experience* (Dreamworks Studios Disney, February 2011);
- *Mars Needs Moms: An IMAX 3D Experience* (Disney, March 2011);
- *Sucker Punch: The IMAX Experience* (WB, March 2011);
- *Fast Five: The IMAX Experience* (Universal, April 2011);
- *Pirates of the Caribbean: On Stranger Tides: An IMAX 3D Experience* (Disney, May 2011);
- *Kung Fu Panda 2: An IMAX 3D Experience* (Paramount, May 2011, to be released in select international markets);
- *Super 8: The IMAX Experience* (Paramount, June 2011);
- *The Founding of a Party: The IMAX Experience* (China Film Group, June 2011, to be released in the People's Republic of China)
- *Cars 2: An IMAX 3D Experience* (Disney, June 2011);
- *Transformers: Dark of the Moon: An IMAX 3D Experience* (Paramount, July 2011);
- *Harry Potter and the Deathly Hallows: Part II: An IMAX 3D Experience* (WB, July 2011);
- *Real Steel: The IMAX Experience* (Dreamworks Studios Disney, October 2011);
- *Contagion: The IMAX Experience* (WB, 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).

The Company remains in active negotiations with all of Hollywood's studios for additional films to fill out its short and long-term film slate.

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

Film Distribution

The Company is a significant distributor of large-format films. The Company distributes films which it has produced or for which it has acquired distribution rights from independent producers. As a distributor, the Company receives a fixed fee and/or a percentage of the theater box-office receipts.

As at December 31, 2010, IMAX's film library consisted of 274 IMAX original films, which cover such subjects as space, wildlife, music, history and natural wonders. The Company currently has distribution rights with respect to 44 of such films. Large-format films that have been successfully distributed by the Company include: *Hubble 3D: An IMAX 3D Experience*, which was released by the Company and WB in March 2010 and has grossed over \$25.6 million as at the end of 2010; *Under the Sea 3D: An IMAX 3D Experience*, which was released by the Company and WB in March 2009 and has grossed over \$36.8 million as at the end of 2010; *Deep Sea 3D: An IMAX 3D Experience*, which was released by the Company and WB in March 2006 and has grossed more than \$89.8 million as at the end of 2010; *SPACE STATION*, which was released in April 2002 and has grossed over \$116.2 million as at the end of 2010 and *T-REX: Back to the Cretaceous*, which was released by the Company in 1998 and has grossed over \$103.8 million as at the end of 2010. Large-format films have significantly longer exhibition periods than conventional commercial 35mm films and many of the films in the large-format library have remained popular for many decades, including the films *To Fly!* (1976), *Grand Canyon — The Hidden Secrets* (1984) and *The Dream Is Alive* (1985).

Film Post-Production

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

Theater Operations

As at December 31, 2010, the Company had four owned and operated theaters on leased premises as compared to four owned and operated theaters as at December 31, 2009. In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses. The Company also provides management services to two theaters.

Other

Cameras

The Company rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The company also provides production technical support and post-production services for a fee. All IMAX 2D and 3D film cameras run 65mm negative film, exposing 15 perforations per frame and resulting in an image area nearly 10x larger than standard 35mm film. The Company's film-based 3D camera, which is a patented, state-of-the-art dual and single filmstrip 3D camera, is among the most advanced motion picture cameras in the world and is the only 3D camera of its kind. The IMAX 3D camera simultaneously shoots left-eye and right-eye images and enables filmmakers to access a variety of locations, such as underwater or aboard aircraft. The Company has also recently developed a high speed 3D digital camera which utilizes a pair of the world's largest digital sensors.

The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers.

MARKETING AND CUSTOMERS

The Company markets its theater systems through a direct sales force and marketing staff located in offices in Canada, the United States, Europe, and Asia. In addition, the Company has agreements with consultants, business brokers and real estate professionals to locate potential customers and theater sites for the Company on a commission basis.

The commercial multiplex theater segment of the Company's theater network is now its largest segment, comprising 373 theaters, or 72.0%, of the 518 theaters open as at December 31, 2010. The Company's institutional customers include science and natural history museums, zoos, aquaria and other educational and cultural centers. The Company also sells or leases its theater systems to theme parks, tourist destination sites, fairs and expositions (the Commercial Destination segment). At December 31, 2010, approximately 38.8% of all opened IMAX theaters were in locations outside of the United States and Canada. The following table outlines the breakdown of the theater network by type and geographic location as at December 31:

	2010 Theater Network Base				2009 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	217	9	65	291	175	8	66	249
Canada	17	2	7	26	13	2	7	22
Mexico	8	—	11	19	8	—	11	19
Russia & the CIS	16	—	—	16	6	—	—	6
Western Europe	35	7	9	51	23	7	10	40
Rest of Europe	9	—	—	9	12	—	—	12
Japan	9	2	7	18	5	2	7	14
Greater China ⁽¹⁾	22	—	18	40	14	—	15	29
Rest of World	40	3	5	48	32	2	5	39
Total	373	23	122	518	288	21	121	430

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

For information on revenue breakdown by geographic area, see note 20 to the accompanying audited consolidated financial statements in Item 8. The Company's foreign operations are subject to certain risks. See "Risk Factors — The company conducts business internationally which exposes it to uncertainties and risks that could negatively affect its operations and sales" in Item 1A.

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The Company's two largest customers as at December 31, 2010, collectively represent 24.7% of the Company's network base of theaters and 16.9% of revenues.

INDUSTRY AND COMPETITION

In recent years, as the motion picture industry has transitioned from film projection to digital projection, a number of companies have introduced digital 3D projection technology and, since 2008, an increasingly large number of Hollywood features have been exhibited using these technologies. According to the National Association of Theater Owners, as at December 31, 2010, there were approximately 8,000 conventional-sized screens in U.S. multiplexes equipped with such digital 3D systems. In 2008, the Company introduced its proprietary digitally-based projector which is capable of 2D and 3D presentations on large screens and which comprises the majority of its current (and, the Company expects, future) theater system sales. For the films released to both IMAX 3D theaters and conventional 3D theaters, the IMAX theaters have significantly outperformed the conventional theaters on a per-screen revenue basis. Over the last several years, a number of commercial exhibitors have introduced their own large screen branded theaters. IMAX theaters in the same markets have continually outperformed these theaters as well. In addition, the Company has historically competed with manufacturers of large-format film projectors. The Company believes that all of these alternative film formats deliver images and experiences that are inferior to *The IMAX Experience*.

The Company may also face competition in the future from companies in the entertainment industry with new technologies and/or substantially greater capital resources to develop and support them. The Company also faces in-home competition from a number of alternative motion picture distribution channels such as home video, pay-per-view, video-on-demand, DVD, Internet and syndicated and broadcast television. The Company further competes for the public's leisure time and disposable income with other forms of entertainment, including gaming, sporting events, concerts, live theater and restaurants.

The Company believes that its competitive strengths include the value of the IMAX brand name, the design, quality and historic reliability rate of IMAX theater systems, the return on investment of an IMAX theater, the number and quality of IMAX films that it distributes, the quality of the sound system components included with the IMAX theater, the availability of Hollywood event films to IMAX theaters through IMAX DMR technology, consumer loyalty and the level of the Company's service and maintenance and extended warranty efforts. The Company believes that all of the best performing premium theaters in the world are IMAX theaters.

THE IMAX BRAND

The world-famous IMAX brand stands for the highest-quality, most immersive motion picture entertainment. Consumer research conducted for the Company in the U.S. by a third-party research firm shows that the IMAX brand is known for cutting-edge technology and an experience that immerses audiences in the movie. The research also shows that the brand inspires strong consumer loyalty and that consumers place a premium on it, often willing to travel significantly farther and pay more for *The IMAX Experience* than for a conventional movie. The Company believes that its significant brand loyalty among consumers provides it with a strong, sustainable position in the exhibition industry. Recognition of the IMAX brand name cuts across geographic and demographic boundaries. To date, IMAX DMR films have significantly outperformed other formats on a per screen basis.

As the IMAX theater network and film slate grow, so does the visibility of the IMAX brand. In recent years, IMAX has built on its heritage of immersive, high-quality educational movies presented in prestigious institutions and destination centers by increasingly expanding its network into commercial multiplexes. With a growing number of IMAX theaters based in commercial multiplexes and with a recent history of commercially successful films such as: *Avatar: An IMAX 3D Experience*, *Alice in Wonderland*, *Inception: The IMAX Experience*, *The Dark Knight: The IMAX Experience*, *Transformers: Revenge of the Fallen: The IMAX Experience*, *Beowulf: An IMAX 3D Experience*, *300: The IMAX Experience*, *Spider-Man 3: The IMAX Experience*, *Superman Returns: An IMAX 3D Experience* and the *Harry Potter* series, the Company continues to increase its presence in commercial settings. The Company believes the strength of the IMAX brand is an asset that has helped to establish the IMAX theater network as a unique and desirable release window for Hollywood movies.

RESEARCH AND DEVELOPMENT

The Company believes that it is one of the world's leading entertainment technology companies with significant proprietary expertise in digital and film-based projection and sound system component design, engineering and imaging technology, particularly in 3D. The Company plans to continue to fund research and development activity in areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, enhancing the Company's 2D and 3D

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image quality, developing IMAX theater systems' capabilities in live entertainment, developing its portable theater initiative , and further enhancing the IMAX theater and sound system design.

The motion picture industry has been and will continue to be affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production, digital re-mastering (such as IMAX DMR), distribution and display (projection). As such, the Company has made significant investments in digital technologies, including the development of a proprietary technology to digitally enhance image resolution and quality of motion picture films, the conversion of monoscopic (2D) to stereoscopic (3D) images and the creation of an IMAX digital projector. Accordingly, the Company holds a number of patents, patents pending and other intellectual property rights in these areas. In addition, the Company holds numerous digital patents and relationships with key manufacturers and suppliers in digital technology. In July 2008, the Company introduced its proprietary, digitally-based projector which operates without the need for analog film prints. In 2009, the Company developed its first digital 3D camera, the prototype of which was used to film portions of *Born to be Wild 3D: An IMAX 3D Experience*, which is scheduled for release to theaters in April 2011.

In 2010, the Company introduced IMAX nXos, a patent-pending technology designed to tune and automatically monitor IMAX audio systems. The new technology applies the equivalent of thousands of bands of equalization to perform a highly detailed tuning of the IMAX audio system. The IMAX nXos Calibrator is designed to significantly exceed the capability of manual equalization processes. IMAX's audio systems feature proprietary loudspeaker technology and uncompressed digital sound, with much greater dynamic range than conventional systems. The system is designed to provide a more immersive audio environment. The IMAX nXos Calibrator works to ensure that the audience is provided an optimum audio experience in the IMAX theater. In September 2010, the Company made a \$1.5 million preferred share investment in Laser Light Engines, Inc. ("LLE"), a developer and manufacturer of laser-driven light sources. The Company also entered into a development agreement with LLE to develop a custom laser engine for use in the IMAX digital projection system. The purpose for the laser engine is to enable the Company to achieve sufficient brightness in its digital projection system to enable digital projection on the Company's largest screens.

The Company's participation in 3net, operated by a Limited Liability Corporation owned by the Company, Discovery Communications and Sony Corporation that premiered on February 13, 2011, is an example of its strategic entry into the field of in-home entertainment technology. The Company has deployed its proprietary expertise in image technology and 3D technology to help set broadcast and presentation standards for the new channel. The Company expects to continue to deploy its proprietary expertise in image technology and 3D technology, as well as the IMAX brand, for further applications in in-home entertainment technology.

For the years ended 2010, 2009, and 2008, the Company recorded research and development expenses of \$6.2 million, \$3.8 million and \$7.5 million, respectively. Over the past three years, the Company has invested significantly in research and development relating to the development, introduction and enhancement of its IMAX digital projector system. As at December 31, 2010, 37 of the Company's employees were connected with research and development projects.

MANUFACTURING AND SERVICE

Projector Component Manufacturing

The Company assembles the projector of its theater systems at its Corporate Headquarters and Technology Center in Mississauga, Ontario, Canada (near Toronto). A majority of the parts and sub-assemblies for this component are purchased from outside vendors. The Company develops and designs all of the key elements for the proprietary technology involved in this component. Fabrication of parts and sub-assemblies is subcontracted to a group of carefully pre-qualified suppliers. Manufacture and supply contracts are signed for the delivery of the component on an order-by-order basis. The Company has developed long-term relationships with a number of significant suppliers, and the Company believes its existing suppliers will continue to supply quality products in quantities sufficient to satisfy its needs. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the projector to comprehensive testing individually and as a system prior to shipment. In 2010, these projectors, including the Company's digital projection system, had reliability rates based on scheduled shows of approximately 99.8%.

Sound System Component Manufacturing

The Company develops, designs and assembles the key elements of its theater sound system component. The standard IMAX theater sound system component comprises parts from a variety of sources, with approximately 50% of the materials of each sound system attributable to proprietary parts provided under original equipment manufacturers agreements with outside vendors. These proprietary parts include custom loudspeaker enclosures and horns, specialized amplifiers, and signal processing and control

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equipment. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the sound system component to comprehensive testing individually and as a system prior to shipment.

Screen and Other Components

The Company purchases its screen component and glasses cleaning equipment from third parties. The standard screen system component is comprised of a projection screen manufactured to IMAX specifications and a frame to hang the projection screen. The proprietary glasses cleaning machine is a stand-alone unit that is connected to the theater's water and electrical supply to automate the cleaning of 3D glasses.

Maintenance and Extended Warranty Services

The Company also provides ongoing maintenance and extended warranty services to IMAX theater systems. These arrangements are usually for a separate fee, although the Company often includes free service in the initial year of an arrangement. The maintenance and extended warranty arrangements include service, maintenance and replacement parts for theater systems.

To support the IMAX theater network, the Company has personnel stationed in major markets throughout the world, who provide periodic and emergency maintenance and extended warranty services on existing theater systems. The Company provides various levels of maintenance and warranty services, which are priced accordingly. Under full service programs, Company personnel typically visit each theater every six months to provide preventative maintenance, cleaning and inspection services and emergency visits to resolve problems and issues with the theater system. Under some arrangements, customers can elect to participate in a service partnership program whereby the Company trains a customer's technician to carry out certain aspects of maintenance. Under such shared maintenance arrangements, the Company participates in certain of the customer's maintenance checks each year, provides a specified number of emergency visits and provides spare parts, as necessary. For digital systems, the Company provides pre-emptive maintenance through minor bug fixes, and also provides remote system monitoring and a network operations centre that provides continuous access to product experts.

PATENTS AND TRADEMARKS

The Company's inventions cover various aspects of its proprietary technology and many of these inventions are protected by Letters of Patent or applications filed throughout the world, most significantly in the United States, Canada, Belgium, Japan, France, Germany and the United Kingdom. The subject matter covered by these patents, applications and other licenses encompasses theater design and geometry, electronic circuitry and mechanisms employed in projectors and projection equipment (including 3D projection equipment), a method for synchronizing digital data, a method of generating stereoscopic (3D) imaging data from a monoscopic (2D) source, a process for digitally re-mastering 35mm films into large-format, a method for increasing the dynamic range and contrast of projectors, a method for visibly seaming or superimposing images from multiple projectors and other inventions relating to digital projectors. The Company has been and will continue to be diligent in the protection of its proprietary interests.

The Company currently holds or licenses 39 patents, has 16 patents pending in the United States and has corresponding patents or filed applications in many countries throughout the world. While the Company considers its patents to be important to the overall conduct of its business, it does not consider any particular patent essential to its operations. Certain of the Company's patents in the United States, Canada and Japan for improvements to the IMAX projection system components expire between 2016 and 2024.

The Company owns or otherwise has rights to trademarks and trade names used in conjunction with the sale of its products, systems and services. The following trademarks are considered significant in terms of the current and contemplated operations of the Company: IMAX[®], Experience It In IMAX[®], *The IMAX Experience*[®], *An IMAX Experience*[®], *An IMAX 3D Experience*[®], IMAX DMR[®], IMAX[®] 3D, IMAX[®] Dome, IMAX MPX[®], IMAX think big[®] and think big[®]. These trademarks are widely protected by registration or common law throughout the world. The Company also owns the service mark IMAX THEATRE[™].

EMPLOYEES

The Company had 361 employees as at December 31, 2010 compared to 325 employees as at December 31, 2009. Both employee counts exclude hourly employees at the Company's owned and operated theaters.

AVAILABLE INFORMATION

The Company makes available, free of charge, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K as soon as reasonably practicable after such filings have been made with the United States Securities and Exchange Commission (the "SEC"). Reports may be obtained through the Company's website at www.imax.com or by calling the Company's Investor Relations Department at 212-821-0100.

Item 1A. Risk Factors

If any of the risks described below occurs, the Company's business, operating results and financial condition could be materially adversely affected.

The risks described below are not the only ones the Company faces. Additional risks not presently known to the Company or that it deems immaterial, may also impair its business or operations.

RISKS RELATED TO THE COMPANY'S FINANCIAL PERFORMANCE OR CONDITION

The Company depends principally on commercial movie exhibitors to purchase or lease IMAX theater systems, to supply box office revenue under joint revenue sharing arrangements and under its sales and sales-type lease agreements and to supply venues in which to exhibit IMAX DMR films and the Company can make no assurances that exhibitors will continue to do any of these things.

The Company's primary customers are commercial multiplex exhibitors, who represent 95% of the 224 systems in the Company's backlog as at December 31, 2010. The Company is unable to predict if, or when, they or other exhibitors will purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, or whether any of the Company's existing customers will continue to do any of the foregoing. If exhibitors choose to reduce their levels of expansion or decide not to purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, the Company's revenues would not increase at an anticipated rate and motion picture studios may be less willing to reformat their films into the Company's format for exhibition in commercial IMAX theaters. As a result, the Company's future revenues and cash flows could be adversely affected.

The success of the IMAX theater network is directly related to the availability and success of IMAX DMR films for which there can be no guarantee.

An important factor affecting the growth and success of the IMAX theater network is the availability of films for IMAX theaters and the box office success of such films. The Company produces only a small number of such films and, as a result, the Company relies principally on films produced by third party filmmakers and studios, particularly Hollywood features converted into the Company's large format using the Company's IMAX DMR technology. The Company's first IMAX DMR film, *Apollo 13: The IMAX Experience*, was released to 48 IMAX theaters, and the Company's most recent IMAX DMR film at December 31, 2010, *Tron: Legacy: An IMAX 3D Experience*, was released to 366 IMAX theaters. There is no guarantee that filmmakers and studios will continue to release IMAX films, or that the films they produce will be commercially successful. The steady flow and successful box office performance of IMAX DMR releases have become increasingly important to the Company's financial performance as the number of joint revenue sharing arrangements included in the overall IMAX network has grown considerably. Not only is the Company increasingly directly impacted by box-office results for the films released to the IMAX network through its joint revenue sharing arrangements, as well as a percentage of the box-office receipts from the studios releasing IMAX DMR films, but the Company's continued ability to sell and lease IMAX theater systems also depends on the number and commercial success of films released to its network. The commercial success of films released to IMAX theaters depends on a number of factors outside of the Company's control, including whether the film receives critical acclaim, the timing of its release and the success of the marketing efforts of the studio releasing the film. Moreover, films can be subject to delays in production or changes in release schedule, which can negatively impact the number, timing and quality of IMAX DMR and IMAX original films released to the IMAX theater network.

The introduction of new products and technologies could harm the Company's business.

The out-of-home entertainment industry is very competitive, and the Company faces a number of competitive challenges. According to the National Association of Theater Owners, as at December 31, 2010, there were approximately 8,000 conventional-sized screens in U.S. multiplexes equipped with digital 3D systems. In addition, some commercial exhibitors have recently introduced or announced an intention to introduce their own large-screen 3D auditoriums. The Company may also face competition in the future from companies in the entertainment industry with new technologies and/or substantially greater capital resources to develop and support them. If the Company is unable to continue to remain a premium movie-going experience, or if other technologies surpass

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those of the Company, the Company may be unable to continue to produce theater systems which are premium to, or differentiated from, other theater systems. If the Company is unable to produce a premium theater experience, consumers may be unwilling to pay the price premiums associated with the cost of IMAX movie theater tickets and box office performance of IMAX films may decline. Declining box office performance of IMAX films would materially and adversely harm the Company's business and prospects. The Company also faces in-home competition from a number of alternative motion picture distribution channels such as home video, pay-per-view, video-on-demand, DVD, Internet and syndicated and broadcast television. The Company further competes for the public's leisure time and disposable income with other forms of entertainment, including gaming, sporting events, concerts, live theater and restaurants.

The Company is undertaking new lines of business and these new business initiatives may not be successful.

The Company is actively exploring new areas of brand extension as well as opportunities in alternative theater content. These initiatives represent new areas of growth for the Company, which may not prove to be successful. Some of these initiatives could include the offering of new products and services that may not be accepted by the market. For instance, the Company cannot provide assurance that 3net, a 3D television channel operated by a Limited Liability Corporation owned by the Company, Discovery Communications and Sony Corporation which debuted on February 13, 2011, will be a commercial success. Some areas of potential growth, including 3net, are in the field of in-home entertainment technology, which is an intensively competitive business and which is dependent on consumer demand, over which the Company has no control. If any new business in which the Company invests or attempts to develop does not progress as planned, the Company may be adversely affected by investment expenses that have not led to the anticipated results, by the distraction of management from its core business or by damage to its brand or reputation.

In addition, these initiatives may involve the formation of joint ventures and business alliances. While the Company seeks to employ the optimal structure for each such business alliance, there is a possibility that the Company may have disagreements with its relevant partner in a joint venture or business with respect to financing, technological management, product development, management strategies or otherwise. Any such disagreement may cause the joint venture or business alliance to be terminated.

The Company may not be able to adequately protect its intellectual property, and competitors could misappropriate its technology, which could weaken its competitive position.

The Company depends on its proprietary knowledge regarding IMAX theater systems and digital and film technology. The Company relies principally upon a combination of copyright, trademark, patent and trade secret laws, restrictions on disclosures and contractual provisions to protect its proprietary and intellectual property rights. These laws and procedures may not be adequate to prevent unauthorized parties from attempting to copy or otherwise obtain the Company's processes and technology or deter others from developing similar processes or technology, which could weaken the Company's competitive position and require the Company to incur costs to secure enforcement of its intellectual property rights. The protection provided to the Company's proprietary technology by the laws of foreign jurisdictions may not protect it as fully as the laws of Canada or the United States. Finally, some of the underlying technologies of the Company's products and system components are not covered by patents or patent applications.

The Company has patents issued and patent applications pending, including those covering its digital projector and digital conversion technology. The Company's patents are filed in the United States, often with corresponding patents or filed applications in other jurisdictions, such as Canada, Belgium, Japan, France, Germany and the United Kingdom. The patent applications pending may not be issued or the patents may not provide the Company with any competitive advantages. The patent applications may also be challenged by third parties. Several of the Company's issued patents in the United States, Canada and Japan for improvements to IMAX projectors, IMAX 3D Dome and sound system components expire between 2016 and 2024. Any claims or litigation initiated by the Company to protect its proprietary technology could be time consuming, costly and divert the attention of its technical and management resources.

Current economic conditions beyond the Company's control could materially affect the Company's business by reducing both revenue generated from existing IMAX theater systems and the demand for new IMAX theater systems.

The macro-economic outlook for 2011 remains negative in many markets and the U.S. and global economies could remain significantly challenged for an indeterminate period of time. While historically the movie industry has proved to be somewhat resistant to economic downturns, present economic conditions, which are beyond the Company's control, could lead to a decrease in discretionary consumer spending. It is difficult to predict the severity and the duration of any decrease in discretionary consumer spending resulting from the economic downturn and what affect it may have on the movie industry, in general, and box office results of the Company's films in particular. In recent years, the majority of the Company's revenue has been directly derived from the box-

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office revenues of its films. Accordingly, any decline in attendance at commercial IMAX theaters could materially and adversely affect several sources of key revenue streams for the Company.

The Company also depends on the sale and lease of IMAX theater systems to commercial movie exhibitors to generate revenue. Commercial movie exhibitors generate revenues from consumer attendance at their theaters, which depends on the willingness of consumers to spend discretionary income at movie theaters. While in the past, the movie industry has proven to be somewhat resistant to economic downturns, in the event of declining box office and concession revenues, commercial exhibitors may be less willing to invest capital in new IMAX theaters. In addition, as a result of continuing tight credit conditions that may limit exhibitors' access to capital, exhibitors may be unable to invest capital in new IMAX theaters. A decline in demand for new IMAX theater systems could materially and adversely affect the Company's results of operations.

The issuance of the Company's common shares and the accumulation of shares by certain shareholders could result in the loss of the Company's ability to use certain of the Company's net operating losses.

As at December 31, 2010, the Company had approximately \$21.7 million of U.S. consolidated federal tax and state tax net operating loss carryforwards. Realization of some or all of the benefit from these U.S. net tax operating losses is dependent on the absence of certain "ownership changes" of the Company's common shares. An "ownership change," as defined in the applicable federal income tax rules, would place possible limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income that the Company may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could significantly reduce or effectively eliminate the Company's ability to use its U.S. net operating losses to offset any future taxable income.

There is collection risk associated with payments to be received over the terms of the Company's theater system agreements.

The Company is dependent in part on the viability of its exhibitors for collections under long-term leases, sales financing agreements and joint revenue sharing arrangements. Exhibitors or other operators may experience financial difficulties that could cause them to be unable to fulfill their contractual payment obligations to the Company. As a result, the Company's future revenues and cash flows could be adversely affected.

The Company may not convert all of its backlog into revenue and cash flows.

At December 31, 2010, the Company's sales backlog included 224 theater systems, consisting of arrangements for 165 sales and lease systems and 59 theater systems under joint revenue sharing arrangements. The Company lists signed contracts for theater systems for which revenue has not been recognized as sales backlog prior to the time of revenue recognition. The total value of the sales backlog represents all signed theater system sale or lease agreements that are expected to be recognized as revenue in the future (other than those under joint revenue sharing arrangements) and includes initial fees along with the present value of fixed minimum ongoing fees due over the term, but excludes contingent fees in excess of fixed minimum ongoing fees that might be received in the future and maintenance and extended warranty fees. Notwithstanding the legal obligation to do so, not all of the Company's customers with which it has signed contracts may accept delivery of theater systems that are included in the Company's backlog. This could adversely affect the Company's future revenues and cash flows. In addition, customers with theater system obligations in backlog sometimes request that the Company agree to modify or reduce such obligations, which the Company has agreed to in the past under certain circumstances. Customer requested delays in the installation of theater systems in backlog remain a recurring and unpredictable part of the Company's business.

The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations and sales.

A significant portion of the Company's revenues are generated by customers located outside the United States and Canada. Approximately 30%, 35% and 32% of its revenues were derived outside of the United States and Canada in 2010, 2009 and 2008, respectively. As at December 31, 2010, approximately 66.1% of IMAX theater systems arrangements in backlog are scheduled to be installed in international markets. Accordingly, the Company expects to expand its international operations to account for an increasingly significant portion of its revenues in the future and plans to expand into new markets in the future. The Company does not have significant experience in operating in certain foreign countries and is subject to the risks associated with doing business in those countries. The Company currently has theater system installations projected in countries where economies have been unstable in recent years. In addition, the Company anticipates expanding into new markets in which the Company has no operational experience. The economies of other foreign countries important to the Company's operations could also suffer slower economic growth or

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instability in the future. The following are among the risks that could negatively affect the Company's operations and sales in foreign markets:

- new restrictions on access to markets, both for theater systems and films;
- unusual or burdensome foreign laws or regulatory requirements or unexpected changes to those laws or requirements;
- fluctuations in the value of foreign currency versus the U.S. dollar and potential currency devaluations;
- new tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers;
- imposition of foreign exchange controls in such foreign jurisdictions;
- dependence on foreign distributors and their sales channels;
- difficulties in staffing and managing foreign operations;
- adverse changes in monetary and/or tax policies;
- poor recognition of intellectual property rights;
- inflation;
- requirements to provide performance bonds and letters of credit to international customers to secure system component deliveries; and
- political, economic and social instability.

As the Company begins to expand the number of its theaters under joint revenue sharing arrangements in international markets, the Company's revenues from its international operations will become increasingly dependent on the box office performance of its films. The Company may be unable to select films which will be successful in international markets. Also, conflicts in international release schedules may make it difficult to release every IMAX film in certain markets. Finally, box office reporting in certain countries may be less accurate and therefore less reliable than in the United States and Canada.

The Company faces risks in connection with the continued expansion of its business in Greater China and other parts of Asia.

The first IMAX theater system in a theater in Greater China was installed in December 2001. As at December 31, 2010, the Company had 40 theaters operating in Greater China with an additional 56 theaters in backlog that are scheduled to be installed in Greater China by 2015, and the Company plans to further expand its business in the Greater China region. However, the geopolitical instability of the region comprising Greater China, North Korea and South Korea could result in economic embargoes, disruptions in shipping or even military hostilities, which could interfere with both the fulfillment of the Company's existing contracts and its pursuit of additional contracts in Greater China. Also, if the Company is unable to navigate Greater China's heavily-regulated film and cinema business, the Company's growth prospects in Greater China may be hampered.

The Company's theater system revenue can vary significantly from its cash flows under theater system sales or lease agreements.

The Company's theater systems revenue can vary significantly from the associated cash flows. The Company generally provides financing to customers for theater systems on a long-term basis through long-term leases or notes receivables. The terms of leases or notes receivable are typically 10 to 20 years. The Company's sale and lease-type agreements typically provide for three major sources of cash flow related to theater systems:

- initial fees, which are paid in installments generally commencing upon the signing of the agreement until installation of the theater systems;
- ongoing fees, which are paid monthly after all theater systems have been installed and are generally equal to the greater of a fixed minimum amount per annum and a percentage of box-office receipts; and

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- ongoing annual maintenance and extended warranty fees, which are generally payable commencing in the second year of theater operations.

Initial fees generally make up a majority of cash received for a theater arrangement.

For sales and sales-type leases, the revenue recorded is generally equal to the sum of initial fees and the present value of minimum ongoing fees due under the agreement. Cash received from initial fees in advance of meeting the revenue recognition criteria for the theater systems is recorded as deferred revenue. Contingent fees are recognized as they are reported by the theaters after annual minimum fixed fees are exceeded.

Leases that do not transfer substantially all of the benefits and risks of ownership to the customer are classified as operating leases. For these leases, initial fees and minimum fixed ongoing fees are recognized as revenue on a straight-line basis over the lease term. Contingent fees are recognized as they are reported by the theaters after annual minimum fixed fees are exceeded.

As a result of the above, the revenue set forth in the Company's financial statements does not necessarily correlate with the Company's cash flow or cash position. Revenues include the present value of future contracted cash payments and there is no guarantee that the Company will receive such payments under its lease and sale agreements if its customers default on their payment obligations.

The Company's operating results and cash flow can vary substantially from quarter to quarter and could increase the volatility of its share price.

The Company's operating results and cash flow can fluctuate substantially from quarter to quarter. In particular, fluctuations in theater system installations can materially affect operating results. Factors that have affected the Company's operating results and cash flow in the past, and are likely to affect its operating results and cash flow in the future, include, among other things:

- the timing of signing and installation of new theater systems;
- the demand for, and acceptance of, its products and services;
- the recognition of revenue of sales and sales-type leases;
- the classification of leases as sales-type versus operating leases;
- the timing and commercial success of films produced and distributed by the Company and others;
- the volume of orders received and that can be filled in the quarter;
- the level of its sales backlog;
- the signing of film distribution agreements;
- the financial performance of IMAX theaters operated by the Company's customers and by the Company;
- financial difficulties faced by customers, particularly customers in the commercial exhibition industry;
- the magnitude and timing of spending in relation to the Company's research and development efforts; and
- the number and timing of joint revenue sharing arrangement installations, related capital expenditures and timing of related cash receipts.

Most of the Company's operating expenses are fixed in the short term. The Company may be unable to rapidly adjust its spending to compensate for any unexpected sales shortfall, which would harm quarterly operating results, although the results of any quarterly period are not necessarily indicative of its results for any other quarter or for a full fiscal year.

The Company's revenues from existing customers are derived in part from financial reporting provided by its customers, which may be inaccurate or incomplete, resulting in lost or delayed revenues.

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The Company's revenue under its joint revenue sharing arrangements, a portion of the Company's payments under lease or sales arrangements and its film license fees are based upon financial reporting provided by its customers. If such reporting is inaccurate, incomplete or withheld, the Company's ability to receive the appropriate payments in a timely fashion that are due to it may be impaired. The Company's contractual ability to audit IMAX theaters may not rectify payments lost or delayed as a result of customers not fulfilling their contractual obligations with respect to financial reporting.

The Company's stock price has historically been volatile and declines in market price, including as a result a market downturn, may negatively affect its ability to raise capital, issue debt, secure customer business and retain employees.

The Company's publicly traded shares have in the past experienced, and may continue to experience, significant price and volume fluctuations. This market volatility could reduce the market price of its common stock, regardless of the Company's operating performance. A decline in the capital markets generally, or an adjustment in the market price or trading volumes of the Company's publicly traded securities, may negatively affect its ability to raise capital, issue debt, secure customer business or retain employees. These factors, as well as general economic and geopolitical conditions, may have a material adverse effect on the market price of the Company's publicly traded securities.

The credit agreement governing the Company's senior secured credit facility contains significant restrictions that limit its operating and financial flexibility.

The credit agreement governing the Company's senior secured credit facility contains certain restrictive covenants that, among other things, limit its ability to:

- incur additional indebtedness;
- pay dividends and make distributions;
- repurchase stock;
- make certain investments;
- transfer or sell assets;
- create liens;
- enter into transactions with affiliates;
- issue or sell stock of subsidiaries;
- create dividend or other payment restrictions affecting restricted subsidiaries; and
- merge, consolidate, amalgamate or sell all or substantially all of its assets to another person.

These restrictive covenants impose operating and financial restrictions on the Company that limit the Company's ability to engage in acts that may be in the Company's long-term best interests.

The Company may experience adverse effects due to exchange rate fluctuations.

A substantial portion of the Company's revenues are denominated in U.S. dollars, while a substantial portion of its expenses are denominated in Canadian dollars. The Company also generates revenues in Euros and Japanese Yen. While the Company periodically enters into forward contracts to hedge its exposure to exchange rate fluctuations between the U.S. and the Canadian dollar, the Company may not be successful in reducing its exposure to these fluctuations. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility.

The Company is subject to impairment losses on its film assets.

The Company amortizes its film assets, including IMAX DMR costs capitalized using the individual film forecast method, whereby the costs of film assets are amortized and participation costs are accrued for each film in the ratio of revenues earned in the current period to management's estimate of total revenues ultimately expected to be received for that title. Management regularly reviews, and revises when necessary, its estimates of ultimate revenues on a title-by-title basis, which may result in a change in the rate of amortization of the film assets and write-downs or impairments of film assets. Results of operations in future years include the amortization of the Company's film assets and may be significantly affected by periodic adjustments in amortization rates.

The Company is subject to impairment losses on its inventories.

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 and anticipated market acceptance of the Company's current and pending theater systems. Since the Company introduced a proprietary digitally-based IMAX projection system, increased customer acceptance and preference for the Company's digital projection system may subject existing film-based inventories to further write-downs (resulting in lower margins) as these theater systems become less desirable in the future.

If the Company's goodwill or long lived assets become impaired the Company may be required to record a significant charge to earnings.

Under United States Generally Accepted Accounting Principles ("U.S. GAAP"), the Company reviews its long lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment annually or when events or changes in circumstances indicate an impairment test is required. Factors that may be considered a change in circumstances include (but are not limited to) a decline in stock price and market capitalization, declines in future cash flows, and slower growth rates in the Company's industry. The Company may be required to record a significant charge to earnings in its financial statements during the period in which any impairment of its goodwill or long lived assets is determined.

Changes in accounting and changes in management's estimates may affect the Company's reported earnings and operating income.

U.S. GAAP and accompanying accounting pronouncements, implementation guidelines and interpretations for many aspects of the Company's business, such as revenue recognition, film accounting, accounting for pensions, accounting for income taxes, and treatment of goodwill or long lived assets, are highly complex and involve many subjective judgments. Changes in these rules, their interpretation, management's estimates, or changes in the Company's products or business could significantly change its reported future earnings and operating income and could add significant volatility to those measures, without a comparable underlying change in cash flow from operations. See "Critical Accounting Policies" in Item 7.

The Company relies on its key personnel, and the loss of one or more of those personnel could harm its ability to carry out its business strategy.

The Company's operations and prospects depend in large part on the performance and continued service of its senior management team. The Company may not find qualified replacements for any of these individuals if their services are no longer available. The loss of the services of one or more members of the Company's senior management team could adversely affect its ability to effectively pursue its business strategy.

Because the Company is incorporated in Canada, it may be difficult for plaintiffs to enforce against the Company liabilities based solely upon U.S. federal securities laws.

The Company is incorporated under the federal laws of Canada, some of its directors and officers are residents of Canada and a substantial portion of its assets and the assets of such directors and officers are located outside the United States. As a result, it may be difficult for U.S. plaintiffs to effect service within the United States upon those directors or officers who are not residents of the United States, or to realize against them or the Company in the United States upon judgments of courts of the United States predicated upon the civil liability under the U.S. federal securities laws. In addition, it may be difficult for plaintiffs to bring an original action outside of the United States against the Company to enforce liabilities based solely on U.S. federal securities laws.

RISKS RELATED TO THE COMPANY'S PRIOR RESTATEMENTS AND RELATED MATTERS

The Company is subject to ongoing informal inquiries and a formal investigation by regulatory authorities in the U.S. and Canada, and it cannot predict the timing of developments and outcomes in these matters.

The Company is the subject of a formal investigation by the Securities and Exchange Commission (the "SEC") and an informal inquiry by the Ontario Securities Commission (the "OSC") which relate to the Company's accounting policies and related matters. The Company cannot predict when the investigation and inquiry will be completed or the further timing of any other developments in connection with the inquiries. The Company also cannot predict their results or outcomes.

Expenses incurred in connection with these informal inquiries (which include substantial fees for lawyers and other professional advisors) continue to adversely affect the Company's cash position and profitability. The Company may also have potential obligations to indemnify officers and directors who could, at a future date, be parties to such inquiries.

The formal investigation and the informal inquiry may adversely affect the course of the pending litigation against the Company. The Company is currently defending a consolidated class-action lawsuit in the U.S. and a class-action lawsuit in Ontario (see Item 3. Legal Proceedings). Negative developments or outcomes in the formal investigation or the informal inquiries could have an adverse effect on the Company's defense of lawsuits. Also, the SEC and/or OSC could impose sanctions and/or fines on the Company in connection with the aforementioned investigation and inquiry. Finally, this investigation and inquiry could divert the attention of the Company's management and other personnel for significant periods of time.

The Company is subject to lawsuits that could divert its resources and result in the payment of significant damages and other remedies.

The Company's industry is characterized by frequent claims and related litigation regarding breach of contract and related issues. The Company is subject to a number of legal proceedings and claims that arise in the ordinary course of its business. In addition, the Company is engaged as a defendant in several class action lawsuits filed by certain shareholders of the Company. The Company cannot assure that it will succeed in defending any claims, that judgments will not be entered against it with respect to any litigation or that reserves the Company may set aside will be adequate to cover any such judgments. If any of these actions or proceedings against the Company is successful, it may be subject to significant damages awards. In addition, the Company is the plaintiff in a number of lawsuits in which it seeks the recovery of substantial payments. The Company is incurring legal fees in prosecuting and defending its lawsuits, and it may not ultimately prevail in such lawsuits or be able to collect on such judgments if it does.

Although the Company's directors and officers liability insurance provides coverage for the class-action, the defense of these claims (as with the defense or prosecution of all of the Company's litigation) could divert the attention of the Company's management and other personnel for significant periods of time.

The Company has been the subject of anti-trust complaints and investigations in the past and may be sued or investigated on similar grounds in the future.

The outcome of informal inquiries and a formal investigation by regulatory authorities in the U.S. and Canada may affect the Company's business and the market price of its publicly traded common shares.

The Company has been the subject of continuing negative publicity in part as a result of the ongoing SEC investigation and OSC inquiry and its prior delay in filing financial statements and restatements of prior results. Continuing negative publicity could have an adverse effect on the Company's business and the market price of the Company's publicly traded securities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's principal executive offices are located in Mississauga, Ontario, Canada, New York, New York, and Santa Monica, California. The Company's principal facilities are as follows:

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	<u>Operation</u>	<u>Own/Lease</u>	<u>Expiration</u>
Mississauga, Ontario ⁽¹⁾	Headquarters, Administrative, Assembly and Research and Development	Own	N/A
New York, New York	Executive	Lease	2014
Santa Monica, California	Sales, Marketing, Film Production and Post-Production	Lease	2013
Shanghai, China	Sales, Marketing and Maintenance	Lease	2012
London, United Kingdom	Sales, Marketing and Maintenance	Lease	2011
Tokyo, Japan	Sales, Marketing and Maintenance	Lease	2011

- (1) This facility is subject to a charge in favor of Wells Fargo Capital Finance Corporation Canada (formerly Wachovia Capital Finance Corporation (Canada)) in connection with a secured term and revolving credit facility (see note 12 to the accompanying audited consolidated financial statements in Item 8).

Item 3. Legal Proceedings

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.

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-CITI Entertainment (I) PVT Limited (“E-Citi”), seeking damages as a result of E-Citi’s breach of a September 2000 lease agreement. An arbitration hearing took place in November 2005 against E-Citi 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 \$11,309,496, 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.

In June 2004, 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 between Robots’ predecessor-in-interest and a subsidiary of the Company (Ridefilm), asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with the contract. Robots is seeking an award of contingent compensation that it claims is owed under two production agreements, damages for tort claims, and punitive damages. The arbitration hearing of this matter occurred in June and October 2009. The parties are currently awaiting a final award from the arbitrator. The Company believes the amount of loss, if any, that may be suffered in connection with this proceeding, will 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 such arbitration.

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

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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. The lawsuit is at an early stage and as a result 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.

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 binding conclusions on the factual or legal merits of the claim. The Company has brought a motion seeking Court approval to appeal those decisions and it is not known when the Ontario court will release a decision on that motion. 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 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.

On September 7, 2007, Catalyst Fund Limited Partnership II ("Catalyst"), a holder of the Company's Senior Notes, commenced an application against the Company in the Ontario Superior Court of Justice for a declaration of oppression pursuant to sections 229 and 241 of the Canada Business Corporations Act (the "CBCA") and for a declaration that the Company is in default of the indenture governing its now retired Senior Notes (the "Indenture"). In its application against the Company, Catalyst challenged the validity of the consent solicitation through which the Company requested and obtained a waiver of any and all defaults arising from a failure to comply with the reporting covenant under the Indenture and alleged common law fraud. On September 26, 2008, on the Company's motion, the Ontario Superior Court stayed Catalyst's application in Canada on the basis of Catalyst having brought similar claims against the Company in the State of New York, and ordered Catalyst to pay the Company's costs associated with the motion. On April 27, 2009, the Supreme Court of the State of New York disposed of Catalyst's claims against the Company in the State of New York (see note 10(g) for additional information). The time for Catalyst to appeal the dismissal of its claim by the New York court expired on February 8, 2010, without Catalyst perfecting an appeal.

In a related matter, on December 21, 2007, U.S. Bank National Association, trustee under the Indenture, filed a complaint in the Supreme Court of the State of New York against the Company and Catalyst, requesting a declaration that the theory of default asserted by Catalyst before the Ontario Superior Court of Justice is without merit and further that Catalyst has failed to satisfy certain prerequisites to bondholder action, which are contained in the Indenture (the "U.S. Bank Action"). On February 22, 2008, Catalyst served a Verified Answer to the U.S. Bank Action and filed several cross-claims (the "Cross-Claims") against the Company in the

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same proceeding. On January 16, 2009, the Company moved for summary judgment, seeking a ruling that the Company satisfied the terms of the declaratory relief requested by the Trustee and the dismissal of the Cross-Claims. On April 27, 2009, the Court granted the Company's motion for summary judgment, disposing of the Cross-Claims. On May 7, 2009, Catalyst filed a notice preserving for a period of nine months its right to appeal the Court's ruling on summary judgment. The time for Catalyst to perfect its appeal has now expired.

On November 4, 2009, Cinemark USA, Inc. ("Cinemark") filed a complaint in the United States District Court for the Eastern District of Texas against the Company seeking a declaratory judgment that Cinemark is not infringing certain of the Company's patents related to theater geometry and that such patents are invalid. On December 22, 2010, the Company and Cinemark entered into a Settlement Agreement in which they agreed to dismiss the Texas action with prejudice. As part of the settlement, the Company and Cinemark also agreed to enter into a purchase agreement pursuant to which Cinemark agreed to purchase two IMAX digital theater systems and to upgrade six of its IMAX film-based theaters to IMAX digital theaters. On January 13, 2011, the Court granted the parties' joint motion to dismiss with prejudice.

On November 12, 2009, the Company filed a complaint in the Supreme Court of New York against Cinemark alleging breach of contract, fraud, tortious interference with existing and prospective economic relations, breach of the implied warranty of good faith and fair dealing, misappropriation of trade secrets, unjust enrichment and deliberate acts of bad faith in connection with the introduction and operation of a new Cinemark theater prototype. The lawsuit was removed to federal court in New York and the tort claims were dismissed without prejudice to the Company's right to replead those claims. On December 22, 2010, the Company and Cinemark entered into a Settlement Agreement in which they agreed to dismiss the New York action with prejudice. As part of the settlement, the Company and Cinemark also agreed to enter into a purchase agreement pursuant to which Cinemark agreed to purchase two IMAX digital theater systems and to upgrade six of its IMAX film-based theaters to IMAX digital theaters. On January 4, 2011, the Company filed a voluntary stipulation of dismissal. The matter is now closed.

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 suit 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.

Since June 2006, the Company has been subject to ongoing informal inquiries by the SEC and the OSC. On or about September 3, 2010, the SEC issued a formal order of investigation in connection with its inquiry. The Company has been cooperating with these inquiries and will continue to cooperate with the SEC's investigation. The Company believes that the inquiry and investigation principally relate to the timing of recognition of the Company's theater system installation revenue in 2005 and related matters. Although the Company cannot predict the timing of developments and outcomes in these inquiries, they could result at any time in developments (including charges or settlement of charges) that could have material adverse effects on the Company. These effects could include payments of fines or disgorgement or other relief with respect to the Company or its officers or employees that could be material to the Company. Such developments could also have an adverse effect on the Company's defense of the class action lawsuits referred to above.

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.

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

There were no matters submitted to a vote of the security holders during the quarter ended December 31, 2010.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities**

The Company's common shares are listed for trading under the trading symbol "IMAX" on the New York Stock Exchange ("NYSE"). Prior to February 11, 2011, the Company's common shares were listed for trading on the NASDAQ Global Select Market ("NASDAQ"). The common shares are also listed on the Toronto Stock Exchange ("TSX") under the trading symbol "IMX." The following table sets forth the range of high and low sales prices per share for the common shares on NASDAQ and the TSX.

	U.S. Dollars	
	High	Low
NASDAQ		
Year ended December 31, 2010		
Fourth quarter	\$ 32.30	\$ 16.93
Third quarter	\$ 17.25	\$ 12.10
Second quarter	\$ 21.30	\$ 14.28
First quarter	\$ 18.26	\$ 11.50
Year ended December 31, 2009		
Fourth quarter	\$ 13.87	\$ 9.00
Third quarter	\$ 10.14	\$ 7.14
Second quarter	\$ 8.49	\$ 4.28
First quarter	\$ 5.49	\$ 3.74
TSX		
Year ended December 31, 2010		
Fourth quarter	\$ 32.56	\$ 17.20
Third quarter	\$ 17.69	\$ 12.78
Second quarter	\$ 21.45	\$ 15.02
First quarter	\$ 18.56	\$ 12.34
Year ended December 31, 2009		
Fourth quarter	\$ 14.56	\$ 9.68
Third quarter	\$ 10.82	\$ 8.39
Second quarter	\$ 9.77	\$ 5.45
First quarter	\$ 6.66	\$ 4.89

As at January 31, 2011, the Company had approximately 266 registered holders of record of the Company's common shares.

Within the last three years, the Company has not paid and has no current plans to pay, cash dividends on its common shares. The payment of dividends by the Company is subject to certain restrictions under the terms of the Company's indebtedness (see notes 11 and 12 to the accompanying audited consolidated financial statements in Item 8 and "Liquidity and Capital Resources" in Item 7). The payment of any future dividends will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board of Directors.

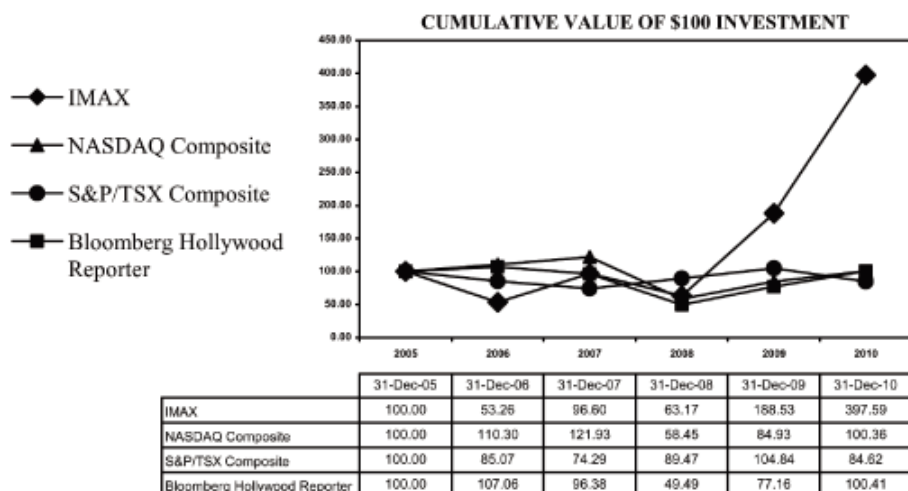
Equity Compensation Plans

The following table sets forth information regarding the Company's Equity Compensation Plan as at December 31, 2010:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	6,743,272	\$ 10.79	6,085,843
Equity compensation plans not approved by security holders	nil	nil	nil
Total	6,743,272	\$ 10.79	6,085,843

Performance Graph

The following graph compares the total cumulative shareholder return for \$100 invested (assumes that all dividends were reinvested) in common shares of the Company against the cumulative total return of the NASDAQ Composite Index, the S&P/TSX Composite Index and the Bloomberg Hollywood Reporter Index on December 31, 2005 to the end of the most recently completed fiscal year.



CERTAIN INCOME TAX CONSIDERATIONS

United States Federal Income Tax Considerations

The following discussion is a general summary of the material U.S. federal income tax consequences of the ownership and disposition of the common shares by a holder of common shares that is an individual resident of the United States or a United States corporation (a “U.S. Holder”). This discussion does not discuss all aspects of U.S. federal income taxation that may be relevant to investors subject to special treatment under U.S. federal income tax law (including, for example, owners of 10.0% or more of the voting shares of the Company).

Distributions on Common Shares

In general, distributions (without reduction for Canadian withholding taxes) paid by the Company with respect to the common shares will be taxed to a U.S. Holder as dividend income to the extent that such distributions do not exceed the current and accumulated earnings and profits of the Company (as determined for U.S. federal income tax purposes). Subject to certain limitations, under current law dividends paid to non-corporate U.S. Holders in taxable years beginning before January 1, 2013 may be eligible for a reduced rate of taxation as long as the Company is considered to be a “qualified foreign corporation”. A qualified foreign

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corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States. The amount of a distribution that exceeds the earnings and profits of the Company will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in the common shares and thereafter as taxable capital gain. Corporate holders generally will not be allowed a deduction for dividends received in respect of distributions on common shares. Subject to the limitations set forth in the U.S. Internal Revenue Code, as modified by the U.S.-Canada Income Tax Treaty, U.S. Holders may elect to claim a foreign tax credit against their U.S. federal income tax liability for Canadian income tax withheld from dividends. Alternatively, U.S. Holders may claim a deduction for such amounts of Canadian tax withheld.

Disposition of Common Shares

Upon the sale or other disposition of common shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale and such holder's tax basis in the common shares. Gain or loss upon the disposition of the common shares will be long-term if, at the time of the disposition, the common shares have been held for more than one year. Long-term capital gains of non-corporate U.S. Holders may be eligible for a reduced rate of taxation. The deduction of capital losses is subject to limitations for U.S. federal income tax purposes.

Canadian Federal Income Tax Considerations

This summary is applicable to a holder or prospective purchaser of common shares who, for the purposes of the *Income Tax Act* (Canada) and any applicable treaty and at all relevant times, is not (and is not deemed to be) resident in Canada, does not (and is not deemed to) use or hold the common shares in, or in the course of, carrying on a business in Canada, and is not an insurer that carries on an insurance business in Canada and elsewhere.

This summary is based on the current provisions of the *Income Tax Act* (Canada), the regulations thereunder, all specific proposals to amend such Act and regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and the Company's understanding of the administrative and assessing practices published in writing by the Canada Revenue Agency. This summary does not otherwise take into account any change in law or administrative practice, whether by judicial, governmental, legislative or administrative action, nor does it take into account provincial, territorial or foreign income tax consequences, which may vary from the Canadian federal income tax considerations described herein.

This summary is of a general nature only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder of the common shares and no representation with respect to Canadian federal income tax consequences to any holder of common shares is made herein. Accordingly, prospective purchasers and holders of the common shares should consult their own tax advisers with respect to their individual circumstances.

Dividends on Common Shares

Canadian withholding tax at a rate of 25.0% (subject to reduction under the provisions of any relevant tax treaty) will be payable on dividends paid or credited to a holder of common shares outside of Canada. Under the Canada — U.S. Income Tax Convention (1980), as amended (the "Canada - U.S. Income Tax Treaty") the withholding tax rate is generally reduced to 15.0% for a holder entitled to the benefits of the Canada — U.S. Income Tax Treaty who is the beneficial owner of the dividends (or 5.0% if the holder is a corporation that owns at least 10.0% of the common shares).

Capital Gains and Losses

Subject to the provisions of any relevant tax treaty, capital gains realized by a holder on the disposition or deemed disposition of common shares held as capital property will not be subject to Canadian tax unless the common shares are taxable Canadian property (as defined in the *Income Tax Act* (Canada)), in which case the capital gains will be subject to Canadian tax at rates which will approximate those payable by a Canadian resident. Common shares generally will not be taxable Canadian property to a holder provided that, at the time of the disposition or deemed disposition, the common shares are listed on a designated stock exchange (which currently includes the TSX) unless such holder, persons with whom such holder did not deal at arm's length or such holder together with all such persons, owned 25.0% or more of the issued shares of any class or series of shares of the Company at any time within the 60 month period immediately preceding such time and more than 50% of the fair market value of the common shares was derived directly or indirectly from one or any combination of (i) real or immovable property situated in Canada, (ii) Canadian resource properties, (iii) timber resource properties, and (iv) options in respect of, or interests in, or for civil law rights in, property described in any of paragraphs (i) to (iii), whether or not the property exists. In certain circumstances set out in the *Income Tax Act* (Canada), the common shares may be deemed to be taxable Canadian property. Under the Canada-U.S. Income Tax Treaty, a holder entitled to the

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benefits of the Canada — U.S. Income Tax Treaty and to whom the common shares are taxable Canadian property will not be subject to Canadian tax on the disposition or deemed disposition of the common shares unless at the time of disposition or deemed disposition, the value of the common shares is derived principally from real property situated in Canada.

Item 6. Selected Financial Data

The selected financial data set forth below is derived from the consolidated financial information of the Company. The financial information has been prepared in accordance with U.S. GAAP. All financial information referred to herein is expressed in U.S. dollars unless otherwise noted.

<i>(In thousands of U.S. dollars, except per share amounts)</i>	Years Ended December 31,				
	2010	2009	2008	2007	2006
Statements of Operations Data:					
Revenue					
Equipment and product sales	\$ 72,578	\$ 57,304	\$ 27,853	\$ 32,500	\$ 49,322
Services	123,911	82,052	61,477	64,972	62,927
Rentals	46,936	25,758	8,207	7,107	5,622
Finance income	4,789	4,235	4,300	4,649	5,242
Other revenues ⁽²⁾	400	1,862	881	2,427	300
	<u>248,614</u>	<u>171,211</u>	<u>102,718</u>	<u>111,655</u>	<u>123,413</u>
Costs and expenses applicable to revenues					
Equipment and product sales ⁽³⁾⁽⁴⁾	36,394	29,040	17,182	21,546	26,008
Services ⁽³⁾⁽⁴⁾	63,425	49,891	40,771	46,254	43,679
Rentals ⁽⁴⁾	11,111	10,093	7,043	2,987	1,859
Other	32	635	169	50	—
	<u>110,962</u>	<u>89,659</u>	<u>65,165</u>	<u>70,837</u>	<u>71,546</u>
Gross margin					
	<u>137,652</u>	<u>81,552</u>	<u>37,553</u>	<u>40,818</u>	<u>51,867</u>
Selling, general and administrative expenses ⁽⁵⁾	78,428	56,207	43,681	44,716	42,543
Research and development	6,249	3,755	7,461	5,789	3,615
Amortization of intangibles	513	546	526	547	602
Receivable provisions, net of recoveries	1,443	1,067	1,977	1,795	1,066
Restructuring costs and asset impairments ⁽⁶⁾	45	180	—	485	1,029
Earnings (loss) from operations	<u>50,974</u>	<u>19,797</u>	<u>(16,092)</u>	<u>(12,514)</u>	<u>3,012</u>
Interest income	399	98	381	862	1,036
Interest expense	(1,885)	(13,845)	(17,707)	(17,093)	(16,759)
Loss on repurchase of Senior Notes due December 2010 ⁽⁷⁾	—	(579)	—	—	—
Earnings (loss) from continuing operations before income taxes					
	<u>49,488</u>	<u>5,471</u>	<u>(33,418)</u>	<u>(28,745)</u>	<u>(12,711)</u>
Recovery of (provision for) income taxes ⁽⁸⁾	51,784	(274)	(92)	(472)	(6,218)
Loss from equity-accounted investments	(493)	—	—	—	—
Net earnings (loss) from continuing operations	<u>100,779</u>	<u>5,197</u>	<u>(33,510)</u>	<u>(29,217)</u>	<u>(18,929)</u>
Net (loss) earnings from discontinued operations ⁽¹⁾	—	(176)	(92)	2,277	2,080
Net earnings (loss)	<u>\$ 100,779</u>	<u>\$ 5,021</u>	<u>\$ (33,602)</u>	<u>\$ (26,940)</u>	<u>\$ (16,849)</u>
Earnings (loss) per share:					
Earnings (loss) per share — basic:					
Net earnings (loss) from continuing operations	\$ 1.59	\$ 0.10	\$ (0.79)	\$ (0.72)	\$ (0.47)
Net earnings from discontinued operations	\$ —	\$ —	\$ —	\$ 0.05	\$ 0.05
	<u>\$ 1.59</u>	<u>\$ 0.10</u>	<u>\$ (0.79)</u>	<u>\$ (0.67)</u>	<u>\$ (0.42)</u>
Earnings (loss) per share — diluted:					
Net earnings (loss) from continuing operations	\$ 1.51	\$ 0.09	\$ (0.79)	\$ (0.72)	\$ (0.47)
Net earnings from discontinued operations	\$ —	\$ —	\$ —	\$ 0.05	\$ 0.05
	<u>\$ 1.51</u>	<u>\$ 0.09</u>	<u>\$ (0.79)</u>	<u>\$ (0.67)</u>	<u>\$ (0.42)</u>

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(1) In 2009, the Company closed its owned and operated Vancouver and Tempe IMAX theaters. The net (loss) earnings from the operation of the theaters are reflected as discontinued operations and disclosed in note 23(c) to the accompanying audited consolidated financial statements in Item 8, as there are no continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the owned and operated Vancouver and Tempe IMAX theaters are included in the Company's consolidated balance sheet as at December 31, 2010 and are disclosed in note 23(d) to the accompanying audited consolidated financial statements in Item 8.

(2) The Company enters into theater system arrangements with customers that typically contain customer payment obligations prior to the scheduled installation of the theater systems. The Company's joint revenue sharing arrangements are not included in these arrangements as the Company receives a portion of a theater's box-office and concession revenue in exchange for contributing a theater system at theater operators' venues with no upfront payment obligations required. During the period of time between signing and theater system installation, certain customers each year are 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 customer and/or the Company may terminate the arrangement by default or by entering into a consensual buyout. In these situations the parties are released from their future obligations under the arrangement, and the initial payments that the customer previously made to the Company and recognized as revenue are typically not refunded. In addition, the Company enters into agreements with customers to terminate their obligations for a theater system configuration and enter into a new arrangement for a different configuration. Included in Other Revenues for the periods 2006 through 2010 are the following types of settlement arrangements:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Theater system configuration conversions	\$ —	\$ 136	\$ —	\$ —	\$ 300
Consensual buyouts	400	1,726	881	2,247	—
	<u>\$ 400</u>	<u>\$ 1,862</u>	<u>\$ 881</u>	<u>\$ 2,247</u>	<u>\$ 300</u>

(3) In recent years, the Company has recorded a charge to costs and expenses to revenues, primarily for its film-based projector inventories, due to a reduction in the net realizable value resulting from the Company development of a digital projection system. Included for the periods 2006 through 2010 are the following inventory write-downs:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Equipment and product sales	\$ 827	\$ 48	\$ 2,397	\$ 3,284	\$ 1,322
Services	172	849	93	564	—
	<u>\$ 999</u>	<u>\$ 897</u>	<u>\$ 2,490</u>	<u>\$ 3,848</u>	<u>\$ 1,322</u>

(4) The Company recorded advertising, marketing, and commission costs for the periods 2006 through 2010 as listed below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Equipment and product sales	\$ 1,925	\$ 2,041	\$ 1,035	\$ 810	\$ 1,630
Services	2,793	2,381	1,622	1,755	2,142
Rentals	4,236	3,405	1,788	177	—
Advertising, marketing, and commission costs	<u>\$ 8,954</u>	<u>\$ 7,827</u>	<u>\$ 4,445</u>	<u>\$ 2,742</u>	<u>\$ 3,772</u>

(5) Includes share-based compensation expense of \$26.0 million, \$17.5 million, \$1.0 million, \$2.9 million and \$0.6 million for 2010, 2009, 2008, 2007 and 2006, respectively.

(6) In 2010, the Company recorded asset impairment charges of less than \$0.1 million related to the impairment of assets of certain theater operations. Asset impairment charges amounted to \$0.2 million, \$nil, \$0.5 million and \$1.0 million in 2009, 2008, 2007 and 2006, respectively, after the Company assessed the carrying value of certain assets.

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- (7) In 2009, the Company repurchased all of its outstanding \$160.0 million aggregate principal amount of the Company's 9.625% Senior Notes. The Company paid cash to reacquire its bonds, thereby releasing the Company from further obligations to various holders under the Indenture governing the Senior Notes. The Company accounted for the bond repurchase in accordance with the Debt Topic of the FASB Accounting Standards Codification whereby the net carrying amount of the debt extinguished was the face value of the bonds adjusted for any unamortized premium, discount and costs of issuance, which resulted in a loss of \$0.6 million.
- (8) The recovery for income taxes in the year ended December 31, 2010 includes a net non-cash income tax benefit of \$54.8 million related to a decrease in the valuation allowance for the Company's deferred tax assets and other tax adjustments. This release of the valuation allowance was recorded after it was determined that realization of this deferred income tax benefit is now more likely than not based on current and anticipated future earnings trends. In 2006, the Company recorded an increase to the deferred tax valuation allowance of \$6.2 million based on the Company's recoverability assessments of deferred tax balances carried forward from the prior year. As at December 31, 2006, and continuing through to the third quarter of the current year, the Company determined that based on the weight of available evidence, positive and negative, a full valuation allowance for the net deferred tax assets was required.

BALANCE SHEETS DATA

<i>(in thousands of U.S. dollars)</i>	As at December 31,				
	2010	2009	2008	2007	2006
Cash, cash equivalents and short-term investments	\$ 30,390	\$ 20,081	\$ 27,017	\$ 16,901	\$ 27,238
Total assets ⁽¹⁾	\$ 349,088	\$ 247,545	\$ 228,667	\$ 207,982	\$ 227,291
Total indebtedness	\$ 17,500	\$ 50,000	\$ 180,000	\$ 160,000	\$ 160,000
Total shareholders' equity (deficiency)	\$ 158,458	\$ 45,010	\$ (96,774)	\$ (85,370)	\$ (58,232)

- (1) Includes the assets of discontinued operations.

QUARTERLY STATEMENTS OF OPERATIONS SUPPLEMENTARY DATA (UNAUDITED)

<i>(in thousands of U.S. dollars, except per share amounts)</i>	2010			
	Q1	Q2	Q3	Q4 ⁽²⁾
Revenues	\$ 72,784	\$ 55,598	\$ 51,069	\$ 69,163
Costs and expenses applicable to revenues	24,484	28,558	25,140	32,780
Gross margin	\$ 48,300	\$ 27,040	\$ 25,929	\$ 36,383
Net earnings from continuing operations	\$ 26,580	\$ 13,302	\$ 6,736	\$ 54,161
Net earnings from discontinued operations	—	—	—	—
Net earnings	\$ 26,580	\$ 13,302	\$ 6,736	\$ 54,161
Net earnings per share — basic	\$ 0.42	\$ 0.21	\$ 0.11	\$ 0.85
Net earnings per share — diluted	\$ 0.40	\$ 0.20	\$ 0.10	\$ 0.80

	2009			
	Q1 ⁽¹⁾	Q2 ⁽¹⁾	Q3 ⁽¹⁾	Q4 ⁽¹⁾
Revenues	\$ 33,136	\$ 40,362	\$ 43,476	\$ 54,237
Costs and expenses applicable to revenues	18,928	19,679	24,697	26,355
Gross margin	\$ 14,208	\$ 20,683	\$ 18,779	\$ 27,882
Net earnings (loss) from continuing operations	\$ (2,565)	\$ 2,723	\$ 1,157	\$ 3,882
Net earnings (loss) from discontinued operations	(77)	(161)	(95)	157
Net earnings (loss)	\$ (2,642)	\$ 2,562	\$ 1,062	\$ 4,039
Net earnings (loss) per share — basic	\$ (0.06)	\$ 0.06	\$ 0.02	\$ 0.07
Net earnings (loss) per share — diluted	\$ (0.06)	\$ 0.05	\$ 0.02	\$ 0.06

- (1) The Company reclassified the owned and operated Vancouver and Tempe IMAX theaters' operations from continuing operations to discontinued operations as it does not anticipate having significant future cash flows from these theaters or any involvement in the day to day operations of these theaters. As a result, the respective prior period's figures have been reclassified to conform to the current year's presentation.
- (2) Net earnings from continuing operations for the fourth quarter includes a release of the valuation allowance on deferred tax assets of \$54.8 million. See note 9 to the financial statements for further details.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

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 its 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 518 theater systems (396 commercial, 122 institutional) operating in 46 countries as at December 31, 2010. This compares to 430 theater systems (309 commercial, 121 institutional) operating in 48 countries as at December 31, 2009.

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, film performance, earnings from operations as adjusted for unusual items that the Company views as non-recurring, the signing and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements), 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 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 revenue earned from customers under the Company's theater system lease or sales agreements can vary from quarter to quarter and year to year based on a number of factors including the mix of theater system configurations sold or leased, the timing of installation of the theater systems, the nature of the arrangement and other factors specific to individual contracts, although the typical rent or sales price for its various theater system configurations does not generally vary significantly from region to region. The Company has taken steps in recent years to accelerate the growth of the global IMAX theater network and the sale or lease of its products by developing a lower-cost theater system and a new digitally-based theater system, both designed to appeal to broader customer bases, particularly in commercial multiplex markets. Although these theater systems are lower-cost, the Company has endeavored to successfully maintain its per unit margins on a percentage basis and to maintain the aggregate revenues and gross margins through increased volume. Recently, the Company has signed a number of deals for digital upgrades to its commercial customers and intends to continue to sell these digital upgrades in the future at lower margins than its traditional deals for strategic reasons.

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Revenues on theater system sales and sales-type leases are recognized at different times than when cash is collected.

Over the last several years, the Company has entered into joint revenue sharing arrangements with customers pursuant to which the Company provides 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 (the "System Deliverable") in return for a portion of the customer's IMAX box-office receipts and concession revenue. Pursuant to these revenue sharing arrangements, the Company retains title to the theater system (including the projector, the sound system and the projection screen) and rent payments are contingent, instead of fixed or determinable. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally not cancelable by the customer unless the Company fails to perform its obligations. In certain cases, the contract provides certain thresholds that, if not met by either party, allow the other party to terminate the agreement. Joint revenue sharing arrangements generally have a 7 to 10-year initial term and may be renewed by the customer for an additional term. The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company's commercial theatre network which has grown by approximately 71% since 2008. Joint revenue sharing arrangements allow commercial theatre exhibitors to install IMAX theatre systems without the initial capital investment required in a lease or sale arrangement. Since customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box office and concession revenue, joint revenue sharing arrangements also drive recurring cash flows and earnings for the Company. As the Company continues to expand its number of theaters under joint revenue sharing arrangements, the Company anticipates cash flows and earnings from joint revenue sharing arrangements will be an important driver of recurring revenue for the Company. 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. As at January 31, 2011, the Company has entered into joint revenue sharing arrangements for 230 systems, 171 of which were in operation as at December 31, 2010, a 46.2% increase as compared to the 117 joint revenue sharing arrangements opened as at December 31, 2009.

The revenue earned from customers under the Company's joint revenue sharing arrangements can vary from quarter to quarter and year to year based on a number of factors including film performance, the mix of theater system configurations, the timing of installation of the theater systems, the nature of the arrangement, the location, size and management of the theater and other factors specific to individual arrangements. Revenue on theater systems under joint revenue sharing arrangements is recognized when box-office and concession revenues are reported by the theater operator, provided collection is reasonably assured.

An annual maintenance and extended warranty fee is generally payable, except for theater systems under joint revenue sharing arrangements, commencing in the second year of theater operations. Both ongoing fees and maintenance and extended warranty fees are typically indexed to a local consumer price index.

See "Critical Accounting Policies" below for further discussion on the Company's revenue recognition policies.

Theater Network

The following chart shows the number of the Company's theater systems by configuration in the theater network as at December 31:

	<u>2010</u>	<u>2009</u>
	Theater Network Base	Theater Network Base
Flat Screen (2D)	30 ⁽¹⁾	36
Dome Screen (2D)	66	65
IMAX 3D Dome (3D)	3	2
IMAX 3D GT (3D)	80 ⁽¹⁾	88
IMAX 3D SR (3D)	44 ⁽¹⁾	51
IMAX MPX (3D)	19 ⁽¹⁾	37 ⁽²⁾
IMAX digital (3D)	<u>276 ⁽¹⁾</u>	<u>151 ⁽²⁾</u>
Total	<u>518</u>	<u>430</u>

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- (1) In 2010, the Company upgraded 32 film-based IMAX theater systems to IMAX digital theater systems (30 sales arrangements and 2 joint revenue sharing arrangements).
- (2) In 2009, the Company upgraded 25 film-based IMAX theater systems to IMAX digital theater systems (14 sales arrangements, 2 treated previously as operating lease arrangements and 9 systems under joint revenue sharing arrangements).

Approximately 61.2% of IMAX systems in operation are located in the United States and Canada compared to 63.0% last year. Approximately 33.9% of IMAX theater systems arrangements in backlog are scheduled to be installed in the United States and Canada compared to 33.1% last year. The commercial exhibitor market in the United States and Canada represents an important customer base for the Company in terms of both collections under existing arrangements and potential future theater system contracts. The Company has targeted these operators for the sale or lease of its IMAX digital projection system, as well as for joint revenue sharing arrangements. While the Company is pleased with its recent progress in the U.S. and Canadian commercial exhibitor market, there is no assurance that the Company's progress in those countries will continue, particularly as a higher percentage of markets are penetrated, or that the Company's U.S. and Canadian commercial exhibitors will not encounter future financial difficulties. To minimize the Company's credit risk in this area, the Company retains title to the underlying theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimates of potentially uncollectible amounts.

As at December 31, 2010, approximately 38.8% of IMAX systems in operation were located within international markets (defined as all countries other than the United States and Canada), as compared to 37.0% as at December 31, 2009. The Company expects growth in international markets to be an increasingly significant part of its business. Of the Company's record 221 theatre signings in 2010, 127 were signings for theatres in international markets. Consequently, approximately 66.1% of IMAX theatre system arrangements in backlog as at December 31, 2010 are scheduled to be installed within international markets, compared with 66.9% as at December 31, 2009.

As at December 31, 2010, 145 (2009 — 106) of the 171 (2009 — 117) joint revenue sharing arrangements in operation, or 84.8% (2009 — 90.6%) were located in the United States and Canada, with the remaining 26 (2009 — 11) arrangements being located in international markets. The Company continues to seek to expand its number of joint revenue sharing arrangements it has in select international markets.

Sales Backlog

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 might 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 believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

The Company's sales backlog is as follows:

	December 31, 2010		December 31, 2009	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sale-type lease arrangements	165 (1)	\$ 184,588	94 (1)	\$ 117,157
Joint revenue sharing arrangements	59	n/a	42	n/a
	<u>224 (2)</u>	<u>\$ 184,588</u>	<u>136</u>	<u>\$ 117,157</u>

- (1) Includes 25 upgrades from film-based IMAX theater systems to IMAX digital theater systems as at December 31, 2010, and 1 upgrade from a film-based IMAX theater system to an IMAX digital theater system as at December 31, 2009.
- (2) Reflects the minimum number of theaters arising from signed contracts in backlog. Up to an additional 25 theaters (2009 — 1) may be installed pursuant to certain provisions in signed contracts in backlog.

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The Company's theater signings are as follows:

	Year Ended December 31,			
	2010		2009	
	Number of Systems	Dollar Value (in millions)	Number of Systems	Dollar Value (in millions)
Full new sales and sale-type lease arrangements	95 (1)	\$ 112.6	20 (1)	\$ 27.0
Digital upgrades under sales and sale-type lease arrangements	55 (2)	24.0	12 (2)	5.3
Joint revenue sharing arrangements	71 (3)	n/a	3 (3)	n/a
	<u>221</u>	<u>\$ 136.6</u>	<u>35</u>	<u>\$ 32.3</u>

(1) Includes 24 installations in 2010 and 71 in backlog as at December 31, 2010 (6 installations in 2009 and 14 in backlog as at December 31, 2009).

(2) Includes 28 installations in 2010 and 27 in backlog as at December 31, 2010 (11 installations in 2009 and 1 in backlog as at December 31, 2009).

(3) Includes 20 installations in 2010 and 51 in backlog as at December 31, 2010 (2 installations and 1 in backlog as at December 31, 2009).

The Company's backlog of sales and sale-type lease arrangements can be segregated both by territory of future installation and by customer type. The percentage of backlog relevant to each territory (based on installed dollar value of anticipated theater system revenue as at December 31, 2010) is as follows: Central and South America — 27.2%, Asia — 43.0%, North America (excluding Mexico) — 12.7%, Europe — 14.4%, Africa — 1.0% and Middle East — 1.7%. In addition, 97.6% of backlog represents future installations to commercial theater customers and 2.4% to institutional customers.

The Company's backlog of theater systems under joint revenue sharing arrangements can be segregated by both territory of future installation and by customer type. The percentage of backlog relevant to each territory (based on the number of systems at December 31, 2010) is as follows: North America (excluding Mexico) — 72.9%, Europe — 5.1%, Asia — 11.9%, Japan — 8.4% and Australia — 1.7%. All 59 theater systems under joint revenue sharing arrangements in backlog are for commercial theater customers.

The Company estimates that approximately 80-90 (excluding digital upgrades) of the 224 theater systems arrangements currently in backlog will be installed in 2011, with the remainder being installed in subsequent periods. In addition, the Company anticipates that it will install a number of the 25 digital system upgrades in backlog in 2011. The Company also expects additional theater system arrangements not currently in backlog to be signed and installed in 2011. The configuration of the Company's backlog as at December 31, 2010, by product type has been disclosed on page 8 of the Company's 2010 Form 10-K.

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

Film Production and Digital Re-Mastering (IMAX DMR)

Films produced by the Company are typically financed through third parties, whereby the Company will generally receive a film production fee in exchange for producing the film and a distribution fee for distributing the film. The ownership rights to such films may be held by the film sponsors, the film investors and/or the Company. In the past, the Company frequently financed film production internally, but has moved to a model utilizing a majority of third-party funding for the original films it produces and distributes. In 2011, the Company, along with Warner Bros. Pictures ("WB"), will release *Born to be Wild 3D: An IMAX 3D Experience*. In 2010, the Company, along with WB, released *Hubble 3D: An IMAX 3D Experience*. In 2009, the Company, along with WB, released *Under the Sea 3D: An IMAX 3D Experience*.

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The Company developed a proprietary technology to digitally re-master live-action films into 15/70-format film or IMAX digital cinema package (“DCP”) format at a modest cost for exhibition in IMAX theaters. This system, known as IMAX DMR, digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which *The IMAX Experience* is known. This technology has opened the IMAX theater network up to releases of Hollywood films, particularly new films which are released to IMAX theaters simultaneously with their broader domestic release. The Company believes that the development of this technology is key to helping it execute its strategy of expanding its commercial theater network by establishing IMAX theaters as a key, premium distribution platform for Hollywood films. In 2010, 15 films converted through the IMAX DMR process were released to IMAX theaters (12 films converted through the IMAX DMR process were released in 2009). The Company has announced the release of 21 IMAX DMR titles to IMAX theaters in 2011. The Company remains in active discussions with every major Hollywood studio regarding future titles.

Film Distribution

The Company is a significant distributor of large-format films. The Company generally distributes films which it produced or for which it has acquired distribution rights from independent producers. The Company generally receives a percentage of the theater box-office receipts as a distribution fee.

Theater Operations

As at December 31, 2010, the Company has four owned and operated theaters, compared to four as at December 31, 2009. The results from theaters that have been closed are presented as discontinued operations in prior years as the continuing cash flows are not generated from either a migration or a continuation of activities. In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses. The Company also provides management services to two theaters.

INTERNATIONAL ACTIVITIES

A significant portion of the Company’s sales are made to customers located outside the United States and Canada. During 2010, 2009, and 2008, approximately 30%, 35% and 32%, respectively, of the Company’s revenue was derived outside the United States and Canada. As at December 31, 2010, approximately 66.1% of IMAX theater systems arrangements in backlog were scheduled to be installed in international markets. Accordingly, the Company expects that international operations will continue to be a significant portion of the Company’s revenue in the future. In order to minimize exposure to exchange rate risk, the Company prices theater systems (the largest component of revenue) in U.S. dollars except in Canada, Japan and parts of Europe, where they may be priced in local currency. Annual ongoing fees and maintenance and extended warranty fees follow a similar currency policy. To further minimize its exposure to foreign exchange risk related to operating expenses denominated in Canadian dollars, the Company has entered into foreign currency derivative contracts between the U.S. dollar and the Canadian dollar.

CRITICAL ACCOUNTING POLICIES

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

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to fair values 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 the audited consolidated financial statements in Item 8 of the Company’s 2010 Form 10-K.

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 December 31, 2010;
- 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;
- 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 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 standards 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 the 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 System Deliverable as a single deliverable and a single unit of accounting. 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. Recently, the Company has entered into a number of joint revenue sharing arrangements, where the Company receives a portion of a theater's box-office and concession revenue in exchange for placing a theater system at theater operators' venues. Under these arrangements, the Company receives no up-front fee, and the Company retains title to the theater system. Joint revenue sharing arrangements typically have 7 to 10 year terms with renewal provisions. The Company's joint revenue sharing arrangements are generally not cancelable by the customer unless the Company fails to perform its obligations. In certain cases, the contract provides certain performance thresholds that, if not met by either party, allows the other party to terminate the agreement.

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 limited number of sales arrangements for the theater systems designed for multiplex owners (the "MPX" theater systems), the Company provided customers with a right to acquire, for a specified period of time, digital upgrades (each upgrade consisting of a projector, certain sound system components and screen enhancements) at a fixed or variable discount towards a future price of such digital upgrades. Up to the end of the second quarter of 2009, the Company was not able to determine the fair value of a digital upgrade. Accordingly, the Company deferred all consideration received and receivable under such arrangements for the delivered MPX and the upgrade right, except for the amount allocated to maintenance and extended warranty services provided to the customers for the installed system. This revenue was deferred until the upgrade right expired, if applicable, or a digital upgrade was delivered. In the third quarter of 2009, the Company determined the fair value of digital upgrades and the upgrade rights. For any such sales arrangements where the upgrade right has not expired and the digital upgrade has not yet been delivered, the Company has allocated the consideration received and receivable (excluding the amount allocated to maintenance and extended warranty services) to the upgrade right based on its fair value and to the delivered MPX theater system based on the residual of the consideration received and receivable. The revenue related to the digital upgrade continues to be deferred, until the digital upgrade is delivered provided the other revenue recognition criteria are met. The revenue related to the MPX system is recognized at the allocation date as the system was previously delivered provided the other revenue recognition criteria are met. Costs related to the installed MPX systems for which revenue has not been recognized are included in inventories until the conditions for revenue recognition are met. The Company also provides customers, in certain cases, with sales arrangements for multiple systems consisting of a combination of MPX theater systems and complete digital theater systems for a specified price. The Company allocates the actual or implied discount between the delivered and undelivered theater systems on a relative fair value basis, provided all of the other conditions for recognition of a theater system are met.

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.

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.

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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.

The determination of the fair value of the leased equipment requires judgment and can impact the split between initial revenue and finance income over the lease term.

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 revenue 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. 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 fair value 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.

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 Interest Topics of the FASB ASC. Free products and services are accounted for as separate units of accounting.

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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 revenue 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 revenue 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 right, 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 revenue 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.

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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 revenue 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 Services 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.

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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 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 on 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. At December 31, 2010, 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 December 31, 2010, the Company had net deferred income tax assets of \$57.1 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 December 31, 2010, changing business circumstances, and the ability to realize certain deferred tax assets through loss and tax credit carry-back and carry-forward strategies. As at December 31, 2010, the Company has determined that based on the Company's improved operating results in 2009 and 2010 and the Company's assessment of projected future results of operations, realization of this deferred income tax benefit was more likely than not. As a result, the judgment about the need for this valuation allowance has changed and a reduction in the valuation allowance of \$54.8 million has been recorded as a benefit within the recovery for income taxes from continuing operations.

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. See note 15(c) for the assumptions used to determine the fair value of stock-based payment awards.

Impact of Recently Issued Accounting Pronouncements

See note 3 to the consolidated financial statements in Item 8 of the Company's 2010 Form 10-K for information regarding the Company's recent changes in accounting policies and the impact of recently issued accounting pronouncements impacting the Company.

DISCONTINUED OPERATIONS

On December 11, 2009, the Company closed its owned and operated Tempe IMAX theater. The Company recognized lease termination and guarantee obligations of \$0.5 million to the landlord, which were offset by derecognition of other liabilities of \$0.9 million, for a net gain of \$0.4 million. In a related transaction, the Company leased the projection system and inventory of the Tempe IMAX theater to a third party theater exhibitor. Revenue from this operating lease transaction will be recognized on a straight-line basis over the term of the lease. In the year ended December 31, 2009, revenues for the Tempe IMAX theater were \$0.8 million (2008 — \$1.5 million) and the Company recognized a loss of \$0.5 million in 2009 (2008 — loss of \$0.3 million) from the operation of the theater. The above transactions are reflected as discontinued operations as there are no significant continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the owned and operated Tempe

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IMAX theater are included in the Company's consolidated balance sheet as at December 31, 2010 and are disclosed in note 23(d) to the audited consolidated financial statements in Item 8 of the Company's 2010 Form 10-K.

On September 30, 2009, the Company closed its owned and operated Vancouver IMAX theater. The amount of loss to the Company pertaining to lease and guarantee obligations owing to the landlord was estimated at \$0.3 million, which the Company recognized at September 30, 2009. In 2009, revenues for the Vancouver IMAX theater were \$1.1 million (2008 — \$2.0 million) and the Company recognized a loss of \$0.1 million in 2009 (2008 — income of \$0.2 million) from the operation of the theater. The above transactions are reflected as discontinued operations as there are no continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the Vancouver owned and operated theater are included in the Company's consolidated balance sheet as at December 31, 2010 and are disclosed in note 23(d) to the audited consolidated financial statements in Item 8 of the Company's 2010 Form 10-K.

As a result of the closure of the Tempe and Vancouver IMAX theaters in 2009, the Company currently operates 4 theaters.

ASSET IMPAIRMENTS AND OTHER SIGNIFICANT CHARGES

The following table identifies the Company's charges relating to the impairment of assets:

<i>(in thousands of U.S. dollars)</i>	Years Ended December 31,		
	2010	2009	2008
Asset impairments			
Property, plant and equipment ⁽¹⁾	\$ 45	\$ 180	\$ —
Other significant charges:			
Accounts receivable	499	127	382
Financing receivables	944	1,377	1,595
Other intangible assets	64	—	—
Inventories	999	897	2,489
Total asset impairments and other significant charges	<u>\$ 2,551</u>	<u>\$ 2,581</u>	<u>\$ 4,466</u>

- (1) The Company reclassified the owned and operated Vancouver and Tempe IMAX theaters' operations from continuing operations to discontinued operations as it does not anticipate having significant future cash flows from these theaters or any involvement in the day to day operations of these theaters.

Asset Impairments

The Company recorded an asset impairment charge of less than \$0.1 million against fixed assets after the Company assessed the carrying value of certain asset groups in light of their future expected cash flows. The Company recognized that the carrying values for the assets exceeded the expected undiscounted future cash flows. During 2009 and 2008, the Company recorded total asset impairment charges of \$0.2 million and \$nil, respectively.

Other Significant Charges

The Company recorded a net provision of \$0.5 million in 2010 (2009 — \$0.1 million, 2008 — \$0.4 million) in accounts receivable.

In 2010, the Company also recorded a net provision of \$0.9 million in financing receivables (2009 — \$1.4 million, 2008 — \$1.6 million) as the collectibility associated with certain financing receivables was uncertain.

In 2010, the Company recorded a charge of \$1.0 million (2009 — \$0.9 million, 2008 — \$2.5 million) in costs and expenses applicable to revenues, primarily due to a reduction in the net realizable value of its GT and SR film-based projector inventories and associated parts due to a further market shift away from film-based projector systems. In 2009, the charge primarily resulted from a reduction in the net realizable value resulting from the Company's development of a proprietary digital projection system in July 2008, and its supplanting of the IMAX MPX projection system.

RESULTS OF OPERATIONS

As identified in note 20 to the audited consolidated financial statements in Item 8 of the Company's 2010 Form 10-K, 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 in Item 8 of 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 Consolidated Statements of Operations captions combine results from several segments.

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

<i>(In thousands of U.S. dollars)</i>	Revenue			Gross Margin		
	Years Ended December 31,			Years Ended December 31,		
	2010	2009	2008	2010	2009	2008
IMAX Systems						
Sales and sales-type leases ⁽¹⁾	\$ 63,023	\$ 53,923	\$ 24,476	\$ 31,452	\$ 26,441	\$ 9,284
Ongoing rent, fees, and finance income ⁽²⁾	12,981	10,581	10,307	12,531	9,075	9,090
	<u>76,004</u>	<u>64,504</u>	<u>34,783</u>	<u>43,983</u>	<u>35,516</u>	<u>18,374</u>
Theater System Maintenance	<u>21,444</u>	<u>18,246</u>	<u>16,331</u>	<u>10,084</u>	<u>8,361</u>	<u>7,117</u>
Joint Revenue Sharing Arrangements	<u>41,757</u>	<u>21,598</u>	<u>3,435</u>	<u>31,703</u>	<u>13,261</u>	<u>(1,865)</u>
Film						
Production and IMAX DMR	63,462	35,648	17,944	41,159	19,979	6,992
Distribution	17,937	12,365	9,559	5,205	2,147	3,120
Post-production	7,702	3,604	6,929	2,891	939	3,451
	<u>89,101</u>	<u>51,617</u>	<u>34,432</u>	<u>49,255</u>	<u>23,065</u>	<u>13,563</u>
Theater Operations⁽³⁾	<u>13,366</u>	<u>11,810</u>	<u>10,532</u>	<u>1,147</u>	<u>649</u>	<u>(39)</u>
Other	<u>6,942</u>	<u>3,436</u>	<u>3,205</u>	<u>1,480</u>	<u>700</u>	<u>403</u>
	<u>\$248,614</u>	<u>\$171,211</u>	<u>\$102,718</u>	<u>\$137,652</u>	<u>\$81,552</u>	<u>\$37,553</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.

(3) Excludes the impact of discontinued operations.

Year Ended December 31, 2010 versus Year Ended December 31, 2009

The Company reported net income of \$100.8 million or \$1.59 per basic share and \$1.51 per diluted share for the year ended December 31, 2010 as compared to net income of \$5.0 million or \$0.10 per basic share and \$0.09 per diluted share for the year ended December 31, 2009. Net income for the year ended December 31, 2010 includes a \$21.9 million pre-tax charge (2009 — \$15.4 million) or \$0.33 per diluted share for variable share-based compensation expense largely due to the increase in the Company's stock price during the year (from \$13.31 per share at year-end 2009 to \$28.07 per share at year-end 2010) and its impact on SARs and restricted common shares, which was offset by a non-cash tax recovery of \$54.8 million (\$0.82 per diluted share) resulting from the release of a tax valuation allowance, relating to the expected reversal of future temporary differences (2009 — \$nil). Excluding the net impact of variable share-based compensation expense from both 2010 and 2009 and the non-cash tax benefit, net income would have been \$67.8 million or \$1.02 per diluted share in 2010, as compared to net income of \$20.5 million or \$0.38 per diluted share in 2009.

Revenues and Gross Margin

The Company's revenues for the year ended December 31, 2010, increased by 45.2% to \$248.6 million from \$171.2 million in 2009 due to increases in revenue across all business segments. The gross margin across all segments in 2010 was \$137.7 million, or 55.4% of total revenue, compared to \$81.6 million, or 47.6% of total revenue in 2009. Improvements in margin occurred across all business lines.

IMAX Systems

IMAX systems revenue increased 17.8% to \$76.0 million in 2010 as compared to \$64.5 million in 2009, resulting primarily from a 55.8% increase in systems installed and recognized as compared to the prior year.

Revenue from sales and sales-type leases increased 16.9% to \$63.0 million in 2010 from \$53.9 million in 2009. The Company recognized revenue on 35 full, new theater systems which qualified as either sales or sales-type leases in 2010, with a total value of \$48.0 million, as compared to 24 in 2009 with a total value of \$37.0 million. Additionally, the Company recognized revenue on 2 used systems in 2010 with a value of \$1.5 million, versus 3 used systems with a value of \$2.6 million that were recognized in 2009. The Company also recognized revenue on 30 digital upgrades in 2010, with a total value of \$12.5 million, as compared to 16 in 2009 with a total value of \$12.0 million. Included in 2009 are revenues associated with the installation of 4 MPX projection systems and their subsequent digital upgrades. The Company's policy was to defer revenue recognition until such time as the fair value of the digital upgrade became known or the digital upgrade was delivered. Digital upgrades also 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.

Average revenue per full, new sales and sales-type lease system was \$1.4 million in 2010, which is comparable to the \$1.5 million experienced in 2009. Average revenue per digital upgrade was \$0.4 million in 2010, as compared to \$0.8 million for 2009. Average revenue per digital upgrade was higher during 2009 due to revenue associated with the installation of 4 MPX projection systems and their subsequent digital upgrades. Revenues associated with the installation of a projection system and its digital upgrade are typically higher than a single digital upgrade installation.

The breakdown in mix and value of sales and sales-type lease installations, in 2010 and 2009, is outlined in the table below:

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	2010	2009
Sales and Sales-type lease systems — installed and recognized		
2D SR Dome	1	1
IMAX 3D GT	1	3
IMAX 3D SR	2	4
IMAX digital	<u>63</u> ⁽¹⁾	<u>35</u> ⁽²⁾
	67	43
Operating lease — installed and operating		
IMAX 3D MPX ⁽²⁾	—	1
Joint revenue sharing arrangements — installed and operating		
IMAX digital	<u>56</u> ⁽¹⁾	<u>74</u> ⁽²⁾
	<u>123</u>	<u>118</u>

(1) Includes the digital upgrade of 32 systems (30 sales arrangements and 2 systems under joint revenue sharing arrangements) from film-based to digital.

(2) Includes the digital upgrade of 25 systems (14 sales arrangements, 2 treated previously as operating lease arrangements and 9 systems under joint revenue sharing arrangements) from film-based to digital.

Up to the end of the second quarter of 2009, the Company was not able to determine the fair value of a digital upgrade. Accordingly, the Company deferred all consideration received and receivable under such arrangements for the delivered MPX and the upgrade right, except for the amount allocated to maintenance and extended warranty services provided to the customers for the installed system. This revenue was deferred until the upgrade right expired, if applicable, or a digital upgrade was delivered. In the third quarter of 2009, the Company determined the fair value of digital upgrades and the upgrade rights. It is the Company's policy that once a digital upgrade is provided or the fair value for the upgrade is established, the Company allocates total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a residual basis and recognizes the revenue allocated to the delivered elements with their associated costs. The Company did not recognize revenue on any theater systems under a sales arrangement that was previously deferred during 2010. During 2009, 4 of the digital upgrades recognized related to a sales arrangement that had been previously deferred. At December 31, 2010, and December 31, 2009, there were no systems deferred under the Company's digital upgrade policy.

Settlement revenue was \$0.4 million in 2010 as compared to \$2.0 million in 2009, which related primarily to consensual buyouts for uninstalled theater systems.

Sound systems revenue remained consistent at \$0.5 million in 2010 as compared to 2009.

IMAX theater systems gross margin from full, new sales and sales-type leases, excluding the impact of settlements and asset impairment charges, increased to 65.7% in 2010 from 62.7% in 2009. The gross margin on digital upgrades, excluding the impact of settlements and asset impairment charges, was \$2.6 million in 2010 in comparison with \$5.1 million in 2009. The gross margin on used systems was \$0.3 million in 2010 in comparison with \$0.4 million in 2009.

Ongoing rent revenue and finance income increased to \$13.0 million in 2010 from \$10.6 million in 2009. Gross margin from ongoing rent and finance income increased to \$12.5 million in 2010 from \$9.1 million in 2009. The change in revenue and gross margin is a function of finance income on new systems under sales or lease agreements that began operations in 2010 and additional contingent fees resulting from strong film performance experienced during the year. Contingent fees included in this caption amounted to \$5.2 million and \$3.6 million in 2010 and 2009, respectively.

In 2010, the Company did not install and recognize revenue for any new theater systems that qualified as operating leases (excluding joint revenue sharing arrangements), as compared to one in 2009. In 2009, this theater system under an operating lease arrangement was upgraded to a digital theater system under a sales arrangement. The Company recognizes revenue on operating leases ratably over the term of the leases.

Theater System Maintenance

Theater system maintenance revenue increased 17.5% to \$21.4 million in 2010 as compared to \$18.2 million in 2009. Theater system maintenance gross margin increased to \$10.1 million in 2010 from \$8.4 million in 2009. In 2010 and 2009, the Company recorded a write-down of its film-based service parts inventories of \$0.2 million, and \$0.8 million, respectively, due to the accelerated installation of the MPX system upgrades to digital based systems. Absent this write-down, the margin would have been \$10.3 million and \$9.2 million in 2010 and 2009, respectively. Maintenance revenue continues to grow as the number of theaters in the IMAX network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network and the timing and nature of service visits in the period.

Joint Revenue Sharing Arrangements

Revenue from joint revenue sharing arrangements increased 93.3% to \$41.8 million in 2010 compared to \$21.6 million in 2009. The Company ended the year with 171 theaters operating under joint revenue sharing arrangements as compared to 117 theaters at the end of 2009, an increase of 46.2%. The increase in revenues from joint revenue sharing arrangements was due to the greater number of theaters operating in the current year as compared to the prior year, and stronger performance of the films exhibited in 2010 versus 2009, including *Avatar: An IMAX 3D Experience*, which is the highest grossing IMAX film of all time, as discussed in the film section below.

The gross margin from joint revenue sharing arrangements in 2010 increased to \$31.7 million compared to \$13.3 million in 2009. The increase was largely due to an increase in the number of joint revenue sharing theaters operating in the current year as compared to the prior year, and strong film performance. Included in the 2010 gross margin were certain advertising, marketing, and selling expenses of \$4.2 million associated with the initial launch of 54 new joint revenue sharing theaters opened during the year, as compared to \$3.4 million associated with the initial launch of 65 new theaters in 2009. Excluding these launch expenses, the gross margin would have been \$35.9 million in 2010, compared to \$16.7 million in 2009.

Film

The Company's revenues from its film segments increased 72.6% to \$89.1 million in 2010 from \$51.6 million in 2009.

Film production and IMAX DMR revenues increased 78.0% to \$63.5 million in 2010 from \$35.6 million in 2009. The increase in film production and IMAX DMR revenues was due primarily to the overall growth of the IMAX theater network and stronger film performance for the films exhibited, including *Avatar: An IMAX 3D Experience*. Gross box office generated by IMAX DMR films increased 101.6% to \$545.9 million in 2010 versus \$270.8 million in 2009. In 2010, gross-box office was generated by the exhibition of 16 films listed below, as compared to 14 films exhibited in 2009:

2010 Films Exhibited

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
Inception: The IMAX Experience
Aftershock: The IMAX Experience
Resident Evil: Afterlife: An IMAX 3D Experience
Legends of the Guardian: The Owls of Ga'Hoole: An IMAX 3D Experience
Paranormal Activity 2: The IMAX Experience
Megamind: An IMAX 3D Experience
Harry Potter and the Deathly Hallows Part I: The IMAX Experience
Tron Legacy: An IMAX 3D Experience

2009 Films Exhibited

The Day the Earth Stood Still: The IMAX Experience
The Dark Knight: The IMAX Experience
Jonas Bros: The 3D Concert Experience
Watchmen: The IMAX Experience
Monsters vs. Aliens: An IMAX 3D Experience
Star Trek: The IMAX Experience
Night at the Museum: Battle of the Smithsonian: The IMAX Experience
Transformers: Revenge of the Fallen: The IMAX Experience
Harry Potter and the Half Blood Prince: An IMAX 3D Experience
Cloudy with a Chance of Meatballs: An IMAX 3D Experience
Where the Wild Things Are: The IMAX Experience
Michael Jackson's This Is It: The IMAX Experience
Disney's A Christmas Carol: An IMAX 3D Experience
Avatar: An IMAX 3D Experience

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Avatar: An IMAX 3D Experience has broken all performance records for an IMAX DMR film. Through December 31, 2010, *Avatar* has generated total IMAX DMR gross box office revenue of over \$242.0 million, with \$187.9 million generated in 2010.

Film distribution revenues increased 45.1% to \$17.9 million in 2010 from \$12.4 million in 2009 due to the introduction and continuing performance of *Hubble 3D: An IMAX 3D Experience*, a movie co-produced by the Company and WB, which was released in March of 2010, and the licensing of certain library titles in ancillary markets.

Film post-production revenues increased 113.7% to \$7.7 million in 2010 from \$3.6 million in 2009 primarily due to an increase in third party business.

The Company's gross margin from its film segments increased 113.6% in 2010 to \$49.3 million from \$23.1 million in 2009. Film production and IMAX DMR gross margins increased to \$41.2 million from \$20.0 million in 2009 largely due to an increase in IMAX DMR revenue resulting from a larger commercial IMAX network and stronger film performance, including *Avatar: An IMAX 3D Experience*. The film distribution margin of \$5.2 million in 2010 was higher than the \$2.1 million experienced in 2009, primarily due to the increase in film distribution revenues. Film post-production gross margin increased by \$2.0 million due to an increase in third party business as compared to the prior year.

Theater Operations

Theater operations revenue in 2010 increased 13.2% to \$13.4 million from \$11.8 million in 2009. This increase was attributable to increases in average ticket prices and attendance at certain of the Company's owned and operated theaters primarily due to the stronger performance of the films exhibited in 2010 as compared to 2009.

Theater operations margin increased \$0.5 million from 2009 primarily due to an increase in revenues largely associated with the stronger performance of IMAX DMR films exhibited during 2010.

Other

Other revenue increased to \$6.9 million in 2010 compared to \$3.4 million in 2009. 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 was \$0.8 million higher in 2010 as compared to 2009.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$78.4 million in 2010, as compared to \$56.2 million in 2009. The \$22.2 million increase experienced from the prior year comparative period was largely the result of the following:

- an \$8.5 million increase in the Company's stock-based compensation expense (including a \$6.4 million increase in charges for variable share-based awards) primarily due to an increase in the Company's stock price during the period (an increase from \$13.31 at year-end 2009 to \$28.07 per share at year-end 2010, as compared to an increase from \$4.46 per share at year-end 2008 to \$13.31 per share at year-end 2009) and its impact on variable awards such as SARs. The Company has no present intention to issue such variable awards in the future;
- an \$8.7 million increase in staff-related costs and compensation costs including (i) an increase in salaries and benefits of \$6.3 million including a higher average Canadian dollar denominated salary expense (\$1.9 million), increased staffing and normal merit increase partially offset by lower pension plan costs and (ii) a \$2.4 million increase in travel and entertainment costs commensurate with business activity;
- a \$3.1 million increase in legal and professional fees and other expenses, including a multi-jurisdictional patent and contract lawsuit settled at year-end, and work performed relating to new business initiatives, such as 3net, a 3D television channel operated by a Limited Liability Corporation owned by the Company, Discovery Communications and Sony Corporation;
- a \$1.4 million decrease in gains due to foreign exchange. During the year ended December 31, 2010, the Company recorded a foreign exchange gain of \$1.5 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 gain of \$2.9 million

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recorded in 2009. See note 16(b) of the audited consolidated financial statements in Item 8 of the Company's 2010 Form 10-K for more information; and

- a \$0.5 million increase in other general corporate expenditures, which resulted from an expansion of the Company's overall business.

Research and Development

Research and development expenses increased to \$6.2 million in 2010 compared to \$3.8 million in 2009. The increased research and development expenses for 2010 compared to 2009 are primarily attributable to ongoing enhancements to the Company's digital projection technology and the commencement of a 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 \$1.4 million in 2010, as compared to \$1.1 million in 2009.

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.

Asset Impairments and Other Significant Charges

The Company recorded an asset impairment charge of less than \$0.1 million against fixed assets after the Company assessed the carrying value of certain assets in its theater operations segment in light of their future expected cash flows. During 2009, the Company recorded total asset impairment charges of \$0.2 million.

The Company recorded a net provision of \$0.5 million in 2010 (2009 — \$0.1 million) in accounts receivable.

In 2010, the Company also recorded a net provision of \$0.9 million in financing receivables (2009 — \$0.9 million) as the collectibility associated with certain leases was uncertain.

In 2010, the Company recorded a charge of \$1.0 million (2009 — \$0.9 million) in costs and expenses applicable to revenues, primarily due to a reduction in the net realizable value of its GT and SR film-based projector inventories and associated parts due to a further market shift away from film-based projector systems. In 2009, the charge primarily resulted from a reduction in the net realizable value resulting from the Company's introduction of a proprietary digital projection system in July 2008, and its supplanting of the IMAX MPX projection system.

Interest Income and Expense

Interest income increased to \$0.4 million in 2010, as compared to less than \$0.1 million in 2009. The increase was largely due to interest recorded during 2010 related to tax refunds.

Interest expense decreased to \$1.9 million in 2010 as compared to \$13.8 million in 2009. In 2009, the Company repurchased all \$160.0 million aggregate principal amount of its outstanding 9.625% Senior Notes which resulted in a decrease in the Company's interest expense for the year ended December 31, 2010. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.3 million and \$1.0 million in 2010 and 2009, respectively. The Company's policy is to defer and amortize all the costs relating to a debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Income Taxes

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of numerous permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the

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Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations.

Based on the improvement of the Company's operating results in 2009 and 2010 and the Company's assessment of projected future results of operations, it was determined that realization of a deferred income tax benefit is now more likely than not. As a result, the judgment about the need for a full valuation allowance against deferred tax assets has changed, and a reduction in the valuation allowance has been recorded as a benefit within the recovery for income taxes from continuing operations. The recovery for income taxes in the year ended December 31, 2010 includes a net non-cash income tax benefit of \$54.8 million in continuing operations related to a decrease in the valuation allowance for the Company's deferred tax assets and other tax adjustments. The net income tax benefit during the year ended December 31, 2010 is primarily attributable to the estimated realization of deferred tax assets resulting from the utilization of deductible temporary differences and certain net operating loss carryforwards and tax credits against future years' taxable income. During the year ended December 31, 2010, after considering all available evidence, both positive (including recent profits, projected future profitability, backlog, carryforward periods for utilization of net operating loss carryovers and tax credits, discretionary deductions and other factors) and negative (including cumulative losses in past years and other factors), it was concluded that the valuation allowance against the Company's deferred tax assets should be further reduced by approximately \$54.8 million. The remaining \$7.9 million balance in the valuation allowance as at December 31, 2010 is primarily attributable to certain U.S. federal and state net operating loss carryovers and federal tax credits that likely will expire without being utilized.

The Company anticipates that it will become a cash tax payer in late 2012 or 2013.

Discontinued Operations

On December 11, 2009, the Company closed its owned and operated Tempe IMAX theater. The Company recognized lease termination and guarantee obligations of \$0.5 million to the landlord, which were offset by derecognition of other liabilities of \$0.9 million, for a net gain of \$0.4 million. In a related transaction, the Company leased the projection system and inventory of the Tempe IMAX theater to a third party theater exhibitor. Revenue from this operating lease transaction will be recognized on a straight-line basis over the term of the lease. For the year ended December 31, 2009, revenues for the Tempe IMAX theater were \$0.8 million and the Company recognized a loss of \$0.5 million in 2009 from the operation of the theater. This transaction is reflected as discontinued operations as there are no significant continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the owned and operated Tempe IMAX theater are included in the Company's consolidated balance sheet as at December 31, 2010 and are disclosed in note 23(d) to the audited consolidated financial statements in Item 8 of the Company's 2010 Form 10-K.

On September 30, 2009, the Company closed its owned and operated Vancouver IMAX theater. The amount of loss to the Company pertaining to lease and guarantee obligations owing to the landlord was estimated at \$0.3 million which the Company recognized at December 31, 2009. For the year ended December 31, 2009, revenues for the Vancouver IMAX theater were \$1.1 million and the Company recognized a loss of \$0.1 million in 2009 from the operation of the theater. This transaction is reflected as discontinued operations as there are no continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the Vancouver owned and operated theater are included in the Company's consolidated balance sheet as at December 31, 2010 and are disclosed in note 23(d) to the audited consolidated financial statements in Item 8 of the Company's 2010 Form 10-K.

Pension Plan

The Company has an unfunded defined benefit pension plan, the Supplemental Executive Retirement Plan (the "SERP"), covering Messrs. Gelfond and Wechsler. As at December 31, 2010, the Company had an unfunded and accrued projected benefit obligation of approximately \$18.1 million (December 31, 2009 — \$29.9 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 Company's senior secured 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 as an offset against the \$14.7 million lump sum payment made to Mr. Wechsler on August 1, 2010 under the SERP. As at December 31, 2009, the cash surrender value of these policies was \$7.3 million.

The net periodic benefit cost was \$0.4 million and \$1.4 million in 2010 and 2009, respectively. The components of net periodic benefit cost were as follows:

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	Years ended December 31	
	2010	2009
Service cost	\$ 447	\$ 643
Interest cost	351	1,341
Amortization of prior service credit	—	145
Amortization of actuarial gain	—	(681)
Realized actuarial gain on settlement of pension liability	(385)	—
Pension expense	<u>\$ 413</u>	<u>\$ 1,448</u>

The pension obligation decreased from \$29.9 at December 31, 2009, to \$18.1 million at December 31, 2010, resulting primarily from Mr. Wechsler receiving a lump sum payment of \$14.7 million on August 1, 2010.

The plan experienced an actuarial loss of \$2.6 million during 2010, resulting primarily from a decrease in the Pension Benefit Guaranty Corporation (“PBGC”) published annuity interest rates used to determine the lump sum payment under the plan.

Under the terms of the SERP, if Mr. Gelfond’s employment had 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 in 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 terms of Mr. Gelfond’s current employment agreement have been extended to the beginning of 2013.

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 in 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.

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler upon retirement. As at December 31, 2010, the Company had an unfunded benefit obligation recorded of \$0.5 million (December 31, 2009 — \$0.5 million).

Stock-Based Compensation

The Company utilizes 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 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.

Stock-based compensation expense recognized under ASC 718 Compensation — Stock Compensation for 2010, 2009 and 2008 was \$27.7 million, \$17.7 million and \$1.5 million, respectively.

Years Ended December 31, 2009 versus Years Ended December 31, 2008

The Company reported net income of \$5.0 million or \$0.10 per basic share and \$0.09 per diluted share for the year ended December 31, 2009 as compared to a net loss of \$33.6 million or \$0.79 per share on a basic and diluted basis for the year ended December 31, 2008. Net income for the year includes a \$15.4 million charge (2008 — less than \$0.1 million) or \$0.28 per share for variable share-based compensation expense largely due to the increase in the Company's stock price during the year (from \$4.46 per share to \$13.31 per share) and its impact on SARs and restricted common shares. Excluding the impact of variable share-based compensation expense, net income would have been \$20.5 million or \$0.38 per share in 2009, as compared to a net loss of \$33.6 million or \$0.79 per share in 2008.

Revenues and Gross Margin

The Company's revenues for the year ended December 31, 2009 increased by 66.7% to \$171.2 million from \$102.7 million in 2008 due in large part to increases in revenue from IMAX systems, joint revenue sharing arrangements and film segments. The gross margin across all segments in 2009 was \$81.6 million, or 47.6% of total revenue, compared to \$37.6 million, or 36.6% of total revenue in 2008.

IMAX Systems

IMAX systems revenue increased 85.4% to \$64.5 million in 2009 as compared to \$34.8 million in 2008, resulting primarily from an increase in systems installed and recognized as compared to the prior year.

Revenue from sales and sales-type leases increased 120.3% to \$53.9 million in 2009 from \$24.5 million in 2008. The Company recognized revenue on 43 theater systems which qualified as either sales or sales-type leases in 2009 versus 15 in 2008. There were 40 new theater systems with a value of \$49.0 million and 3 used theater systems with an aggregate value of \$2.6 million recognized into revenue in 2009, as compared to 15 new theater systems with a total value of \$22.4 million recognized in 2008. The Company's introduction of the digital projection system in 2008 is the primary reason for the increase in the number of theater system unit sales and leases, as the digital projection system changes the economics favorably for the Company's clients by providing increased programming flexibility and lower print costs totaling \$200 per movie per system.

Average revenue per sales and sales-type lease systems was \$1.3 million in 2009 as compared to \$1.5 million in 2008. The lower average revenue per sales and sales-type lease systems experienced reflects the digital upgrade of 16 theater systems which were sold at a lower selling price as compared to a full digital system for strategic reasons. Excluding digital upgrades, average revenue per sales and sales-type lease systems was \$1.5 million in 2009, which is consistent with the average of \$1.5 million experienced in 2008. The breakdown in mix of sales and sales-type lease, operating lease and joint revenue sharing arrangement (see discussion below) installations by theater system configuration in 2009 and 2008 is outlined in the table below.

	2009	2008
Sales and Sales-type lease systems — installed and recognized		
2D SR Dome	1	—
IMAX 3D GT	3	2
IMAX 3D SR	4	1
IMAX 3D MPX	—	7
IMAX digital	35 (1)	5 (2)
	<u>43</u>	<u>15</u>
IMAX 3D MPX — installed and deferred	—	3
	<u>43</u>	<u>18</u>
Operating lease — installed and operating		
IMAX 3D MPX(1)	1	1
Joint revenue sharing arrangements — installed and operating		
IMAX digital	74 (1)	41 (2)
	<u>118</u>	<u>60</u>

(1) Includes the digital upgrade of 25 systems (14 sales arrangements, 2 treated previously as operating lease arrangements and 9 systems under joint revenue sharing arrangements) from film-based to digital.

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(2) Includes the digital upgrade of 2 systems (one sales arrangement and one system under a joint revenue sharing arrangement) from film-based to digital.

As noted in the table above, 3 theater systems installed in 2008 were pursuant to sales arrangements that provided the customer with an upgrade to a digital system at a discounted price when available. These discounted upgrades were provided for strategic reasons. Had the transactions not included this digital upgrade clause, the Company would have recognized \$3.8 million in revenue and \$2.0 million in gross margin related to these sales in 2008. The Company's policy is such that once the digital upgrade is provided or the fair value for the upgrade is established, the Company allocates total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a residual basis and recognizes the revenue allocated to the delivered elements with their associated costs. In 2009, the Company installed 3 digital upgrades, as compared to 1 in 2008, where recognition was previously deferred under the Company's digital upgrade policy.

Settlement revenue was \$2.0 million in 2009 as compared to \$0.9 million in 2008 which related primarily to consensual buyouts for uninstalled theater systems.

IMAX systems margin fluctuates as a result of the mix of theater system configurations recognized in each respective year. IMAX theater systems gross margin from sales and sales-type leases, excluding the impact of settlements and asset impairment charges, decreased to 54.1% in 2009, from 59.4% in 2008. The lower gross margin experienced in 2009 reflects the digital upgrade of 16 locations under sales arrangements sold at lower margins for strategic reasons, and lower margins from the sale of 3 used systems. Gross margin on new sales and sales-type leases systems increased to 57.0% in 2009 from 55.3% in 2008 which is a direct result of the theater system configurations recognized in each respective period. Excluded from the IMAX systems margin calculation in 2008 is a \$2.4 million charge as the Company recorded a write-down of its film-based projector inventories primarily due to the introduction of its digital projection system in July 2008.

Ongoing rent revenue and finance income increased to \$10.6 million in 2009 from \$10.3 million in 2008. Gross margin for ongoing rent and finance income was consistent at \$9.1 million in 2009 and 2008. The change in revenue is a function of new systems under sales or lease agreements that began operations in 2009. Contingent fees included in this caption amounted to \$3.6 million and \$3.7 million in 2009 and 2008, respectively.

In 2009, the Company installed and recognized revenue for 1 new theater system that qualified as an operating lease, which is consistent with 2008. In 2009, these two theater systems under operating lease arrangements were upgraded to digital theater systems under sales arrangements. The Company recognizes revenue on operating leases over the term of the leases.

Theater System Maintenance

Theater system maintenance revenue increased 11.7% to \$18.2 million in 2009 as compared to \$16.3 million in 2008. Theater system maintenance gross margin increased to \$8.4 million in 2009 from \$7.1 million in 2008. In 2009 and 2008, the Company recorded a write-down of its film-based service parts inventories of \$0.8 million and \$0.1 million, respectively. Absent this write-down, the margin would have been \$9.2 million and \$7.2 million in 2009 and 2008, respectively. Maintenance revenue continues to grow as the number of theaters in the IMAX network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network and the date of installation.

Joint Revenue Sharing Arrangements

Revenue from joint revenue sharing arrangements increased 528.8% to \$21.6 million in 2009 compared to \$3.4 million in 2008. The Company ended 2009 with 117 theaters operating under joint revenue sharing arrangements as compared to 52 theaters at the end of 2008. In 2008, 40 of the 52 theaters were installed in the third and fourth quarters, resulting in less than a full year of revenues being recorded. The increase in revenues from joint revenue sharing arrangements was due to the greater number of theaters operating in 2009 as compared to 2008, and stronger performance of the films exhibited in 2009 versus 2008, as discussed below.

The gross margin from joint revenue sharing arrangements in 2009 increased to \$13.3 million compared to a loss of \$1.9 million in 2008. The increase was largely due to the increase in the number of joint revenue sharing theaters operating in 2009 as compared to 2008. Included in the 2009 gross margin were certain advertising, marketing and selling expenses of \$3.4 million associated with the initial launch of 65 new theaters opened during the year, similar to the \$1.8 million associated with the initial launch of 40 new theaters in 2008. In addition, accelerated depreciation on existing film-based systems of \$1.5 million was recorded in 2008. Excluding these launch expenses and accelerated depreciation charges, the gross margin would have been \$16.7 million in 2009, compared to \$1.4 million in 2008.

Film

The Company's revenues from its film segments increased 49.9% to \$51.6 million in 2009 from \$34.4 million in 2008.

Film production and IMAX DMR revenues increased 98.7% to \$35.6 million in 2009 from \$17.9 million in 2008. The increase in film production and IMAX DMR revenues was due primarily to the overall growth of the IMAX theater network and stronger film performance for the films exhibited. Gross box office generated by IMAX DMR films increased 107.8% to \$270.8 million in 2009 versus \$130.3 million in 2008. In 2009, a significant portion of the gross-box office was generated by the exhibition of 14 films which included *The Day The Earth Stood Still: The IMAX Experience*, the re-release of *The Dark Knight: The IMAX Experience*, *Jonas Bros: The 3D Concert Experience*, *Watchmen: The IMAX Experience*, *Monsters vs. Aliens: An IMAX 3D Experience*, *Star Trek: The IMAX Experience*, *Night at the Museum: Battle of the Smithsonian: The IMAX Experience*, *Transformers: Revenge of the Fallen: The IMAX Experience*, *Harry Potter and the Half Blood Prince: An IMAX 3D Experience*, *Cloudy with a Chance of Meatballs: An IMAX 3D Experience*, *Where the Wild Things Are: The IMAX Experience*, *Michael Jackson's This Is It: The IMAX Experience*, *Disney's A Christmas Carol: An IMAX 3D Experience* and *Avatar: An IMAX 3D Experience* as compared to 8 primary films exhibited in 2008, which included *The Spiderwick Chronicles: The IMAX Experience*, *Shine A Light: The IMAX Experience*, *Speed Racer: The IMAX Experience*, *Kung Fu Panda: The IMAX Experience*, *The Dark Knight: The IMAX Experience*, *Eagle Eye: The IMAX Experience*, *Madagascar: Escape 2 Africa: The IMAX Experience* and *The Day the Earth Stood Still: The IMAX Experience*.

Film distribution revenues increased 29.4% to \$12.4 million in 2009 from \$9.6 million in 2008 due to the introduction and strong performance of *Under the Sea 3D: An IMAX 3D Experience*, a movie co-produced by the Company and WB and which was released on February 13, 2009. The Company did not distribute any original titles in 2008.

Film post-production revenues decreased 48.0% to \$3.6 million in 2009 from \$6.9 million in 2008 primarily due to a decrease in third party business.

The Company's gross margin from its film segments increased 70.0% in 2009 to \$23.1 million from \$13.6 million in 2008. Film production and IMAX DMR gross margins increased to \$20.0 million from \$7.0 million in 2008 largely due to an increase in IMAX DMR revenue resulting from the exhibition of 14 films in 2009 as compared to 8 in 2008. The increase was partially offset by lower film distribution and film post-production margins. The film distribution margin of \$2.1 million in 2009 was lower than the \$3.1 million experienced in 2008. Film post-production gross margin decreased by \$2.5 million due to a decrease in third party business as compared to the prior year.

Theater Operations

Theater operations revenue in 2009 increased 12.1% to \$11.8 million compared to \$10.5 million in 2008. This increase was attributable to increases in average ticket prices and attendance at certain of the Company's owned theaters primarily due to the stronger performance of the films exhibited in 2009 as compared to 2008.

Theater operations margin increased \$0.7 million from 2008 primarily due to an increase in revenues largely associated with IMAX DMR films exhibited.

Other

Other revenue increased to \$3.4 million in 2009 compared to \$3.2 million in 2008. 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 was \$0.3 million higher in 2009 as compared to 2008.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$56.2 million in 2009, as compared to \$43.7 million in 2008. The \$12.5 million increase experienced from the prior year comparative period was largely the result of the following:

- a \$16.5 million increase in the Company's stock-based compensation expense (including \$15.4 million for variable share-based awards) primarily due to an increase in the Company's stock price during the period (an increase from \$4.46 to \$13.31 per share in 2009 as compared to a decrease from \$6.82 per share to \$4.46 per share in the prior year) and its impact on variable awards such as SARs. The Company has no present intention to issue such variable awards in the future; and

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- a \$2.1 million increase in legal and professional fees, including professional fees of approximately \$1.0 million in connection with the termination of a service arrangement.

These increases were partially offset by:

- a \$1.4 million decrease in staff-related costs and compensation costs, which was the result of a decrease in salaries and benefits primarily due to a lower average Canadian dollar denominated salary expense (including a \$0.9 million benefit from hedged forward contracts) and a \$0.6 million decrease in travel and entertainment costs;
- a \$3.6 million decrease due to a gain from unhedged forward contracts and foreign exchange translation adjustments. In 2009, the Company recorded a foreign exchange gain of \$2.9 million due to an increase in the exchange rates of foreign currency denominated receivables, other working capital balances and foreign currency unhedged forward contracts, as compared to a loss of \$0.7 million recorded in 2008; and
- a \$1.1 million decrease in other general corporate expenditures.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables, amounted to a net provision of \$1.1 million in 2009, as compared to \$2.0 million in 2008.

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. Accordingly, the Company believes it has adequately protected itself against exposures relating to receivables and contractual commitments.

Asset Impairments and Other Significant Charges

The Company recorded an asset impairment charge of \$0.2 million against fixed assets after the Company assessed the carrying value of certain assets in light of their future expected cash flows. The Company recognized that the carrying values for the assets exceeded the expected undiscounted future cash flows. During 2008, the Company recorded total asset impairment charges of \$nil.

The Company recorded a net provision of \$0.1 million in 2009 (2008 — \$0.4 million) in accounts receivable.

In 2009, the Company also recorded a net provision of \$1.4 million in financing receivables (2008 — \$1.6 million) as the collectibility associated with certain leases was uncertain.

In 2009, the Company recorded a charge of \$0.9 million (2008 — \$2.5 million) in costs and expenses applicable to revenues, primarily for its film-based projector inventories due to a reduction in the net realizable value resulting from the Company's development of a proprietary digital projection system in July 2008.

Interest Income and Expenses

Interest income decreased to less than \$0.1 million in 2009, as compared to \$0.4 million in 2008.

Interest expense decreased to \$13.8 million in 2009 as compared to \$17.7 million in 2008. During the year, the Company repurchased all \$160.0 million aggregate principal amount of its outstanding 9.625% Senior Notes which resulted in a decrease in the Company's interest expense for the year ended December 31, 2009. Included in interest expense is the amortization of deferred finance costs in the amount of \$1.0 million and \$1.3 million in 2009 and 2008, respectively, relating to the Company's Senior Notes. The Company's policy is to defer and amortize, over the life of the debt instrument, all the costs relating to a 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 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. 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.

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On March 12, 2009, the Government of Canada enacted Bill C-10, which included legislation allowing corporations to elect to file their Canadian corporate tax returns in the corporation's functional currency. The Company has submitted an election to file the 2008 and subsequent Canadian corporate tax returns in U.S. dollars. As a result of the election and its impact on the Company's opening 2008 tax return balances in Canada, the Company has recorded an increase in the gross deferred tax asset of \$14.1 million, which has been fully offset by a corresponding valuation allowance. Other significant changes in the effective rate include the effects of legislative changes regarding enacted rate reductions and extensions of carryforward periods relating to investment tax credits in Canada. In addition, the Company redeemed its Senior Notes in the year resulting in foreign exchange gains and other capital gains, against which the Company has applied its available capital and net operating losses

As at December 31, 2009, the Company had net deferred income tax assets after valuation allowance of \$nil (December 31, 2008 — \$nil). As at December 31, 2009, the Company had a net deferred income tax asset before valuation allowance of \$71.6 million, against which the Company is carrying a \$71.6 million valuation allowance.

Research and Development

For the years ended December 31, 2009 and 2008 research and development expenses amounted to \$3.8 million and \$7.5 million, respectively. The expenses primarily reflect significant research and development activities pertaining to the development of the Company's new proprietary digitally-based theater projector which the Company introduced in July of 2008. As at December 31, 2009, the Company had installed 151 IMAX digital theater projection systems and had signed contracts to install an additional 115 digital systems.

Discontinued Operations

On December 11, 2009, the Company closed its owned and operated Tempe IMAX theater. The Company recognized lease termination and guarantee obligations of \$0.5 million to the landlord, which were offset by derecognition of other liabilities of \$0.9 million, for a net gain of \$0.4 million. In a related transaction, the Company leased the projection system and inventory of the Tempe IMAX theater to a third party theater exhibitor. Revenue from this operating lease transaction will be recognized on a straight-line basis over the term of the lease. For the year ended December 31, 2009, revenues for the Tempe IMAX theater were \$0.8 million (2008 — \$1.5 million) and the Company recognized a loss of \$0.5 million in 2009 (2008 — loss of \$0.3 million) from the operation of the theater. The above transactions are reflected as discontinued operations as there are no significant continuing cash flows from either a migration or a continuation of activities.

On September 30, 2009, the Company closed its owned and operated Vancouver IMAX theater. The amount of loss to the Company pertaining to lease and guarantee obligations owing to the landlord was estimated at \$0.3 million which the Company recognized at December 31, 2009. For the year ended December 31, 2009, revenues for the Vancouver IMAX theater were \$1.1 million (2008 — \$2.0 million) and the Company recognized a loss of \$0.1 million in 2009 (2008 — income of \$0.2 million) from the operation of the theater. The above transactions are reflected as discontinued operations as there are no continuing cash flows from either a migration or a continuation of activities.

Pension Plan

The Company has an unfunded defined benefit pension plan, the Supplemental Executive Retirement Plan (the "SERP"), covering Messrs. Gelfond and Wechsler. As at December 31, 2009, the Company had an unfunded and accrued projected benefit obligation of approximately \$29.9 million (December 31, 2008 — \$26.4 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. As at December 31, 2009, the cash surrender value of the insurance policies is \$7.3 million (December 31, 2008 — \$6.2 million).

The net periodic benefit cost was \$1.4 million and \$1.8 million in 2009 and 2008, respectively. The components of net periodic benefit cost were as follows:

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	Years ended December 31	
	2009	2008
Service cost	\$ 643	\$ 793
Interest cost	1,341	1,251
Amortization of prior service credit	145	(248)
Amortization of actuarial gain	(681)	—
Pension expense	<u>\$ 1,448</u>	<u>\$ 1,796</u>

The plan experienced an actuarial loss of \$2.4 million during 2009, resulting in an increase in the pension obligation from \$26.4 million at December 31, 2008, to \$29.9 million at December 31, 2009. The primary factor contributing to this loss is a decrease in the Pension Benefit Guaranty Corporation (“PBGC”) published annuity interest rates used to determine the lump sum payment under the plan, as well as a decrease in the Citigroup Pension Discount Curve discount rate from 5.11% in the prior year to 1.50%.

As at December 31, 2009, Mr. Wechsler’s benefits were 100% vested while the benefits of Mr. Gelfond were approximately 95.9% vested. The vesting percentage of a member whose employment terminates other than by voluntary retirement or upon a change in control is 100%. Upon a termination for cause, prior to a change of control, the executive will forfeit any and all benefits to which such executive may have been entitled, whether or not vested.

On October 1, 2009, the Company paid benefits of \$0.9 million to Mr. Wechsler in accordance with the terms of the SERP.

Stock-Based Compensation

The Company utilizes 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 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 stock appreciation rights. Although the fair value of employee stock options and stock appreciation rights 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.

Stock-based compensation expense recognized under ASC 718 Compensation — Stock Compensation for 2009, 2008 and 2007 was \$17.7 million, \$1.5 million and \$3.4 million, respectively.

Outlook

The Company achieved record revenues and earnings in 2010. The Company anticipates even higher revenues in 2011, based primarily on the recent and expected future growth of the Company's commercial theater network, which drives revenue in several of the Company's segments and the anticipated performance of the 2011 film slate. The recent and expected future growth in the theatre network is being driven in part by the record number of theater signings the Company achieved in 2010.

The Company installed 91 IMAX theater systems, not including digital upgrades, in 2010. At year-end, this reflected an increase of 20.5% for the overall IMAX theater network and 28.2% for the IMAX commercial theater network over the prior year. In addition, the Company entered into new theater arrangements for a record number of new theater systems in 2010. Of the theater system arrangements in backlog as at December 31, 2010, the Company currently estimates that approximately 80-90 theater systems (excluding digital upgrades) will be installed in 2011. As a result, by the end of 2011, the Company's total theater network is expected to have increased by approximately 15% over the prior year and its commercial theater network by approximately 20% over the prior year 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. However, 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.

A substantial portion of the recent commercial theater network growth has come from theaters under joint revenue sharing arrangements both in the United States and in Canada 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.

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. In 2010, 16 IMAX DMR titles were shown in the IMAX theater network, compared to 14 titles in 2009. To date, the Company has contracted for the release of 21 IMAX DMR titles to IMAX theaters in 2011. In addition, the Company, in conjunction with WB, will release *Born to be Wild 3D: An IMAX 3D Experience* to its network in April 2011. 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 to achieve the optimal film slate, with the appropriate number and mix of titles.

The Company believes that its international expansion is an important driver of future growth for the Company. During 2010, 39% of the Company's gross box office from DMR films was generated from IMAX theaters in international markets, as compared with 25% in 2009. In 2010, 127 of the Company's record 221 theater signings were for theatres in international markets. Included among these signings were several multi-theater sales transactions, including for theaters in Russia, China, Thailand, Kazakhstan, Ukraine, Philippines, and Israel. The Company also entered into several significant joint revenue sharing arrangements in international markets in 2010, including in South Korea, France, Germany, Italy and Spain, as well as expansions of existing joint revenue sharing arrangements in Japan. In 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 Company exhibited its first DMR title outside of North America, *Aftershock: The IMAX Experience*, 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. The film is the second announced Chinese film to be released to IMAX theaters. In December 2010, the Company also announced the release of *The Founding of a Party: The IMAX Experience* in China in June 2011. The Company is also committed to maximizing the productivity of its international theaters through international-only releases. The Company's first international-only release *Prince of Persia: Sands of Time: The IMAX Experience* was released in May 2010 and the Company's second international-only release, *Tangled: An IMAX 3D Experience*, is being released in select Asian markets beginning in February 2011. The Company anticipates additional international-only releases in the future. Finally, in order to

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

In 2011, the Company also intends to continue to explore new areas of brand extension such as: 3D in-home entertainment technology, including 3net, a 3D television channel operated by a Limited Liability Corporation owned by the Company, Discovery Communications and Sony Corporation; increased post-production opportunities; alternative theater content, and partnering with technology, studio, programming, content and consumer electronics companies.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility

On November 16, 2009, the Company amended and restated the terms of its senior secured credit facility, which had been scheduled to mature on October 31, 2010. The amended and restated facility, as further amended by the parties on January 21, 2011, (the "Credit Facility") with a scheduled maturity of October 31, 2013, has a maximum borrowing capacity of \$75.0 million, consisting of a revolving loan facility of \$40.0 million, subject to a borrowing base calculation (as described below) and including a sublimit of \$20.0 million for letters of credit and a term loan of \$35.0 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 Company's indebtedness under the Credit Facility includes the following:

	December 31, 2010	December 31, 2009
Term Loan	\$ 17,500	\$ 35,000
Revolving Credit Facility	—	15,000
	<u>\$ 17,500</u>	<u>\$ 50,000</u>

As at December 31, 2010, the Company's current borrowing capacity under the revolving portion of the Credit Facility was \$40.0 million after deduction for the minimum Excess Availability reserve of \$5.0 million. Outstanding borrowings and letters of credit and advance payment guarantees were \$nil as at December 31, 2010. As at December 31, 2009, the borrowing capacity was \$24.8 million after deduction for outstanding borrowings of \$15.0 million, letters of credit and advance payment guarantees of \$0.3 million and the minimum Excess Availability reserve of \$5.0 million.

The terms of the Credit Facility are set forth in the Amended and Restated Credit Agreement (the "Credit Agreement"), dated November 16, 2009, between the Company, Wells Fargo Capital Finance Corporation Canada (formerly Wachovia 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 portion of the Credit Facility permits maximum aggregate borrowings equal to the lesser of:

(i) \$40.0 million, and

(ii) a collateral calculation based on the percentages of the book values 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. It is also reduced by the settlement risk on its foreign currency forward contracts when the notional value exceeds the fair value of the forward contracts.

The revolving portion of the Credit Facility bears interest, at the Company's option, at either (i) LIBOR plus a margin of 2.75% per annum, or (ii) Wells Fargo's prime rate plus a margin of 1.25% per annum. The term loan portion of the Credit Facility bears interest at the Company's option, at either (i) LIBOR plus a margin of 3.75% per annum, or (ii) Wells Fargo's prime rate plus a

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margin of 2.25% per annum. Under the Credit Facility, the effective interest rate for the year ended December 31, 2010, for the term loan portion was 4.06% (2009 — 4.09%) and 3.56% for the revolving portion (2009 — 2.29%).

The Credit Facility provides that so long as the term loan remains outstanding, the Company will be required to maintain: (i) 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 through December 31, 2010, and (ii) a ratio of funded debt to EBITDA of not more than 1.75:1 thereafter. If the Company repays the term loan in full, it will remain subject to such ratio requirements only if Excess Availability (as defined in the Credit Agreement) is less than \$10.0 million or Cash and Excess Availability (as defined in the Credit Agreement) is less than \$15.0 million. The ratio of funded debt to EBITDA was 0.17:1 as at December 31, 2010, 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 \$17.5 million. EBITDA is calculated as follows:

EBITDA per Credit Facility:

(In thousands of U.S. Dollars)

Net earnings	\$ 100,779
Add (subtract):	
Loss from equity accounted investments	493
Recovery of income taxes	(51,784)
Interest expense net of interest income	1,486
Depreciation and amortization including film asset amortization ⁽¹⁾	20,195
Write-downs net of recoveries including asset impairments and receivable provisions ⁽¹⁾	2,551
Stock and other non-cash compensation	28,195
Other, net	(536)
	<u>\$ 101,379</u>

(1) See note 19 to the accompanying audited consolidated financial statements in Item 8.

If Cash and Excess Availability is less than \$25.0 million, 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; provided, however, that if the Company repays the term loan in full, it will remain subject to such ratio requirement only if Excess Availability is less than \$10.0 million or Cash and Excess Availability is less than \$15.0 million. 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 \$45.0 million and \$75.4 million, respectively at December 31, 2010. The Company was in compliance with all of these requirements as at December 31, 2010.

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 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 December 31, 2010, the Company has letters of credit and advance payment guarantees of \$nil outstanding (December 31, 2009 — \$0.3 million), 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 December 31,

2010, the Company had letters of credit outstanding of \$2.4 million under the Bank of Montreal facility as compared to \$3.6 million as at December 31, 2009.

Senior Notes due December 2010

In 2009, the Company repurchased all \$160.0 million aggregate principal amount of its outstanding 9.625% Senior Notes due December 1, 2010, which represented the aggregate principal amount outstanding. The Company paid cash of \$159.1 million to reacquire its bonds, thereby releasing the Company from further obligations to various holders under the indenture governing the Senior Notes (the "Indenture"). The Company accounted for the bond repurchase in accordance with the Debt Topic of the FASB ASC, whereby the net carrying amount of the debt extinguished was the face value of the bonds adjusted for any unamortized premium, discount and costs of issuance, which resulted in a loss of \$0.6 million in 2009.

Cash and Cash Equivalents

As at December 31, 2010, the Company's principal sources of liquidity included cash and cash equivalents of \$30.4 million, the Credit Facility, anticipated collection from trade accounts receivable of \$39.6 million, anticipated collection from financing receivables due in the next 12 months of \$12.8 million, payments expected in the next 12 months on existing backlog deals and cash receipts from theaters under joint revenue sharing arrangements. As at December 31, 2010, the Company had drawn down \$nil on the revolving portion of the Credit Facility, and had letters of credit of \$nil outstanding under the Credit Facility and \$2.4 million under the Bank of Montreal Facility.

During the year ended December 31, 2010, the Company's operations provided cash of \$58.5 million and the Company used cash of \$36.8 million to fund capital expenditures, principally to build equipment for use in joint revenue sharing arrangements and to fund its investment in film assets. 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. 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 54 new theater systems and 2 digital upgrades under joint revenue sharing arrangements in 2010.

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 exhibited in the Company's theaters, increases or decreases in the Company's operating expenses, including research and development, and the level of cash collections received from its customers.

Cash provided by operating activities amounted to \$58.5 million in 2010. Changes in other non-cash operating assets as compared to 2009 include: an increase of \$11.9 million in financing receivables; an increase of \$2.4 million in accounts receivable; an increase of \$3.8 million in inventories; an increase of \$0.2 million in prepaid expenses; and an increase of \$0.3 million in other assets which includes a \$0.4 million increase in commissions and other deferred selling expenses and a \$0.1 million decrease in insurance recoveries receivable. Changes in other non-cash operating liabilities as compared to December 31, 2009 include: an increase in deferred revenue of \$15.7 million related to amounts added to deferred revenue for backlog payments received offset by theater system installations in the current period; an increase in accounts payable of \$0.1 million and a

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decrease of \$25.8 million in accrued liabilities largely due to a payment of pension benefits in the amount of \$14.7 million and payments of \$14.5 million in variable stock-based compensation expense.

Included in accrued liabilities at December 31, 2010, was \$18.1 million in respect of accrued pension obligations.

Investing Activities

Net cash used in investing activities amounted to \$23.8 million in 2010 compared to \$27.6 million in 2009, which includes an investment in joint revenue sharing equipment of \$21.3 million, purchases of \$5.3 million in property, plant and equipment, an investment in other assets of \$0.7 million, investments in new business ventures of \$3.6 million, and an increase in other intangible assets of \$0.7 million offset by a receipt of \$7.8 million representing the cash surrender value of a life insurance policy.

Financing Activities

Net cash used in financing activities in 2010, amounted to \$24.2 million due to repayment of bank indebtedness of \$32.5 million, offset by the proceeds from the issuance of common shares from stock option exercises.

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 \$36.8 million in 2010 as compared to \$35.7 million in 2009. The Company anticipates a consistent level of capital expenditures in 2011 as compared to 2010 related, in part, to the anticipated roll-out of approximately 40 theaters pursuant to joint revenue sharing arrangements in 2011, all of which the Company currently intends to fund through cash on hand, cash from operations and availability under the Credit Facility.

Prior Year Cash Flow Activities

Net cash provided by operating activities amounted to \$13.8 million in the year ended December 31, 2009. Changes in other non-cash operating assets and liabilities included a \$7.2 million increase in financing receivables, an increase of \$13.4 million in accounts receivable, a decrease in inventories of \$10.1 million, a \$0.7 million increase in prepaid expenses, a \$1.4 million decrease in other assets which includes a \$0.7 million decrease in commissions and other deferred selling expenses and a \$0.7 million decrease in insurance recoveries receivable, an increase in accounts payable of \$1.5 million, a decrease in deferred revenue of \$13.5 million, related to amounts relieved from deferred revenue related to theater system installations in 2009 offset by backlog payments received and a decrease of less than \$0.1 million in accrued liabilities. Net cash used in investing activities in the year ended December 31, 2009 amounted to \$27.6 million, which includes an investment in joint revenue sharing equipment of \$25.1 million, purchases of \$1.4 million in property, plant and equipment, an increase in other assets of \$0.7 million and an increase in other intangible assets of \$0.3 million. Net cash provided by financing activities in 2009 amounted to \$7.2 million due to the issuance of common shares in 2009, net of common share issuance costs, offset by the proceeds to repurchase Senior Note indebtedness.

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 \$35.7 million in the year ended December 31, 2009.

CONTRACTUAL OBLIGATIONS

The following summarizes the Company's contractual obligations and commercial commitments at December 31, 2010 that will be settled in future periods:

<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⁾	17,500	11,667	5,833	—	—	—	—
Operating lease obligations ⁽³⁾	16,253	5,673	5,390	2,064	879	490	1,757
Purchase obligations ⁽⁴⁾	13,561	13,561	—	—	—	—	—
Postretirement benefits obligations	131	13	15	31	34	38	—
Capital lease obligations ⁽⁵⁾	70	27	23	20	—	—	—
	<u>\$ 66,328</u>	<u>\$ 30,941</u>	<u>\$ 11,261</u>	<u>\$ 20,928</u>	<u>\$ 913</u>	<u>\$ 528</u>	<u>\$ 1,757</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 December 31, 2010, the Company had an unfunded and accrued projected benefit obligation of approximately \$18.1 million (December 31, 2009 — \$29.9 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 as a 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 December 31, 2010, 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 terms of Mr. Gelfond's current employment agreement has been extended to the beginning of 2013.

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. These monthly annuity payments continued through to August 1, 2010. On August 1, 2010, the Company made a

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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 December 31, 2010, the Company had an unfunded benefit obligation of \$0.5 million (December 31, 2009 — \$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 7A. *Quantitative and Qualitative Disclosures 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 its 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 year ended December 31, 2010, the Company recorded a foreign exchange gain on translation of foreign currency working capital balances and unhedged foreign currency forward contracts of \$1.5 million as compared with a foreign exchange gain of \$2.9 million in 2009.

During 2010, 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 December 31, 2010, 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 consolidated statement of operations. The notional value of these contracts at December 31, 2010 was \$12.7 million (December 31, 2009 — \$2.8 million). A gain of \$0.8 million was recorded to Other Comprehensive Income with respect to the appreciation in the value of these contracts in 2010 (2009 — \$1.7 million). A gain of \$0.7 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses in 2010 (2009 — \$1.3 million). Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB ASC are recorded to selling, general and administrative expenses. The notional value of forward contracts that do not qualify for hedge accounting at December 31, 2010 was \$28.8 million (December 31, 2009 — \$4.5 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.

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At December 31, 2010, the Company's net investment in leases and working capital items denominated in Canadian dollars, Japanese Yen and Euros aggregated to \$2.1 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2010, the potential change in the fair value of foreign currency-denominated net investment in leases and working capital items would be \$0.2 million.

Interest Rate Risk Management

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

As at December 31, 2010, the Company's borrowings under the Credit Facility were \$17.5 million (December 31, 2009 — \$50.0 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 9.2% and 24.7% of its total liabilities at December 31, 2010 and 2009, respectively. If the Company's interest rates average 10 percent more in 2011 than they did at December 31, 2010, the Company's interest expense would increase by approximately \$0.1 million and interest income from cash would increase by approximately less than \$0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable rate debt and cash balances at December 31, 2010.

At December 31, 2010, the Company is not exposed to any market risk for fixed rate debt as the Company repurchased all of the remaining \$160.0 million of its Senior Notes due December 2010 in 2009.

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Item 8. *Financial Statements and Supplementary Data*

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Report of Independent Registered Public Accounting Firm

To the Shareholders of IMAX Corporation:

We have audited the accompanying consolidated balance sheets of IMAX Corporation and its subsidiaries as of December 31, 2010 and December 31, 2009, and the related consolidated statements of operations, cash flows and shareholders' equity (deficiency) for each of the years in the three-year period ended December 31, 2010. In addition, we have audited the financial statement schedule listed in the index under Item 15(a)(2). We also have audited IMAX Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Imax Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A of its 2010 Annual Report on Form 10-K. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the corporation's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IMAX Corporation and its subsidiaries as of December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, IMAX Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
February 24, 2011

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

	As at December 31,	
	2010	2009
Assets		
Cash and cash equivalents	\$ 30,390	\$ 20,081
Accounts receivable, net of allowance for doubtful accounts of \$1,988 (December 31, 2009 — \$2,770)	39,570	37,652
Financing receivables (note 4, note 21(c))	73,601	62,585
Inventories (note 5)	15,275	10,271
Prepaid expenses	2,832	2,609
Film assets (note 6)	2,449	3,218
Property, plant and equipment (note 7)	74,035	54,820
Other assets (note 8)	12,350	15,140
Deferred income taxes (note 9)	57,122	—
Goodwill	39,027	39,027
Other intangible assets (note 10)	2,437	2,142
Total assets	\$ 349,088	\$ 247,545
Liabilities		
Bank indebtedness (note 12)	\$ 17,500	\$ 50,000
Accounts payable	20,384	16,803
Accrued liabilities (notes 6, 9(g), 13(a), 13(c), 15(c), 22, 23(d) and 24)	78,994	77,853
Deferred revenue	73,752	57,879
Total liabilities	190,630	202,535
Commitments and contingencies (notes 13 and 14)		
Shareholders' equity		
Capital stock (note 15) common shares — no par value. Authorized — unlimited number. Issued and outstanding — 64,145,573 (December 31, 2009 — 62,831,974)	292,977	280,048
Other equity	7,687	6,044
Deficit	(141,209)	(241,988)
Accumulated other comprehensive income (note 25)	(997)	906
Total shareholders' equity	158,458	45,010
Total liabilities and shareholders' equity	\$ 349,088	\$ 247,545

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

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

	Years Ended December 31,		
	2010	2009	2008
Revenues			
Equipment and product sales	\$ 72,578	\$ 57,304	\$ 27,853
Services (note 16(c))	123,911	82,052	61,477
Rentals (note 16(c))	46,936	25,758	8,207
Finance income	4,789	4,235	4,300
Other (note 16(a))	400	1,862	881
	<u>248,614</u>	<u>171,211</u>	<u>102,718</u>
Costs and expenses applicable to revenues (note 2(n))			
Equipment and product sales	36,394	29,040	17,182
Services (note 16(c))	63,425	49,891	40,771
Rentals	11,111	10,093	7,043
Other	32	635	169
	<u>110,962</u>	<u>89,659</u>	<u>65,165</u>
Gross margin	<u>137,652</u>	<u>81,552</u>	<u>37,553</u>
Selling, general and administrative expenses (note 16(b)) (including share-based compensation expense of \$26.0 million, \$17.5 million and \$1.0 million for 2010, 2009, 2008, respectively)	78,428	56,207	43,681
Research and development	6,249	3,755	7,461
Amortization of intangibles	513	546	526
Receivable provisions, net of recoveries (note 17)	1,443	1,067	1,977
Asset impairments (note 18)	45	180	—
Earnings (loss) from operations	<u>50,974</u>	<u>19,797</u>	<u>(16,092)</u>
Interest income	399	98	381
Interest expense	(1,885)	(13,845)	(17,707)
Loss on repurchase of Senior Notes due December 2010 (note 11)	—	(579)	—
Earnings (loss) from continuing operations before income taxes	<u>49,488</u>	<u>5,471</u>	<u>(33,418)</u>
Recovery of (provision for) income taxes	51,784	(274)	(92)
Loss from equity-accounted investments	(493)	—	—
Earnings (loss) from continuing operations	<u>100,779</u>	<u>5,197</u>	<u>(33,510)</u>
Loss from discontinued operations (note 23(c))	—	(176)	(92)
Net earnings (loss)	<u>\$ 100,779</u>	<u>\$ 5,021</u>	<u>\$ (33,602)</u>
Earnings (loss) per share: (note 15(d))			
Net earnings (loss) per share — basic:			
Net earnings (loss) per share from continuing operations	\$ 1.59	\$ 0.10	\$ (0.79)
Net loss per share from discontinued operations	—	—	—
	<u>\$ 1.59</u>	<u>\$ 0.10</u>	<u>\$ (0.79)</u>
Net earnings (loss) per share — diluted:			
Net earnings (loss) per share from continuing operations	\$ 1.51	\$ 0.09	\$ (0.79)
Net loss per share from discontinued operations	—	—	—
	<u>\$ 1.51</u>	<u>\$ 0.09</u>	<u>\$ (0.79)</u>

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

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

	Years Ended December 31,		
	2010	2009	2008
Cash provided by (used in):			
Operating Activities			
Net earnings (loss)	\$ 100,779	\$ 5,021	\$ (33,602)
Net loss from discontinued operations (note 23(c))	—	176	92
Items not involving cash:			
Depreciation and amortization (notes 19(c) and 20(a))	20,536	19,051	18,018
Write-downs, net of recoveries (notes 19(d) and 20(a))	2,551	2,581	4,466
Change in deferred income taxes	(54,275)	8	(749)
Stock and other non-cash compensation	28,195	19,183	3,320
Foreign currency exchange (gain) loss	(865)	(974)	480
Gain on sale of property, plant and equipment	—	—	(43)
Loss on repurchase of Senior Notes due December 2010 (note 11)	—	579	—
Loss from equity-accounted investments	493	—	—
Change in cash surrender value of life insurance	(107)	(330)	(270)
Investment in film assets	(10,139)	(9,235)	(10,145)
Changes in other non-cash operating assets and liabilities (note 19(a))	(28,682)	(21,885)	11,925
Net cash used in operating activities from discontinued operations	—	(393)	(40)
Net cash provided by (used in) operating activities	<u>58,486</u>	<u>13,782</u>	<u>(6,548)</u>
Investing Activities			
Purchase of property, plant and equipment	(5,338)	(1,426)	(2,805)
Investment in joint revenue sharing equipment	(21,275)	(25,072)	(18,478)
Investment in new business ventures	(3,636)	—	—
Cash surrender value of life insurance	7,797	—	—
Proceeds from sale of property, plant and equipment	—	—	43
Acquisition of other assets	(691)	(748)	(748)
Acquisition of other intangible assets	(681)	(320)	(430)
Net cash used in investing activities	<u>(23,824)</u>	<u>(27,566)</u>	<u>(22,418)</u>
Financing Activities			
Increase in bank indebtedness (note 12)	—	55,000	20,000
Repayment of bank indebtedness (note 12)	(32,500)	(25,000)	—
Repurchase of Senior Notes due December 2010 (note 11)	—	(159,104)	—
Common shares issued — public offerings, net of offering expenses paid (note 15(b))	—	130,774	—
Common shares issued — private offering	—	—	17,931
Common shares issued — stock options exercised (note 15(b))	8,276	6,332	1,202
Shelf registration fees paid	—	(150)	—
Debt modification fees paid	—	—	(114)
Fees paid pertaining to amended Credit Facility agreement	—	(671)	—
Net cash (used in) provided by financing activities	<u>(24,224)</u>	<u>7,181</u>	<u>39,019</u>
Effects of exchange rate changes on cash	(129)	(333)	63
Increase (decrease) in cash and cash equivalents during year	10,309	(6,936)	10,116
Cash and cash equivalents, beginning of year	20,081	27,017	16,901
Cash and cash equivalents, end of year	<u>\$ 30,390</u>	<u>\$ 20,081</u>	<u>\$ 27,017</u>

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

IMAX CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
In accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars)

	Number of Common Shares Issued and Outstanding	Capital Stock	Other Equity	Deficit	Accumulated Other Comprehensive Income (Loss) (note 25)	Total Shareholders' Equity (Deficiency)	Comprehensive Income (Loss)
Balance as at December 31, 2007	40,423,074	\$122,455	\$ 4,088	\$(213,407)	\$ 1,494	\$ (85,370)	
Common shares issued for private offering	2,726,447	17,681	—	—	—	17,681	
Net loss	—	—	—	(33,602)	—	(33,602)	\$ (33,602)
Paid-in capital for non-employee stock options granted (note 15(c))	—	—	416	—	—	416	—
Employee stock options exercised	238,745	751	(14)	—	—	737	—
Non-employee stock options exercised	102,365	697	(232)	—	—	465	—
Paid-in capital for employee stock options granted (note 15(c))	—	—	925	—	—	925	—
Unrecognized prior service costs (net of income tax recovery of \$66) (note 22)	—	—	—	—	(181)	(181)	(181)
Unrecognized actuarial gain (net of income tax provision of \$770)(note 22)	—	—	—	—	2,029	2,029	2,029
Unrealized net gain on derivative instruments (net of income tax provision of \$46) (note 21)	—	—	—	—	126	126	126
							\$ (31,628)
Balance as at December 31, 2008	43,490,631	\$141,584	\$ 5,183	\$(247,009)	\$ 3,468	\$ (96,774)	
Common shares issued for public offering	18,034,706	130,682	—	—	—	130,682	—
Net earnings	—	—	—	5,021	—	5,021	5,021
Paid-in capital for non-employee stock options granted (note 15(c))	—	—	215	—	—	215	—
Employee stock options exercised	1,103,091	6,391	(962)	—	—	5,429	—
Non-employee stock options exercised	203,546	1,391	(488)	—	—	903	—
Paid-in capital for employee stock options granted (note 15(c))	—	—	2,096	—	—	2,096	—
Unrecognized prior service costs (net of income tax provision of \$38) (note 22)	—	—	—	—	107	107	107
Unrecognized actuarial loss (net of income tax recovery of \$nil) (note 22)	—	—	—	—	(3,075)	(3,075)	(3,075)
Unrealized net gain on derivative instruments (net of income tax recovery of \$46) (note 21)	—	—	—	—	406	406	406
							\$ 2,459
Balance as at December 31, 2009	62,831,974	\$ 280,048	\$ 6,044	\$(241,988)	\$ 906	\$ 45,010	
Net earnings	—	—	—	100,779	—	100,779	100,779
Paid-in capital for non-employee stock options granted (note 15(c))	—	—	383	—	—	383	—
Employee stock options exercised	1,090,782	8,063	(1,696)	—	—	6,367	—
Non-employee stock options exercised	222,817	3,016	(1,102)	—	—	1,914	—
Paid-in capital for employee stock options granted (note 15(c))	—	—	4,058	—	—	4,058	—
Unrealized actuarial loss (net of income tax recovery of \$662) (note 22)	—	—	—	—	(1,985)	(1,985)	(1,985)
Unrealized net gain on derivative instruments (net of income tax provision of \$182)(note 21)	—	—	—	—	(50)	(50)	(50)
Tax recovery related to share issuance expenses	—	1,850	—	—	—	1,850	—
Realized actuarial gain on settlement of pension liability (net of income tax provision of \$517)(note 22)	—	—	—	—	132	132	132
							\$ 98,876
Balance as at December 31, 2010	64,145,573	\$292,977	\$ 7,687	\$(141,209)	\$ (997)	\$ 158,458	

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

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

1. Description of the Business

IMAX Corporation together with its consolidated wholly-owned subsidiaries (the “Company”) is an entertainment technology company specializing in digital and film-based motion picture technologies, whose principal activities are the:

- 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 December 31, 2010;
- production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;
- provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems;
- operation of certain theaters primarily in the United States; and
- other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

The Company refers to all theaters using the IMAX theater system as “IMAX theaters.”

The Company’s revenues from equipment and product sales include the sale and sales-type leasing of its theater systems and sales of their associated parts and accessories, contingent rentals on sales-type leases and contingent additional payments on sales transactions.

The Company’s revenues from services include the provision of maintenance and extended warranty services, digital re-mastering services, film production and film post-production services, film distribution, and the operation of certain theaters.

The Company’s rentals include revenues from the leasing of its theater systems that are operating leases, contingent rentals on operating leases, joint revenue sharing arrangements and the rental of the Company’s cameras and camera equipment.

The Company’s finance income represents interest income arising from the sales-type leasing and financed sale of the Company’s theater systems.

The Company’s other revenues include the settlement of contractual obligations with customers.

2. Summary of Significant Accounting Policies

Significant accounting policies are summarized as follows:

The Company prepares its consolidated financial statements in accordance with U.S. GAAP.

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company together with its wholly-owned subsidiaries, except for subsidiaries which the Company has identified as variable interest entities (“VIEs”) where the Company is not the primary beneficiary.

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. As the Company has the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and has the obligation to absorb losses of the VIE that could potentially be

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significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE for 2 of the film production companies, the Company has determined that it is the primary beneficiary of these entities. 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 and total liabilities of \$nil as at December 31, 2010 (December 31, 2009 — less than \$0.1 million). 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 December 31, 2010, these 6 VIEs have total assets of \$11.1 million (December 31, 2009 — \$3.8 million) and total liabilities of \$11.1 million (December 31, 2009 — \$3.8 million). Earnings of the investees included in the Company's consolidated statement of operations amounted to \$nil in 2010 (2009 — \$nil). The carrying value of these investments in VIEs that are not consolidated is \$nil at December 31, 2010 (December 31, 2009 — \$nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the consolidated statement of operations.

The Company accounts for investments in new business ventures using the guidance of ASC 323 Investments — Equity Method and Joint Ventures ("ASC 323") and ASC 320 Investments in Debt and Equity Securities ("ASC 320"), as appropriate. At December 31, 2010, the equity method of accounting is being utilized for an investment with a carrying value of \$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 the year, 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 \$1.5 million at December 31, 2010 (December 31, 2009 — \$nil). This investment is classified as an available-for-sale investment. The total carrying value of investments in new business ventures at December 31, 2010 and December 31, 2009 is \$3.1 million and \$nil, respectively, 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.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could be materially different from these estimates. Significant estimates made by management include, but are not limited to: fair values 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 assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value of stock-based payment awards.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Short-Term Investments

Short-term investments have maturities of more than three months and less than one year from the date of purchase.

As at December 31, 2010 and 2009, the Company did not hold any short-term investments.

(e) 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.

For trade accounts receivable that have characteristics of both a contractual maturity of one year or less, and arose from the sale of goods or services, the Company charges off the balance against the allowance for doubtful accounts when it is known that a provided amount will not be collected.

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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 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 collectability 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. Once the collectability issues are resolved, the Company will once again commence the recognition of interest income.

(f) 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 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 (as the theater system has been delivered to the customer) but the revenue recognition criteria as discussed in note 2(n) have not been met.

(g) Film Assets

Costs of producing films, including labor, allocated overhead, capitalized interest, and costs of acquiring film rights are recorded as film assets and accounted for in accordance with Entertainment-Films Topic of the FASB ASC. Production financing provided by third parties that acquire substantive rights in the film is recorded as a reduction of the cost of the production. Film assets are amortized and participation costs are accrued using the individual-film-forecast method in the same ratio that current gross revenues bear to current and anticipated future ultimate revenues. Estimates of ultimate revenues are prepared on a title-by-title basis and reviewed regularly by management and revised where necessary to reflect the most current information. Ultimate revenues for films include estimates of revenue over a period not to exceed ten years following the date of initial release.

Film exploitation costs, including advertising costs, are expensed as incurred.

Costs, including labor and allocated overhead, of digitally re-mastering films where the copyright is owned by a third party and the Company shares in the revenue of the third party are included in film assets. These costs are amortized using the individual-film-

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forecast method in the same ratio that current gross revenues bear to current and anticipated future ultimate revenues from the re-mastered film.

The recoverability of film assets is dependent upon commercial acceptance of the films. If events or circumstances indicate that the recoverable amount of a film asset is less than the unamortized film costs, the film asset is written down to its fair value. The Company determines the fair value of its film assets using a discounted cash flow model.

(h) Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

Theater system components ⁽¹⁾	—	Over the equipment's anticipated useful life (7 to 20 years)
Camera equipment	—	5 to 10 years
Buildings	—	20 to 25 years
Office and production equipment	—	3 to 5 years
Leasehold improvements	—	over the shorter of the initial term of the underlying leases plus any reasonably assured renewal terms, and the useful life of the asset

(1) includes equipment under joint revenue sharing arrangements.

Equipment and components allocated to be used in future operating leases and 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. During 2010, the Company signed certain amending agreements which increased the length of the term for all applicable existing and future theaters under joint revenue sharing arrangement from 7 to 10 years. As a result, the Company adjusted the estimated useful life of its IMAX digital projection systems in use for those joint revenue sharing theaters, on a prospective basis, to reflect the change in term from 7 years to 10 years. This resulted in decreased depreciation expense of \$1.0 million in 2010 and \$1.8 million in each of the next 5 years since the Systems will now be depreciated over a longer useful life.

The Company reviews the carrying values of its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group might not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent when testing for, and measuring for, impairment. In performing its review of 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 undiscounted future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is recognized in the consolidated statements 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.

A liability for the fair value of an asset retirement obligation associated with the retirement of tangible long-lived assets and the associated asset retirement costs are recognized in the period in which the liability and costs are incurred if a reasonable estimate of fair value can be made using a discounted cash flow model. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently amortized over the asset's useful life. The liability is accreted over the period to expected cash outflows.

(i) Other Assets

Other assets include insurance recoveries, the cash surrender value of life insurance policies, deferred charges on debt financing, deferred selling costs that are direct and incremental to the acquisition of sales contracts, foreign currency derivatives and investments in new business ventures.

Costs of debt financing are deferred and amortized over the term of the debt.

Selling costs related to an arrangement incurred prior to recognition of the related revenue are deferred and expensed to costs and expenses applicable to revenues upon (i) recognition of the contract's theater system revenue or (ii) abandonment of the sale arrangement.

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Foreign currency derivatives are accounted for at fair value using quoted prices in closed exchanges (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy).

Investments in new business ventures are accounted for using ASC 32X — Investments. The Company currently accounts for one investment using the equity method of accounting and accounts for another investment at fair value.

(j) Goodwill

Goodwill represents the excess of purchase price over the fair value of net identifiable assets acquired in a purchase business combination. Goodwill is not subject to amortization and is tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting unit is estimated using a discounted cash flow approach. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to measure the amount of impairment loss, if any, by comparing the fair value of each identifiable asset and liability in the reporting unit to the total fair value of the reporting unit. Any impairment loss is expensed in the consolidated statement of operations and is not reversed if the fair value subsequently increases.

(k) Other Intangible Assets

Patents, trademarks and other intangibles are recorded at cost and are amortized on a straight-line basis over estimated useful lives ranging from 4 to 10 years.

The Company reviews the carrying values of its other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group might not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent when testing for, and measuring for, impairment. 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 undiscounted 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.

(l) Deferred Revenue

Deferred revenue represents cash received prior to revenue recognition criteria being met for theater system sales or leases, film contracts, maintenance and extended warranty services, film related services and film distribution.

(m) Income Taxes

Income taxes are accounted for under the liability method whereby deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the accounting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates or laws is recognized in the consolidated statement of operations in the period in which the change is enacted. Investment tax credits are recognized as a reduction of income tax expense.

The Company assesses realization of deferred income tax assets and, based on all available evidence, concludes whether it is more likely than not that the net deferred income tax assets will be realized. A valuation allowance is provided for the amount of deferred income tax assets not considered to be realizable.

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 the Income Taxes Topic of the FASB ASC.

(n) Revenue Recognition

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 FASB ASC; the Guarantees Topic of the FASB; the Entertainment-Film Topic of FASB ASC; and the Revenue Recognition Topic of the FASB. If separate units of accounting are either required under the relevant accounting standards or determined to be applicable under the Revenue Recognition Topic, the total consideration received or receivable in the arrangement is allocated based on the applicable guidance in the above noted standards.

Theater Systems

The Company has identified the projection system, sound system, screen system and, if applicable, 3D glasses cleaning machine, theater design support, supervision of installation, projectionist training and the use of the IMAX brand to be 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, consist of upfront or initial payments made before and after the final installation of the theater system equipment and ongoing payments throughout the term of the lease or over a period of time, as specified in the arrangement. The ongoing payments are the greater of an annual fixed minimum amount or a certain percentage of the theater box-office. Amounts received in excess of the annual fixed minimum amounts are considered contingent payments. The Company's arrangements are non-cancellable, unless the Company fails to perform its obligations. In the absence of a material default by the Company, there is no right to any remedy for the customer under the Company's arrangements. If a material default by the Company exists, the customer has the right to terminate the arrangement and seek a refund only if the customer provides notice to the Company of a material default and only if the Company does not cure the default within a specified period.

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 limited number of sales arrangements for MPX theater systems, the Company provided customers with a right to acquire, for a specified period of time, digital upgrades (each upgrade consisting of a projector, certain sound system components and screen enhancements) at a fixed or variable discount towards a future price of such digital upgrades. Up to the end of the second quarter of

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2009, the Company was not able to determine the fair value of a digital upgrade. Accordingly, the Company deferred all consideration received and receivable under such arrangements for the delivered MPX and the upgrade right, except for the amount allocated to maintenance and extended warranty services provided to the customers for the installed system. This revenue was deferred until the upgrade right expired, if applicable, or a digital upgrade was delivered. In the third quarter of 2009, the Company determined the fair value of digital upgrades and the upgrades rights. For any such sales arrangements where the upgrade right has not expired and the digital upgrade has not yet been delivered, the Company has allocated the consideration received and receivable (excluding the amount allocated to maintenance and extended warranty services) to the upgrade right based on its fair value and to the delivered MPX theater system based on the residual of the consideration received and receivable. The revenue related to the digital upgrade continues to be deferred, until the digital upgrade is delivered provided the other revenue recognition criteria are met. The revenue related to the MPX system is recognized at the allocation date as the system was previously delivered provided the other revenue recognition criteria are met. Costs related to the installed MPX systems for which revenue has not been recognized are included in inventories until the conditions for revenue recognition are met. The Company also provides customers, in certain cases, with sales arrangements for multiple systems consisting of a combination of MPX theater systems and complete digital theater systems for a specified price. The Company allocates the actual or implied discount between the delivered and undelivered theater systems on a relative fair value basis, provided all of the other conditions for recognition of a theater system are met.

Lease Arrangements

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

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

For sales-type leases, the revenue allocated to the System 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 in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater. Contingent payments in excess of fixed minimum ongoing payments are recognized as revenue when reported by theater operators, provided 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.

Finance Income

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

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Improvements and Modifications

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

Cost of Equipment and Product Sales

Theater systems and other equipment subject to sales-type leases or sales arrangements includes the cost of the equipment and costs related to project management, design, delivery and installation supervision services as applicable. The costs related to theater systems under sales and sales-type lease arrangements are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met. In addition, the Company defers direct selling costs such as sales commissions and other amounts related to these contracts until the related revenue is recognized. These costs included in costs and expenses applicable to revenues-equipment and product sales, totaled \$1.9 million in 2010 (2009 — \$2.0 million, 2008 — \$1.0 million). The cost of equipment and product sales prior to direct selling costs was \$34.5 million in 2010 (2009 — \$27.0 million, 2008 — \$16.2 million). The Company may have warranty obligations at or after the time revenue is recognized which require replacement of certain parts that do not affect the functionality of the theater system or services. The costs for warranty obligations for known issues are accrued as charges to costs and expenses applicable to revenues-equipment and product sales at the time revenue is recognized based on the Company's past historical experience and cost estimates.

Cost of Rentals

For theater systems and other equipment subject to an operating lease or placed in a theater operators' venue under a joint revenue sharing arrangement, the cost of equipment is included within property, plant and equipment. Depreciation and impairment losses, if any, are included in cost of rentals based on the accounting policy set out in note 2(h). Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled \$2.1 million in 2010 (2009 — \$1.6 million, 2008 — \$1.0 million). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled \$2.1 million in 2010 (2009 — \$1.8 million, 2008 — \$0.8 million).

Terminations, Consensual Buyouts and Concessions

The Company enters into theater system arrangements with customers that contain customer payment obligations prior to the scheduled installation of the theater system. During the period of time between signing and the installation of the theater system, which may extend several years, certain customers may be unable to, or 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. 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 fair value 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.

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 Topic of the FASB ASC. Free products and services are accounted for as separate units of accounting. Other

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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. Film exploitation costs, including advertising and marketing totaled \$2.1 million in 2010 (2009 — \$1.6 million, 2008 — \$0.9 million) and are recorded in costs and expenses applicable to revenues-services as incurred.

Revenue from film production services where the Company does not hold the associated distribution rights are recognized in Services revenues when performance of the contractual service is complete, provided there is persuasive evidence of an agreement, the fee is fixed or determinable and 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 revenue 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 exploitation costs, including advertising and marketing, totaled \$0.7 million in 2010 (2009 — \$0.8 million, 2008 — \$0.7 million) and are recorded in costs and expenses applicable to revenues-services as incurred.

Film Post-Production Services

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

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

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

(o) Research and Development

Research and development costs are expensed as incurred and primarily include projector and sound parts, labor, consulting fees, allocation of overheads and other related materials which pertain to the Company's development of ongoing product and services.

(p) 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.

(q) Stock-Based Compensation

The Company's stock-based compensation is recognized in accordance with the FASB ASC Topic 505, "Equity" and Topic 718, "Compensation-Stock Compensation."

The Company estimates the fair value of employee stock-based payment awards on the date of grant using fair value measurement techniques such as an option-pricing model. The value of the portion of the employee award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations.

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 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. See note 15(c) for the assumptions used to determine the fair value of stock-based payment awards.

Stock-based compensation expense includes compensation cost for new employee stock-based payment awards granted and employee awards modified, repurchased or cancelled. In addition, compensation expense includes the compensation cost, based on the

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grant-date fair value calculated for pro forma disclosures under Topic 718, for the portion of awards for which required service had not been rendered that were outstanding. Compensation expense for these employee awards is recognized using the straight-line single-option method. As stock-based compensation expense recognized after January 1, 2006 is based on awards ultimately expected to vest, it has been adjusted for estimated forfeitures. The Codification requires forfeitures to be estimated at the time of grant and revised, if subsequent information indicates that the actual forfeitures are likely to be different from previous estimates. The Company utilizes the market yield on U.S. treasury securities (also known as nominal rate) over the contractual term of the instrument being issued.

Stock Option Plan

As the Company stratifies its employees into homogeneous groups in order to calculate fair value under the Binomial Model, ranges of assumptions used are presented for expected option life and annual termination probability. The Company uses historical data to estimate option exercise and employee termination within the valuation model; various groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected volatility rate is estimated based on a blended volatility method which takes into consideration the Company's historical share price volatility, the Company's implied volatility which is implied by the observed current market prices of the Company's traded options and the Company's peer group volatility. The Company utilizes an expected term method to determine expected option life based on such data as vesting periods of awards, historical data that includes past exercise and post-vesting cancellations and stock price history.

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

Restricted Common Shares and Stock Appreciation Rights

The Company's restricted common shares and SARs have been classified as liabilities in accordance with Topic 505. The Company utilizes the Binomial Model to determine the value of these instruments settleable in cash.

Awards to Non-Employees

Stock-based awards for services provided by non-employees are accounted for based on the fair value of the services received or the stock-based award, whichever is more reliably determinable. If the fair value of the stock-based award is used, the fair value is measured at the date of the award and remeasured until the earlier of the date that the Company has a performance commitment from the non-employees, the date performance is completed, or the date the awards vest.

(r) Pension Plans and Postretirement Benefits

The Company has a defined benefit pension plan, the Supplemental Executive Retirement Plan (the "SERP"). As the Company's SERP is unfunded, as at December 31, 2010, a liability is recognized for the projected benefit obligation.

Assumptions used in computing the defined benefit obligations are reviewed annually by management in consultation with its actuaries and adjusted for current conditions. Actuarial gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefits cost are recognized as a component of other comprehensive income. Amounts recognized in accumulated other comprehensive income including unrecognized actuarial gains or losses and prior service costs are adjusted as they are subsequently recognized in the consolidated statement of operations as components of net periodic benefit cost. Prior service costs resulting from the pension plan inception or amendments are amortized over the expected future service life of the employees, cumulative actuarial gains and losses in excess of 10% of the projected benefit obligation are amortized over the expected average remaining service life of the employees, and current service costs are expensed when earned. The remaining weighted average future service life of the employee for the year ended December 31, 2010 was 2.0 years.

For defined contribution pension plans, amounts contributed by the Company are recorded as an expense.

A liability is recognized for the unfunded accumulated benefit obligation of the postretirement benefits plan. Assumptions used in computing the accumulated benefit obligation are reviewed by management in consultation with its actuaries and adjusted for current conditions. Current service cost is recognized as earned and actuarial gains and losses are recognized in the consolidated statement of operations immediately.

(s) Guarantees

The FASB ASC Guarantees Topic requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of certain guarantees. Disclosures as required under the accounting guidance have been included in note 14(m).

3. New Accounting Standards and Accounting Changes

Changes in Accounting Standards

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, “Accounting for Transfers of Financial Assets—an amendment to FASB Statement No. 140” (“SFAS 166”). SFAS 166 amends FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” (“SFAS 140”) to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement in transferred financial assets. It also removes the concept of qualifying special-purpose entities (“SPEs”) from SFAS 140 and removes the exception from applying FIN 46R to VIEs that are qualifying SPEs. SFAS 166 applies to all entities and is effective for the first annual reporting period beginning after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter, with earlier application prohibited. In December 2009, the FASB issued ASU No. 2009-16, “Accounting for Transfers of Financial Assets” (“ASU 2009-16”). The purpose of this ASU is to bring SFAS 166 into the Codification. The application of ASU 2009-16 did not have a material impact on the Company’s financial condition or results of operations.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”). SFAS 167 amends certain requirements of FIN 46R to improve financial reporting by enterprises involved with VIEs and provides more relevant and reliable information to users of financial statements. Specifically, SFAS 167 eliminates the quantitative approach previously required under FIN 46R for determining the primary beneficiary of a VIE. SFAS 167 has the same scope as FIN 46R, with the addition of entities previously considered qualifying SPEs and is effective for the first annual reporting period beginning after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter, with earlier application prohibited. In December 2009, the FASB issued ASU No. 2009-17, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” (“ASU 2009-17”). The purpose of this ASU is to bring SFAS 167 into the Codification. The application of ASU 2009-17 did not have a material impact on the Company’s financial condition or results of operations.

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 Level 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 21.

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 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 disclosure for earlier reporting periods that ended before initial adoption is encouraged but not required. However, 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 21(c).

Recently Issued FASB Accounting Standard Codification Updates

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 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. 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. Earlier application is permitted with required transition disclosures based on the period of adoption. The Company is currently evaluating the potential impact of ASU 2009-13 on its consolidated financial statements.

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. Earlier application is permitted with required transition disclosures based on the period of adoption. Both ASU 2009-13 and ASU 2009-14 must be adopted in the same period and must use the same transition disclosures. This standard will have no impact on the Company’s consolidated financial statements.

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. Early adoption is not permitted. This standard will have no impact on the Company’s consolidated financial statements.

During 2010, the FASB has issued several ASU’s — ASU No. 2010-01 through ASU No. 2010-29. Except for ASU No. 2010-06, ASU No. 2010-20 and ASU No. 2010-28 discussed above, the ASU’s entail technical corrections to existing guidance or affect guidance related to specialized industries or entities and therefore have minimal, if any, impact on the Company.

4. Lease Arrangements

(a) General Terms of Lease Arrangements

A number of the Company’s leases are classified as sales-type leases. Certain arrangements that are legal sales are also classified as sales-type leases as certain clauses within the arrangements limit transfer of title or provide the Company with conditional rights to the system. The customer’s rights under the Company’s lease arrangements are described in note 2(n). The Company classifies its lease arrangements at inception of the arrangement and, if required, after a modification of the lease arrangement, to determine whether they are sales-type leases or operating leases. Under the Company’s lease 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 lease terms are typically non-cancellable for 10 to 20 years with renewal provisions. Except for those sales arrangements that are classified as sales-type leases, the Company’s leases generally do not contain an automatic transfer of title at the end of the lease term. The Company’s lease arrangements do not contain a guarantee of residual value at the end of the lease 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 generally after the first year of the lease until the end of the lease term. The customer is responsible for obtaining insurance coverage for the theater systems commencing on the date specified in the arrangement’s shipping terms and ending on the date the theater systems are delivered back to the Company.

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The Company has assessed the nature of its joint revenue sharing arrangements and concluded that, based on the guidance in the Revenue Recognition Topic of the ASC, the arrangements contain a lease. 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 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.

(b) Financing Receivables

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

	As at December 31,	
	2010	2009
Gross minimum lease payments receivable	\$ 49,977	\$ 64,779
Unearned finance income	(15,158)	(18,939)
Minimum lease payments receivable	34,819	45,840
Accumulated allowance for uncollectible amounts	(4,838)	(5,734)
Net investment in leases	29,981	40,106
Gross financed sales receivables	62,127	32,526
Unearned finance income	(18,441)	(9,869)
Financed sales receivables	43,686	22,657
Accumulated allowance for uncollectible amounts	(66)	(178)
Net financed sales receivables	43,620	22,479
Total financing receivables	<u>\$ 73,601</u>	<u>\$ 62,585</u>
Net financed sales receivables due within one year	\$ 6,166	\$ 4,304
Net financed sales receivables due after one year	\$ 37,454	\$ 18,175

In 2010, the financed sales receivables had a weighted average effective interest rate of 8.8% (2009 — 9.4%).

(c) Contingent Fees

Contingent fees that meet the Company's revenue recognition policy, from customers under various arrangements, have been reported in revenue as follows:

	Years Ended December 31,		
	2010	2009	2008
Sales	\$ 1,629	\$ 406	\$ 285
Sales-type leases	1,970	1,717	1,730
Operating leases	1,616	1,483	1,681
Subtotal — sales, sales-type leases and operating leases	5,215	3,606	3,696
Joint revenue sharing arrangements	41,646	21,598	3,435
	<u>\$ 46,861</u>	<u>\$ 25,204</u>	<u>\$ 7,131</u>

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Future minimum rental payments receivable from operating and sales-type leases at December 31, 2010, for each of the next five years are as follows:

	<u>Operating Leases</u>	<u>Sales-Type Leases</u>
2011	\$ 2,041	\$ 6,597
2012	1,962	5,565
2013	1,834	5,316
2014	1,747	4,965
2015	1,736	4,563
Thereafter	6,896	19,479
Total	<u>\$ 16,216</u>	<u>\$ 46,485</u>

Total future minimum rental payments receivable from sales-type leases at December 31, 2010 exclude \$3.5 million which represents amounts billed but not yet received.

5. Inventories

	<u>As at December 31,</u>	
	<u>2010</u>	<u>2009</u>
Raw materials	\$ 4,693	\$ 4,045
Work-in-process	2,293	983
Finished goods	8,289	5,243
	<u>\$ 15,275</u>	<u>\$ 10,271</u>

At December 31, 2010, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$3.2 million (December 31, 2009 — \$1.6 million).

Inventories at December 31, 2010 include provisions for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of \$4.4 million (December 31, 2009 — \$3.8 million).

6. Film Assets

	<u>As at December 31,</u>	
	<u>2010</u>	<u>2009</u>
Completed and released films, net of accumulated amortization of \$38,914 (2009 — \$28,015)	\$ 1,704	\$ 1,897
Films in production	532	1,136
Films in development	213	185
	<u>\$ 2,449</u>	<u>\$ 3,218</u>

The Company expects to amortize film costs of \$1.6 million for released films within three years from December 31, 2010 (December 31, 2009 — \$1.7 million). The amount of participation payments to third parties related to these films that the Company expects to pay during 2011 is \$7.4 million (2010 — \$5.0 million).

7. Property, Plant and Equipment

	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>

	As at December 31, 2009		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾	\$ 68,349	\$ 30,240	\$ 38,109
Camera equipment ⁽⁵⁾	5,954	5,954	—
	<u>74,303</u>	<u>36,194</u>	<u>38,109</u>
Assets under construction ⁽³⁾	3,700	—	3,700
Other property, plant and equipment			
Land	1,593	—	1,593
Buildings	14,723	8,404	6,319
Office and production equipment ⁽⁴⁾	27,145	24,347	2,798
Leasehold improvements	8,421	6,120	2,301
	<u>51,882</u>	<u>38,871</u>	<u>13,011</u>
	<u>\$ 129,885</u>	<u>\$ 75,065</u>	<u>\$ 54,820</u>

- (1) Included in theater system components are assets with costs of \$19.9 million (2009 — \$21.3 million) and accumulated depreciation of \$19.0 million (2009 — \$20.2 million) that are leased to customers under operating leases.
- (2) Included in theater system components are assets with costs of \$62.8 million (2009 — \$42.7 million) and accumulated depreciation of \$12.0 million (2009 — \$6.7 million) that are used in joint revenue sharing arrangements.
- (3) Included in assets under construction are components with costs of \$6.2 million (2009 — \$3.1 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 \$1.5 million (2009 — \$1.5 million) and accumulated depreciation of \$1.4 million (2009 — \$1.3 million).
- (5) Fully amortized camera equipment is still in use by the Company.

8. Other Assets

	As at December 31,	
	2010	2009
Cash surrender value of life insurance policies	\$ —	\$ 7,313
Commissions and other deferred selling expenses	3,349	2,828
Deferred charges on debt financing	1,174	1,489
Insurance recoveries	1,896	2,053
Foreign currency derivatives	1,913	1,389
Shelf registration fees	—	68
Investment in new business ventures	1,500	—
Equity-accounted investments	1,643	—
Other	875	—
	<u>\$ 12,350</u>	<u>\$ 15,140</u>

9. Income Taxes

(a) Earnings (loss) from continuing operations before income taxes by tax jurisdiction are comprised of the following:

	Years Ended December 31,		
	2010	2009	2008
Canada	\$ 47,954	\$ 4,833	\$(42,285)
United States	2,088	497	7,723
Other	(554)	141	1,144
	<u>\$ 49,488</u>	<u>\$ 5,471</u>	<u>\$ (33,418)</u>

(b) The (provision) recovery for income taxes related to income (loss) from continuing operations is comprised of the following:

	Years Ended December 31,		
	2010	2009	2008
Current:			
Canada	\$ (1,027)	\$ (104)	\$ (865)
Foreign	(1,465)	(162)	24
	<u>(2,492)</u>	<u>(266)</u>	<u>(841)</u>
Deferred:⁽¹⁾			
Canada	49,612	(8)	749
Foreign	4,664	—	—
	<u>54,276</u>	<u>(8)</u>	<u>749</u>
	<u>\$ 51,784</u>	<u>\$ (274)</u>	<u>\$ (92)</u>

(1) For the year ended December 31, 2010 the Company has 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. Offsetting this recovery for income taxes is the deferred tax provision related to a partial pension settlement reclassified from other comprehensive income in the year of \$0.5 million.

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(c) The (provision for) recovery of income taxes from continuing operations differs from the amount that would have resulted by applying the combined Canadian federal and provincial statutory income tax rates to earnings (losses) due to the following:

	Years Ended December 31,		
	2010	2009 ⁽¹⁾	2008 ⁽¹⁾
Income tax (provision) recovery at combined statutory rates	\$ (15,343)	\$ (1,806)	\$ 11,225
Adjustments resulting from:			
Non-taxable portion of capital gains and losses	—	142	—
Non-deductible stock based compensation	(1,713)	(704)	(467)
Other non-deductible/non-includable items	420	14	(131)
Decrease (increase) in valuation allowance relating to current year temporary differences	12,708	(7,327)	(11,560)
Decrease in valuation allowance relating to reversal of future temporary differences	54,793	—	—
Tax effect of pension settlement reclassified from other comprehensive income	(517)	—	—
Withholding and other taxes	(1,041)	(490)	(455)
Changes to tax reserves	13	413	(323)
US federal and state taxes	(1,465)	(107)	88
Income tax at different rates in foreign and other provincial jurisdictions	(374)	(76)	(648)
Impact of changes in future enacted tax rates on current year temporary differences	4,444	(259)	(1,877)
Carryforward of investment and other tax credits (non-refundable)	1,642	819	883
Effect of changes in legislation relating to enacted tax rate reductions	—	(3,652)	—
Effect of changes in legislation relating to foreign currency election	—	14,147	—
Effect of changes in legislation relating to tax credits	—	928	511
Changes to deferred tax assets and liabilities resulting from audit and other tax return adjustments	14	(2,216)	1,435
Expiration of losses and credits carried forward	(1,558)	(7)	(549)
Changes to deferred tax assets and liabilities resulting from foreign exchange	—	6	1,911
Tax effect of loss from equity-accounted investments	168	—	—
Other	(407)	(99)	(135)
Recovery (provision) for income taxes, as reported	<u>\$ 51,784</u>	<u>\$ (274)</u>	<u>\$ (92)</u>

(1) Prior years' comparatives have been restated to conform to the current year's presentation.

(d) The net deferred income tax asset is comprised of the following:

	As at December 31,	
	2010	2009
Net operating loss carryforwards	\$ 16,245	\$ 19,404
Investment tax credit and other tax credit carryforwards	4,837	5,186
Write-downs of other assets	651	651
Excess tax over accounting basis in property, plant and equipment and inventories	36,373	45,941
Accrued pension liability	4,799	7,887
Other accrued reserves	8,133	6,134
Total deferred income tax assets	71,038	85,203
Income recognition on net investment in leases	(6,167)	(7,639)
Other	180	(284)
Valuation allowance	(7,929)	(77,280)
Net deferred income tax asset	<u>\$ 57,122</u>	<u>\$ —</u>

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The gross deferred tax assets include a liability of \$0.1 million relating to the remaining tax effect resulting from the Company's defined benefit pension plan, the related actuarial gains and losses, and unrealized net gains on derivative instruments recorded in accumulated other comprehensive income.

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

(e) Estimated net operating loss carryforwards and estimated tax credit carryforwards expire as follows:

	Investment Tax Credits and Other Tax Credit Carryforwards	Net Operating Loss Carryforwards
2011	\$ —	\$ —
2012	—	—
2013	393	—
2014	—	9
2015	—	16
Thereafter	<u>5,742</u>	<u>53,207</u>
	<u>\$ 6,135</u>	<u>\$ 53,232</u>

Estimated net operating loss carryforwards can be carried forward to reduce taxable income through to 2021. Investment tax credits and other tax credits can be carried forward to reduce income taxes payable through to 2030.

As at December 31, 2010, the Company had approximately \$21.7 million of U.S. consolidated federal tax net operating loss carryforwards and certain state tax net loss carryforwards. Realization of some or all of the benefit from these U.S. net tax operating losses is dependent on the absence of certain "ownership changes" of the Company's common shares. An "ownership change," as defined in the applicable federal income tax rules, would place possible limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income that the Company may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could significantly reduce or effectively eliminate the Company's ability to use its U.S. net operating losses to offset any future taxable income.

(f) Valuation allowance

Based on the improvement of the Company's operating results in 2009 and 2010 and the Company's assessment of projected future results of operations, it was determined that realization of a deferred income tax benefit was more likely than not. As a result, the judgment about the need for a full valuation allowance against deferred tax assets has changed, and a reduction in the valuation allowance has been recorded as a benefit within the recovery for income taxes from continuing operations. The recovery for income taxes in the year ended December 31, 2010 includes a net income tax benefit of \$54.8 million in continuing operations related to a decrease in the valuation allowance for the Company's deferred tax assets and other tax adjustments. The net deferred income tax benefit during the year ended December 31, 2010 is primarily attributable to the estimated realization of deferred tax assets resulting from the utilization of future deductible temporary differences and certain net operating loss carryforwards and tax credits against future years' taxable income. The Company also utilized an additional \$12.7 million in tax benefits against current year income. During the year ended December 31, 2010, after considering all available evidence, both positive (including recent profits, projected future profitability, backlog, carryforward periods for utilization of net operating loss carryovers and tax credits, discretionary deductions and other factors) and negative (including cumulative losses in past years and other factors), it was concluded that the valuation allowance against the Company's deferred tax assets should be reduced by approximately \$54.8 million. The remaining \$7.9 million balance in the valuation allowance as at December 31, 2010 is primarily attributable to certain U.S. federal and state net operating loss carryovers and federal tax credits that are likely to expire unutilized.

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(g) Uncertain tax positions

In connection with the Company's adoption of FIN 48, as of January 1, 2007, the Company recorded a net increase to its deficit of \$2.1 million (including approximately \$0.9 million related to accrued interest and penalties) related to the measurement of potential international withholding tax requirements and a decrease in reserves for income taxes. As at December 31, 2010 and December 31, 2009, the Company had total unrecognized tax benefits (including interest and penalties) of \$4.4 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, provincial, state 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.

A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and penalties) is as follows:

(In thousands of U.S. Dollars)

Balance at January 1, 2010	\$ 3,237
Additions based on tax positions related to the current year	410
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	(10)
Settlements	—
Reductions resulting from lapse of applicable statute of limitations	(418)
Balance at December 31, 2010	<u>\$ 3,219</u>

Consistent with its historical financial reporting, the Company has classified interest and penalties related to income tax liabilities, when applicable, as part of interest expense in its consolidated statements of operations rather than income tax expense. The Company recognized approximately \$nil and \$0.1 million in potential interest and penalties associated with unrecognized tax benefits for the years ended December 31, 2010 and December 31, 2009, respectively.

The number of years with open tax audits varies depending on the tax jurisdiction. The Company's major taxing jurisdictions include Canada, the province of Ontario and the United States (including multiple states).

The Company's 2004 through 2010 tax years remain subject to examination by the IRS for U.S. federal tax purposes, and the 2006 through 2010 tax years remain subject to examination by the appropriate governmental agencies for Canadian federal tax purposes. There are other on-going audits in various other jurisdictions that are not material to the financial statements.

10. Other Intangible Assets

	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>
	As at December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 6,543	\$ 4,452	\$ 2,091
Intellectual property rights	100	49	51
Other	250	250	—
	<u>\$ 6,893</u>	<u>\$ 4,751</u>	<u>\$ 2,142</u>

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

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During 2010, the Company acquired \$0.8 million in patents and trademarks. The net book value of these patents and trademarks was \$0.8 million as at December 31, 2010. The weighted average amortization period for these additions was 10 years.

During 2010, the Company disposed of its remaining intellectual property rights. The net book value of these intellectual property rights was \$0.1 million as at December 31, 2009.

During 2010, the Company incurred costs of \$0.1 million to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses.

11. Senior Notes due December 2010

In 2009, the Company repurchased all \$160.0 million aggregate principal amount of its outstanding 9.625% Senior Notes due December 1, 2010, which represented the aggregate principal amount outstanding. The Company paid cash of \$159.1 million to reacquire its bonds, thereby releasing the Company from further obligations to various holders under the Indenture governing the Senior Notes. The Company accounted for the bond repurchase in accordance with the Debt Topic of the FASB ASC whereby the net carrying amount of the debt extinguished was the face value of the bonds adjusted for any unamortized premium, discount and costs of issuance, which resulted in a loss of \$0.6 million in 2009.

12. Credit Facility

On November 16, 2009, the Company amended and restated the terms of its senior secured credit facility, which had been scheduled to mature on October 31, 2010. The amended and restated facility, as further amended by the parties on January 21, 2011 (the "Credit Facility"), with a scheduled maturity of October 31, 2013, has a maximum borrowing capacity of \$75.0 million, consisting of a revolving loan facility subject to a borrowing base calculation (as described below) and including a sublimit of \$20.0 million for letters of credit and a term loan of \$35.0 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 Amended and Restated Credit Agreement (the "Credit Agreement"), dated November 16, 2009, between the Company; Wells Fargo Capital Finance Corporation Canada (formerly Wachovia 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 portion of the Credit Facility permits maximum aggregate borrowings equal to the lesser of:

(i) \$40.0 million, and

(ii) a collateral calculation based on the percentages of the book values 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. It is also reduced by the settlement risk on its foreign currency forward contracts when the notional value exceeds the fair value of the forward contracts.

The revolving portion of the Credit Facility bears interest at either (i) LIBOR plus a margin of 2.75% per annum, or (ii) Wells Fargo's prime rate plus a margin of 1.25% per annum, at the Company's option. The term loan portion of the Credit Facility bears interest at the Company's option, at either (i) LIBOR plus a margin of 3.75% per annum, or (ii) Wells Fargo's prime rate plus a margin of 2.25% per annum. Under the Credit Facility, the effective interest rate for the year ended December 31, 2010 for the term loan portion was 4.06% (2009 — 4.09%) and 3.56% for the revolving portion (2009 — 2.29%).

The Credit Facility provides that so long as the term loan remains outstanding, the Company will be required to maintain: (i) 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 through December 31, 2010, and (ii) a ratio of funded debt to EBITDA of not more than 1.75:1 thereafter. If the Company repays the term loan in full, it will remain subject to such ratio requirements only if Excess Availability (as defined in the Credit Agreement) is less than \$10.0 million or Cash and Excess Availability (as defined in the Credit Agreement) is less than \$15.0 million. If Cash and Excess Availability is less than \$25.0 million,

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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; provided, however, that if the Company repays the term loan in full, it will remain subject to such ratio requirement only if Excess Availability is less than \$10.0 million or Cash and Excess Availability is less than \$15.0 million. 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 \$45.0 million and \$75.4 million at December 31, 2010, respectively. The Company was in compliance with all of these requirements at December 31, 2010.

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 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:

	December 31, 2010	December 31, 2009
Term Loan	\$ 17,500	\$ 35,000
Revolving Credit Facility	—	15,000
	<u>\$ 17,500</u>	<u>\$ 50,000</u>

During 2010, the Company repaid \$15.0 million of its remaining outstanding indebtedness under the revolving portion of the Credit Facility and \$17.5 million of its term loan. Total amounts drawn and available under the Credit Facility at December 31, 2010, were \$17.5 million and \$40.0 million, respectively (December 31, 2009 — \$50.0 million and \$24.8 million, respectively).

At December 31, 2010, the Company's current borrowing capacity under the revolving portion of the Credit Facility was \$40.0 million after deduction for the minimum Excess Availability reserve of \$5.0 million. Outstanding borrowings and letters of credit and advance payment guarantees were \$nil as at December 31, 2010. At December 31, 2009, the borrowing capacity was \$24.8 million after deduction for outstanding borrowings of \$15.0 million, letters of credit and advanced payment guarantees of \$0.3 million and the minimum Excess Availability reserve of \$5.0 million.

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

2011	\$ 11,667
2012	5,833
2013	—
2014	—
2015	—
Thereafter	—
	<u>\$ 17,500</u>

Wells Fargo Foreign Exchange Facility

Within the Credit Facility entered into on November 16, 2009, 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 December 31, 2010 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 \$8.5 million is remaining.

[Table of Contents](#)*Bank of Montreal Facilities*

As at December 31, 2010, the Company has available a \$10.0 million facility (December 31, 2009 — \$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 December 31, 2010, the Company has letters of credit outstanding of \$2.4 million (2009 — \$3.6 million) under the Bank of Montreal Facility.

During 2009, the Company had available a \$5.0 million facility solely used to cover the Company’s settlement risk on its purchased foreign currency forward contracts entered into prior to December 2009. The facility was fully insured by EDC. As at December 31, 2010, all of the foreign currency contracts subject to the \$5.0 million facility have matured and the facility is no longer available to the Company. The settlement risk on its foreign currency forward contracts was \$nil on December 31, 2009 as the fair value exceeded the notional value of the forward contracts.

13. 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 under operating leases are as follows:

	<u>Operating Leases</u>	<u>Capital Leases</u>
2011	\$ 5,673	\$ 27
2012	5,390	23
2013	2,064	20
2014	879	—
2015	490	—
Thereafter	1,757	—
	<u>\$ 16,253</u>	<u>\$ 70</u>

Rent expense was \$4.8 million for 2010 (2009 — \$4.9 million, 2008 — \$5.1 million) net of sublease rental of \$0.4 million (2009 — \$0.4 million, 2008 — \$0.2 million).

Recorded in the accrued liabilities balance as at December 31, 2010 is \$4.2 million (December 31, 2009 — \$5.0 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 December 31, 2010 were \$13.6 million (December 31, 2009 — \$9.3 million).

(b) As at December 31, 2010 the Company has letters of credit and advance payment guarantees secured by the Credit Facility of \$nil (December 31, 2009 — \$0.3 million) outstanding. As at December 31, 2010 the Company also has letters of credit outstanding of \$2.4 million as compared to \$3.6 million as at December 31, 2009, 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 December 31, 2010, \$1.5 million (December 31, 2009—\$0.6 million) of commissions have been accrued and will be payable in future periods.

14. 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.

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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-CITI Entertainment (I) PVT Limited (“E-Citi”), seeking damages as a result of E-Citi’s breach of a September 2000 lease agreement. An arbitration hearing took place in November 2005 against E-Citi 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 \$11,309,496, 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.

(c) In June 2004, 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 between Robots’ predecessor-in-interest and a subsidiary of the Company (Ridefilm), asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with the contract. Robots is seeking an award of contingent compensation that it claims is owed under two production agreements, damages for tort claims, and punitive damages. The arbitration hearing of this matter occurred in June and October 2009. The parties are currently awaiting a final award from the arbitrator. The Company believes the amount of loss, if any, that may be suffered in connection with this proceeding, will 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 such arbitration.

(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

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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 Stoja 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. The lawsuit is at an early stage and as a result 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 binding conclusions on the factual or legal merits of the claim. The Company has brought a motion seeking Court approval to appeal those decisions and it is not known when the Ontario court will release a decision on that motion. 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 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.

(f) On September 7, 2007, Catalyst Fund Limited Partnership II ("Catalyst"), a holder of the Company's Senior Notes, commenced an application against the Company in the Ontario Superior Court of Justice for a declaration of oppression pursuant to sections 229 and 241 of the Canada Business Corporations Act (the "CBCA") and for a declaration that the Company is in default of the Indenture governing its now retired Senior Notes. In its application against the Company, Catalyst challenged the validity of the consent solicitation through which the Company requested and obtained a waiver of any and all defaults arising from a failure to comply with the reporting covenant under the Indenture and alleged common law fraud. On September 26, 2008, on the Company's motion, the Ontario Superior Court stayed Catalyst's application in Canada on the basis of Catalyst having brought similar claims against the Company in the State of New York, and ordered Catalyst to pay the Company's costs associated with the motion. On April 27, 2009, the Supreme Court of the State of New York disposed of Catalyst's claims against the Company in the State of New York (see note 14(g) for additional information). The time for Catalyst to appeal the dismissal of its claim by the New York court expired on February 8, 2010, without Catalyst perfecting an appeal.

(g) In a related matter, on December 21, 2007, U.S. Bank National Association, trustee under the Indenture, filed a complaint in the Supreme Court of the State of New York against the Company and Catalyst, requesting a declaration that the theory of default asserted by Catalyst before the Ontario Superior Court of Justice is without merit and further that Catalyst has failed to satisfy certain prerequisites to bondholder action, which are contained in the Indenture (the "U.S. Bank Action"). On February 22, 2008, Catalyst served a Verified Answer to the U.S. Bank Action and filed several cross-claims (the "Cross-Claims") against the Company in the same proceeding. On January 16, 2009, the Company moved for summary judgment, seeking a ruling that the Company satisfied the terms of the declaratory relief requested by the Trustee and the dismissal of the Cross-Claims. On April 27, 2009, the Court granted the Company's motion for summary judgment, disposing of the Cross-Claims. On May 7, 2009, Catalyst filed a notice preserving for a period of nine months its right to appeal the Court's ruling on summary judgment. The time for Catalyst to perfect its appeal has now expired.

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(h) On November 4, 2009, Cinemark USA, Inc. (“Cinemark”) filed a complaint in the United States District Court for the Eastern District of Texas against the Company seeking a declaratory judgment that Cinemark is not infringing certain of the Company’s patents related to theater geometry and that such patents are invalid. On December 22, 2010, the Company and Cinemark entered into a Settlement Agreement in which they agreed to dismiss the Texas action with prejudice. As part of the settlement, the Company and Cinemark also agreed to enter into a purchase agreement pursuant to which Cinemark agreed to purchase two IMAX digital theater systems and to upgrade six of its IMAX film-based theaters to IMAX digital theaters. On January 13, 2011, the Court granted the parties’ joint motion to dismiss with prejudice.

(i) On November 12, 2009, the Company filed a complaint in the Supreme Court of New York against Cinemark alleging breach of contract, fraud, tortious interference with existing and prospective economic relations, breach of the implied warranty of good faith and fair dealing, misappropriation of trade secrets, unjust enrichment and deliberate acts of bad faith in connection with the introduction and operation of a new Cinemark theater prototype. The lawsuit was removed to federal court in New York and the tort claims were dismissed without prejudice to the Company’s right to replead those claims. On December 22, 2010, the Company and Cinemark entered into a Settlement Agreement in which they agreed to dismiss the New York action with prejudice. As part of the settlement, the Company and Cinemark also agreed to enter into a purchase agreement pursuant to which Cinemark agreed to purchase two IMAX digital theater systems and to upgrade six of its IMAX film-based theaters to IMAX digital theaters. On January 4, 2011, the Company filed a voluntary stipulation of dismissal. The matter is now closed.

(j) 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 suit 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.

(k) Since June 2006, the Company has been subject to ongoing informal inquiries by the SEC and the OSC. On or about September 3, 2010, the SEC issued a formal order of investigation in connection with its inquiry. The Company has been cooperating with these inquiries and will continue to cooperate with the SEC’s investigation. The Company believes that the inquiry and investigation principally relate to the timing of recognition of the Company’s theater system installation revenue in 2005 and related matters. Although the Company cannot predict the timing of developments and outcomes in these inquiries, they could result at any time in developments (including charges or settlement of charges) that could have material adverse effects on the Company. These effects could include payments of fines or disgorgement or other relief with respect to the Company or its officers or employees that could be material to the Company. Such developments could also have an adverse effect on the Company’s defense of the class action lawsuits referred to above.

(l) 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.

(m) 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 consolidated balance sheet:

	As at December 31,	
	2010	2009
Balance at the beginning of the year	\$ 36	\$ 33
Warranty redemptions	(87)	(41)
Warranties issued	211	115
Revisions	—	(71)
Balance at the end of the year	<u>\$ 160</u>	<u>\$ 36</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 could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the consolidated balance sheet as at December 31, 2010 and December 31, 2009 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. During the second quarter of 2009, the Company provided an indemnity to a third party in connection with a terminated service arrangement. Historically, the Company has not made any significant payments under such indemnifications and less than \$0.1 million has been accrued in the consolidated financial statements with respect to the contingent aspect of these indemnities.

15. 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) Changes during the Year

In 2010, the Company issued 1,313,599 (2009 — 1,306,637, 2008 — 341,110) common shares pursuant to the exercise of stock options for cash proceeds of \$8.3 million (2009 — \$6.3 million, 2008 — \$1.2 million).

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On June 5, 2009 and August 17, 2009, the Company completed public offerings of 9,800,000 and 5,882,353 common shares, respectively, pursuant to a registration statement declared effective by the SEC. On June 26, 2009 and August 31, 2009, the Company completed the sale of an additional 1,470,000 and 882,353 common shares, respectively, pursuant to the over-allotment options exercised in full by the underwriter of the offerings. The 11,270,000 common shares sold in the June offerings were sold at a public offering price of \$7.15. The 6,764,706 common shares sold in the August offerings were sold at a public offering price of \$8.50. The aggregate net proceeds of the offerings in 2009 was \$130.7 million. The Company used the proceeds of the offerings for the repayment of debt, including a portion of the Senior Notes, and for general corporate purposes.

(c) Stock-Based Compensation

The Company has five stock-based compensation plans that are described below. The compensation costs recorded in the consolidated statement of operations for these plans were \$27.7 million in 2010 (2009 — \$17.7 million, 2008 — \$1.5 million). Total stock-based compensation expense related to nonvested employee stock-based payment awards not yet recognized at December 31, 2010 and the weighted average period over which the awards are expected to be recognized is \$18.0 million and 2.7 years, respectively (2009 — \$6.8 million and 3.8 years, 2008 — \$4.5 million and 3.2 years).

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 \$4.1 million in 2010 (2009 — \$2.1 million, 2008 — \$0.9 million), related to grants issued to employees and directors in the plan. No income tax benefit is recorded in the 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 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 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 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 and directors in 2010 at the measurement date was \$8.01 per share (2009 — \$4.45 per share, 2008 — \$1.72 per share). For the years ended December 31, the following assumptions were used:

	2010	2009	2008
Average risk-free interest rate	3.18%	3.14%	2.68%
Expected option life (in years)	2.82 - 5.41	4.94 - 5.85	3.49 - 5.85
Expected volatility	50% - 61%	62%	61% - 62%
Annual termination probability	0% - 9.69%	0% - 10.30%	9.52% - 11.20%
Dividend yield	0%	0%	0%

As at December 31, 2010, the Company has reserved a total of 12,829,115 (December 31, 2009— 12,566,395) common shares for future issuance under the Stock Option Plan, of which options in respect of 6,743,272 common shares are outstanding December 31, 2010. 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 NYSE, 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 December 31, 2010, options in respect of 3,090,755 common shares were vested and exercisable.

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The following table summarizes certain information in respect of all option activity under the Stock Option Plan:

	Number of Shares			Weighted Average Exercise Price Per Share		
	2010	2009	2008	2010	2009	2008
	Options outstanding, beginning of year	6,173,795	6,686,182	5,908,080	\$ 6.52	\$ 5.97
Granted	2,001,703	1,051,217	1,472,038	21.72	10.00	4.47
Exercised	(1,313,599)	(1,306,637)	(341,110)	6.30	4.85	3.52
Forfeited	(23,825)	(35,488)	(84,608)	8.35	6.48	5.83
Expired	(94,802)	(212,229)	(158,000)	26.08	16.18	23.95
Cancelled	—	(9,250)	(110,218)	—	18.51	7.51
Options outstanding, end of period	<u>6,743,272</u>	<u>6,173,795</u>	<u>6,686,182</u>	10.79	6.52	5.97
Options exercisable, end of period	<u>3,090,755</u>	<u>3,618,618</u>	<u>4,451,715</u>	5.64	6.22	6.50

In 2010, the Company did not cancel any stock options from its Stock Option Plan (2009 — 9,250, 2008 — 110,218) surrendered by Company employees. Compensation cost which is fully recognized at the cancellation date was not reversed for options cancelled in 2009 and 2008.

As at December 31, 2010, 6,325,114 options were fully vested or are expected to vest with a weighted average exercise price of \$10.83, aggregate intrinsic value of \$109.2 million and weighted average remaining contractual life of 4.9 years. As at December 31, 2010, options that are exercisable have an intrinsic value of \$69.3 million and a weighted average remaining contractual life of 3.1 years. The intrinsic value of options exercised in 2010 was \$15.0 million (2009 — \$5.8 million, 2008 — \$1.2 million).

Options to Non-Employees

During 2010, an aggregate of 135,217 (2009 — 100,000, 2008 — 119,875) common share options to purchase the Company's common stock with an average exercise price of \$15.92 (2009 — \$4.05, 2008 — \$4.50) were granted to certain advisors and strategic partners of the Company. Of these grants, 20,000 common share options are subject to vesting based on a performance commitment which has not been completed as at December 31, 2010 and no expense has been recorded. These options have a maximum contractual life of 10 years or less. The option vesting ranges from immediately to five years. These options were granted under the Stock Option Plan.

As at December 31, 2010 non-employee options outstanding amounted to 132,168 options (2009 — 219,768, 2008 — 323,314) with a weighted average exercise price of \$13.53 (2009 — \$7.05, 2008 — \$6.33). 4,500 options (2009 — 154,434, 2008 — 296,584) were exercisable with an average weighted exercise price of \$14.60 (2009 — \$8.31, 2008 — \$6.49) and the vested options have an aggregate intrinsic value of \$0.1 million (2009 — \$0.8 million, 2008 — \$nil). The weighted average fair value of options granted to non-employees during 2010 at the measurement date was \$12.71 per share (2009 — \$2.34 per share, 2008 — \$2.58 per share), utilizing a Binomial Model with the following underlying assumptions:

	Years Ended December 31		
	2010	2009	2007
Average risk-free interest rate	2.09%	2.03%	1.71%
Contractual option life	1.70 - 6.25 years	6 years	6 years
Average expected volatility	50% - 61%	62%	62%
Dividend yield	0%	0%	0%

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In 2010, the Company recorded a charge of \$1.8 million, (2009 — \$0.2 million 2008 — \$0.6 million) to costs and expenses applicable to revenues — services and selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is \$1.5 million for non-employee stock options granted or to be granted.

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 is 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 an expense of \$2.0 million in 2010 (2009 — \$1.4 million expense, 2008 — \$0.4 million recovery), due to the changes in the Company's stock price during the period. The aggregate intrinsic value of the awards outstanding at December 31, 2010 is \$nil (December 31, 2009 — \$2.1 million).

Stock Appreciation Rights

There were no stock appreciation rights ("SARs") granted during 2010 and 2009. During 2007, 2,280,000 SARs with a weighted average exercise price of \$6.20 per right were granted to certain Company executives. For the year ended December 31, 2010, 877,500 SARs were cash settled for \$10.3 million. The average exercise price for the settled SARs for the year ended December 31, 2010 was \$5.91 per SAR. As at December 31, 2010, 1,132,500 SARs were outstanding, of which 1,099,500 SARs were exercisable. None of the SARs were forfeited, cancelled, or expired for the years ended December 31, 2010 and 2009. The SARs vesting period ranges from immediately upon granting to 5 years, with a remaining contractual life ranging from 5.00 to 7.01 years as at December 31, 2010. The outstanding SARs had an average fair value of \$21.21 per right as at December 31, 2010 (December 31, 2009 — \$7.37). The Company accounts for the obligation of these SARs as a liability (December 31, 2010 — \$23.7 million, December 31, 2009 — \$14.1 million), which is classified within accrued liabilities. The Company has recorded a \$19.8 million expense for 2010 (2009 — \$14.0 million, 2008 — \$0.4 million) to selling, general and administrative expenses related to these SARs. The following assumptions were used for measuring the fair value of the SARs:

	As at December 31,	
	2010	2009
Average risk-free interest rate	0.65%	1.17%
Expected option life (in years)	0.24 to 2.51	0.15 to 3.48
Expected volatility	50% to 61%	62%
Annual termination probability	0% - 8.31%	0% - 9.69%
Dividend yield	0%	0%

Warrants

There were no warrants issued or outstanding during 2010 or 2009.

(d) Earnings (loss) per share

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

	Years Ended December 31,		
	2010	2009	2008
Net earnings (loss) from continuing operations applicable to common shareholders	\$ 100,779	\$ 5,197	\$ (33,510)
Weighted average number of common shares (000's):			
Issued and outstanding, beginning of period	62,831,974	43,490,631	40,423,074
Weighted average number of shares issued during the period	743,499	9,330,152	1,970,011
Weighted average number of shares used in computing basic earnings per share	63,575,473	52,820,783	42,393,085
Assumed exercise of stock options, net of shares assumed	3,108,130	1,697,358	—
Weighted average number of shares used in computing diluted earnings per share	66,683,603	54,518,141	42,393,085

The calculation of diluted earnings (loss) per share for 2008 excludes 1,206,050 shares that are issuable upon exercise of stock options, net of shares assumed as the impact of these exercises would be antidilutive.

16. Consolidated Statements of Operations Supplemental Information**(a) Other Revenues**

The Company enters into theater system arrangements with customers that typically contain customer payment obligations prior to the scheduled installation of the theater systems. During the period of time between signing and theater system installation, certain customers each year are 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 customer and/or the Company may terminate the arrangement by default or by entering into a consensual buyout. In these situations the parties are released from their future obligations under the arrangement, and the initial payments that the customer previously made to the Company are typically not refunded and are recognized as Other Revenues. In addition, the Company enters into agreements with customers to terminate their obligations for additional theater system configurations, which were in the Company's backlog. Included in Other Revenues are the following types of settlement arrangements:

	Years Ended December 31,		
	2010	2009	2008
Theater system configuration conversions	\$ —	\$ 136	\$ —
Consensual buyouts	400	1,726	881
	\$ 400	\$ 1,862	\$ 881

(b) Foreign Exchange

Included in selling, general and administrative expenses for the December 31, 2010 is a \$1.5 million gain, 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 gain of \$2.9 million for the year ended December 31, 2009 and a \$0.7 million expense for the year ended December 31, 2008, respectively. See note 21(d) for additional information.

(c) Collaborative Arrangements

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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 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 14 exhibitors for a total of 230 theater systems, of which 171 theaters were operating as at December 31, 2010, 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).

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Rentals revenue and for the December 31, 2010 amounted to \$41.8 million (2009 — \$21.6 million, 2008 — \$3.4 million).

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 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.

In 2010, 16 IMAX DMR films were exhibited through the IMAX theater network.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for December 31, 2010 amounted to \$63.5 million (2009 — \$35.6 million, 2008 — \$17.9 million).

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.

As at December 31, 2010, the Company has 2 significant co-produced film arrangements which make up greater than 50% of the VIE total assets and liabilities balance of \$11.1 million and 2 other co-produced film arrangements, the terms of which are similar.

In 2010, amounts totaling \$7.7 million (2009 — \$6.4 million, 2008 — \$3.8 million) 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.

17. Receivable Provisions, Net of Recoveries

	Years Ended December 31,		
	2010	2009	2008
Accounts receivable provisions, net of recoveries	\$ 499	\$ 127	\$ 382
Financing receivables, net of recoveries	944	940	1,595
Receivable provisions, net of recoveries	<u>\$ 1,443</u>	<u>\$ 1,067</u>	<u>\$ 1,977</u>

18. Asset Impairments

	Years Ended December 31,		
	2010	2009	2008
Property, plant and equipment	\$ 45	\$ 180	\$ —
Total	\$ 45	\$ 180	\$ —

The Company recorded an asset impairment charge of less than \$0.1 million against property, plant and equipment after the Company assessed the carrying value of certain groups in light of their future expected cash flows (2009 — \$0.2 million, 2008 — \$nil).

19. Consolidated Statements of Cash Flows Supplemental Information

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

	Years Ended December 31,		
	2010	2009	2008
Decrease (increase) in:			
Accounts receivable	\$ (2,423)	\$ (13,444)	\$ 1,944
Financing receivables	(11,874)	(7,162)	(199)
Inventories	(3,828)	10,082	837
Prepaid expenses	(223)	(686)	189
Commissions and other deferred selling expenses	(432)	708	(749)
Insurance recoveries	156	694	(122)
Other assets	(25)	—	—
Increase (decrease) in:			
Accounts payable	100	1,500	145
Accrued and other liabilities (1)	(25,823)	(42)	(2,487)
Deferred revenue	15,690	(13,535)	12,367
	<u>\$ (28,682)</u>	<u>\$ (21,885)</u>	<u>\$ 11,925</u>

(1) Decrease in accruals largely due to a payment of pension benefits in the amount of \$14.7 million and payments of \$14.5 million in variable stock-based compensation.

(b) Cash payments made on account of:

	Years Ended December 31,		
	2010	2009	2008
Income taxes	\$ 682	\$ 519	\$ 518
Interest	\$ 1,719	\$ 13,864	\$ 15,961

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

	Years Ended December 31,		
	2010	2009	2008
Film assets (1)	\$ 10,900	\$ 8,592	\$ 8,305
Property, plant and equipment			
Joint revenue sharing arrangements	5,315	4,625	3,512
Other property, plant and equipment	3,525	4,156	4,255
Other intangible assets	448	546	526
Other assets	7	—	—
Deferred financing costs	341	1,132	1,420
	<u>\$ 20,536</u>	<u>\$ 19,051</u>	<u>\$ 18,018</u>

(1) Included in film asset amortization is a charge of less than \$0.1 million (2009 — \$0.2 million, 2008 — \$2.1 million) relating to changes in estimates based on the ultimate recoverability of future films.

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

	Years Ended December 31,		
	2010	2009	2008
Asset impairments			
Property, plant and equipment(1)	\$ 45	\$ 180	\$ —
Other significant charges			
Accounts receivables	499	127	382
Financing receivables	944	1,377	1,595
Inventories(2)	998	897	2,489
Other intangible assets	65	—	—
	<u>\$ 2,551</u>	<u>\$ 2,581</u>	<u>\$ 4,466</u>
Inventory Charges			
Recorded in costs and expenses applicable to revenues — product & equip. sales	\$ 827	\$ 48	\$ 2,396
Recorded in costs and expenses applicable to revenues — services	172	849	93
	<u>\$ 999</u>	<u>\$ 897</u>	<u>\$ 2,489</u>

(1) The Company reclassified the owned and operated Vancouver and Tempe IMAX theaters' operations from continuing operations to discontinued operations as it does not anticipate having significant future cash flows from these theaters or any involvement in the day to day operations of these theaters.

(2) In 2010, the Company recorded a charge of \$1.0 million (2009 — \$0.9 million, 2008 — \$2.5 million, respectively) in costs and expenses applicable to revenues, primarily for its film-based projector inventories due to lower net realizable values resulting from the Company's development of a digital projection system. Specifically, IMAX systems includes inventory write-downs of \$0.8 million (2009 — less than \$0.1 million, 2008 — \$2.4 million). Theater system maintenance includes inventory write-downs of \$0.2 million (2009 — \$0.8 million, 2008 — \$0.1 million).

20. 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 other segment includes camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2.

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), interest revenue, 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.

(a) Operating Segments

	Years Ended December 31,		
	2010	2009	2008
Revenue⁽¹⁾			
IMAX systems	\$ 76,004	\$ 64,504	\$ 34,783
Theater system maintenance	21,444	18,246	16,331
Joint revenue sharing arrangements	41,757	21,598	3,435
Films			
Production and IMAX DMR	63,462	35,648	17,944
Distribution	17,937	12,365	9,559
Post-production	7,702	3,604	6,929
Theater operations ⁽²⁾	13,366	11,810	10,532
Other	6,942	3,436	3,205
Total	\$ 248,614	\$ 171,211	\$ 102,718
Gross margins			
IMAX systems ⁽³⁾⁽⁵⁾	\$ 43,983	35,516	18,374
Theater system maintenance ⁽³⁾	10,084	8,361	7,117
Joint revenue sharing arrangements ⁽⁴⁾⁽⁵⁾	31,703	13,261	(1,865)
Films			
Production and IMAX DMR ⁽⁵⁾	41,159	19,979	6,992
Distribution ⁽⁵⁾	5,205	2,147	3,120
Post-production	2,891	939	3,451
Theater operations ⁽²⁾	1,147	649	(39)
Other	1,480	700	403
Total	\$ 137,652	\$ 81,552	\$ 37,553

	Years Ended December 31,		
	2010	2009	2008
Depreciation and amortization			
IMAX systems	\$ 2,253	\$ 4,133	\$ 4,507
Theater systems maintenance	—	191	149
Joint revenue sharing arrangements	5,322	4,625	3,512
Films			
Production and IMAX DMR	10,360	9,338	9,040
Distribution	1,334	229	309
Post-production	588	456	416
Theater operations(2)	78	79	85
Other	54	—	—
Corporate and other non-segment specific assets	547	—	—
Total	\$ 20,536	\$ 19,051	\$ 18,018

	Years Ended December 31,		
	2010	2009	2008
Asset Impairments and Write-Downs, Net of Recoveries			
IMAX systems	\$ 2,271	\$ 1,734	\$ 4,373
Theater systems maintenance	171	847	93
Films			
Production and IMAX DMR	64	—	—
Theater operations(2)	45	—	—
Total	\$ 2,551	\$ 2,581	\$ 4,466

	Years Ended December 31,		
	2010	2009	2008
Purchase of property, plant and equipment			
IMAX systems	\$ 3,441	\$ 862	\$ 1,575
Theater system maintenance	18	12	22
Joint revenue sharing arrangements	21,275	25,072	18,478
Films			
Production and IMAX DMR	450	313	571
Distribution	90	63	114
Post-production	514	131	362
Theater operation	98	45	161
Other	443	—	—
Corporate and other non-segment specific assets	284	—	—
Total	\$ 26,613	\$ 26,498	\$ 21,283

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	As at December 31,	
	2010	2009
Assets		
IMAX systems	\$ 119,708	\$ 98,530 (6)
Theater system maintenance	13,548	12,415 (6)
Joint revenue sharing arrangements	81,376	62,812 (6)
Films		
Production and IMAX DMR	17,229	15,357
Distribution	5,313	5,688
Post-production	2,877	7,554
Theater operations	582	776
Other	1,785	1,864
Corporate and other non-segment specific assets	106,670	42,549
Total	<u>\$ 349,088</u>	<u>\$ 247,545</u>

-
- (1) The Company's two largest customers as at December 31, 2010 collectively represent 16.9% of total revenues (2009 — 14.5, 2008 — 4.9%).
- (2) In 2009, the Company closed its operated Vancouver and Tempe IMAX theaters and reclassified the operations from continuing operations to discontinued operations.
- (3) Includes a charge of \$1.0 million in 2010 (2009 — \$0.9 million, 2008 — \$2.5 million), in costs and expenses applicable to revenues, primarily for film-based projector inventories. Specifically, IMAX systems includes inventory write-downs of \$0.8 million in 2010 (2009 — less than \$0.1 million, 2008 — \$2.4 million). Theater system maintenance includes inventory write-downs of \$0.2 million in 2010 (2009 — \$0.8 million, 2008 — \$0.1 million).
- (4) The Company adjusted the estimated useful life of its IMAX digital projection systems in use for those joint revenue sharing theaters, on a prospective basis, to reflect the change in term from 7 years to 10 years. This resulted in decreased depreciation expense of \$1.0 million in 2010. Previously, the Company adjusted the estimated useful life of its film-based IMAX MPX projection systems in use by existing joint revenue sharing theaters, on a prospective basis, to reflect the Company's accelerated transition to a digital projection system for these theaters resulting in increased depreciation expense of less than \$0.1 million and \$1.5 million in 2009 and 2008, respectively.
- (5) IMAX systems includes commission costs of \$1.9 million, \$2.0 million and \$1.0 million in 2010, 2009 and 2008, respectively. Joint revenue sharing arrangements includes advertising, marketing, and selling costs of \$4.2 million, \$3.4 million and \$1.8 million in 2010, 2009 and 2008, respectively. Production and DMR includes marketing costs of \$2.1 million, \$1.6 million and \$0.9 million in 2010, 2009 and 2008, respectively. Distribution includes marketing costs of \$0.7 million, \$0.8 million and \$0.7 million in 2010, 2009 and 2008, respectively.
- (6) As a result of the classification of theater system maintenance and joint revenue sharing arrangement segments in 2008, goodwill was reallocated on a relative fair market value basis to the IMAX systems segment, theater system maintenance segment and joint revenue sharing arrangements segment. Goodwill had previously been wholly allocated to the IMAX systems segment.

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Revenue by geographic area is based on the location of the theater.

	Years Ended December 31,		
	2010	2009	2008
Revenue			
Canada	\$ 5,683	\$ 4,592	\$ 3,131
United States	168,781	106,715	66,390
Russia and the CIS	14,640	3,771	3,830
Western Europe	18,805	9,150	9,292
Rest of Europe	2,640	3,063	1,338
Asia (excluding China)	11,082	6,610	5,030
Greater China	17,604	17,907	3,861
Mexico	2,611	5,163	5,000
Rest of World	6,768	14,240	4,846
Total	<u>\$ 248,614</u>	<u>\$ 171,211</u>	<u>\$ 102,718</u>

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

	As at December 31,	
	2010	2009
Property, plant and equipment		
Canada	\$ 22,881	\$ 14,931
United States	42,756	35,358
Western Europe	2,679	1,030
Rest of Europe	656	698
Japan	3,220	1,553
Rest of World	1,843	1,250
Total	<u>\$ 74,035</u>	<u>\$ 54,820</u>

21. Financial Instruments**(a) Financial Instruments**

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

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

(b) Fair Value Measurements

The carrying values of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities due within one year approximate fair values due to the short-term maturity of these instruments. The Company's other financial instruments at December 31, are comprised of the following:

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Borrowings under Credit Facility	\$ 17,500	\$ 17,500	\$ 50,000	\$ 50,000
Financed sales receivable	\$ 43,620	\$ 43,615	\$ 22,479	\$ 22,745
Net investment in sales-type leases	\$ 29,981	\$ 32,613	\$ 40,106	\$ 40,910
Foreign exchange contracts — designated forwards	\$ 664	\$ 664	\$ 532	\$ 532
Foreign exchange contracts — non-designated forwards	\$ 1,249	\$ 1,249	\$ 857	\$ 857

The carrying value of borrowings under the Credit Facility approximates fair value as the interest rates offered under the Credit Facility are close to December 31, 2010 and 2009 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 December 31, 2010.

The estimated fair values of the 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 December 31, 2010 and 2009.

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) for identical instruments at the measurement date. These identical instruments are traded on a closed exchange.

(c) Financing Receivables

The Company’s net investment in leases and its financed sale receivables are subject to the disclosure requirements of ASC 310 “Receivables”. Due to differing risk profiles of its net investment in leases and its 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 December 31, 2010:

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	Net Investment in Leases	Net Financed Sales Receivables	Total
In good standing	\$26,839	\$ 42,528	\$69,367
Pre-approved transactions	2,939	649	3,588
Transactions suspended	5,041	509	5,550
	<u>\$ 34,819</u>	<u>\$ 43,686</u>	<u>\$ 78,505</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.

The Company's investment in financing receivables on nonaccrual status as at December 31, 2010 is as follows:

	Recorded Investment	Related Allowance
Net investment in leases	\$ 6,228	\$ (4,505)
Net financed sales receivables	251	(66)
Total	<u>\$ 6,479</u>	<u>\$ (4,571)</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 theater's past due accounts. Over 90 days past due is used by the Company as an indicator of potential impairment as invoices up to 90 days outstanding could be considered reasonable due to the time required for dispute resolution or for the provision of further information or supporting documentation to the customer.

The Company's aged financing receivables are as follows:

	Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 602	\$ 287	\$ 2,012	\$ 2,901	\$31,918	\$ 34,819	\$ (4,838)	\$ 29,981
Net financed sales receivables	646	349	366	1,361	42,325	43,686	(66)	43,620
Total	<u>\$ 1,248</u>	<u>\$ 636</u>	<u>\$ 2,378</u>	<u>\$ 4,262</u>	<u>\$ 74,243</u>	<u>\$ 78,505</u>	<u>\$ (4,904)</u>	<u>\$ 73,601</u>

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

	<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	\$ 88	\$ 97	\$ 730	\$ 915	\$ 2,207	\$ (333)	\$ 2,789
Net financed sales receivables	100	161	197	458	6,094	—	6,552
Total	\$ 188	\$ 258	\$ 927	\$ 1,373	\$ 8,301	\$ (333)	\$ 9,341

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:

	Impaired Financing Receivables For the Year Ended December 31, 2010				
	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowanced</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Recorded investment for which there is a related allowance:					
Net financed sales receivables	246	5	(66)	246	—
Total recorded investment in impaired loans:					
Net financed sales receivables	<u>\$ 246</u>	<u>\$ 5</u>	<u>\$ (66)</u>	<u>\$ 246</u>	<u>\$ —</u>

(d) Foreign Exchange Risk Management

The Company is exposed to market risk from changes in foreign currency rates. A majority portion of the Company's revenues is denominated in U.S. dollars while a substantial portion of its costs and expenses is denominated in Canadian dollars. A portion of the net U.S. dollar cash flows of the Company is periodically converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In 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 December 31, 2010 (the "Foreign Currency Hedges"), with settlement dates throughout 2011. In addition, at December 31, 2010, 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 ("OCI") 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.

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

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Notional value of foreign exchange contracts:

	As at December 31,	
	2010	2009
Derivatives designated as hedging instruments:		
Foreign exchange contracts — Forwards	\$ 12,671	\$ 2,815
Derivatives not designated as hedging instruments:		
Foreign exchange contracts — Forwards	28,842	4,500
	<u>\$ 41,513</u>	<u>\$ 7,315</u>

Fair value of foreign exchange contracts:

	Balance Sheet Location	As at December 31,	
		2010	2009
Derivatives designated as hedging instruments:			
Foreign exchange contracts — Forwards	Other assets	\$ 664	\$ 532
Derivatives not designated as hedging instruments:			
Foreign exchange contracts — Forwards	Other assets	1,249	857
		<u>\$ 1,913</u>	<u>\$ 1,389</u>

Derivatives in Foreign Currency Hedging relationships for the:

		Years Ended December 31,		
		2010	2009	2008
Foreign exchange contracts — Forwards	Derivative Gain Recognized in OCI (Effective Portion)	\$ 797	\$ 1,656	\$ 172
		<u>\$ 797</u>	<u>\$ 1,656</u>	<u>\$ 172</u>

**Location of Derivative Gain
Reclassified from
AOCI into Income
(Effective Portion)**

	Location of Derivative Gain Reclassified from AOCI into Income (Effective Portion)	Years Ended December 31,		
		2010	2009	2008
Foreign exchange contracts — Forwards	Selling, general and administrative expenses	\$ 665	\$ 1,296	\$ —
		<u>\$ 665</u>	<u>\$ 1,296</u>	<u>\$ —</u>

Non Designated Derivatives in Foreign Currency relationships for the:

	Location of Derivative Gain	Years Ended December 31,		
		2010	2009	2008
Foreign exchange contracts — Forwards	Selling, general and administrative expenses	\$ 2,036	\$ 2,257	\$ 226
		<u>\$ 2,036</u>	<u>\$ 2,257</u>	<u>\$ 226</u>

(e) Investments in New Business Ventures

The Company accounts for investments in new business ventures using the guidance of ASC 323 Investments — Equity Method and Joint Ventures (“ASC 323”) and ASC 320 Investments in Debt and Equity Securities (“ASC 320”), as appropriate. At December 31, 2010, the equity method of accounting is being utilized for an investment with a carrying value of \$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 the year, 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 \$1.5 million at December 31, 2010 (December 31, 2009 — \$nil). This investment is classified as an available-for-sale investment. The total carrying value of investments in new business ventures at December 31, 2010 and December 31, 2009 is \$3.1 million and \$nil, respectively, and is recorded in Other Assets.

22. 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, 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 December 31, 2010, 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 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 terms of Mr. Gelfond’s current employment agreement has been extended to the beginning of 2013.

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.

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The following assumptions were used to determine the obligation and cost status of the Company's SERP at the plan measurement dates:

	As at December 31,	
	2010	2009
Discount rate	1.54%	1.50%
Lump sum interest rate:		
First 25 years	4.07%	n/a
First 20 years	n/a	4.89%
Thereafter	3.93%	4.63%
Cost of living adjustment on benefits	1.20%	1.20%
Rate of increase in qualifying compensation levels	0.00%	0.00%

The amounts accrued for the SERP are determined as follows:

	Years Ended December 31,	
	2010	2009
Projected benefit obligation:		
Obligation, beginning of year	\$ 29,862	\$ 26,381
Service cost	448	643
Interest cost	351	1,341
Benefits paid	(15,199)	(894)
Actuarial loss	2,646	2,391
Obligation, end of year and unfunded status	<u>\$ 18,108</u>	<u>\$ 29,862</u>

The following table provides disclosure of the pension benefit obligation recorded in the consolidated balance sheet:

	As at December 31,	
	2010	2009
Accrued benefits cost	\$ (18,108)	\$ (29,862)
Accumulated other comprehensive income	2,239	(793)
Net amount recognized in the consolidated balance sheets	<u>\$ (15,869)</u>	<u>\$ (30,655)</u>

The following table provides disclosure of pension expense for the SERP for the year ended December 31:

	Years ended December 31		
	2010	2009	2008
Service cost	\$ 448	\$ 643	\$ 793
Interest cost	351	1,341	1,251
Amortization of prior service credit	—	145	(248)
Amortization of actuarial gain	—	(681)	—
Realized actuarial gain of settlement of pension liability	(385)	—	—
Pension expense	<u>\$ 414</u>	<u>\$ 1,448</u>	<u>\$ 1,796</u>

The accumulated benefit obligation for the SERP was \$18.1 million at December 31, 2010 (2009 — \$29.9 million).

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

	As at December 31,		
	2010	2009	2008
Prior service cost (credits)	\$ —	\$ —	\$ 145
Unrecognized actuarial (gain) loss	2,239	(793)	(3,868)
	<u>\$ 2,239</u>	<u>\$ (793)</u>	<u>\$ (3,723)</u>

No contributions are expected to be made for the SERP during 2011 except to meet benefit payment obligations as they come due. The Company expects prior service costs of \$nil, interest costs of \$0.3 million and actuarial losses of \$0.2 million to be recognized as a component of net periodic benefit cost in 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 five years, and in the aggregate:

2011	\$ —
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. The value of these policies was \$7.3 million at December 31, 2009. 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 Pension 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 2010, the Company contributed and expensed an aggregate of \$0.9 million (2009 — \$0.8 million, 2008 — \$0.9 million) to its Canadian plan and an aggregate of \$0.2 million (2009 — \$0.2 million, 2008 — \$0.1 million) 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 for 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 supplemental coverage as selected by Messrs. Gelfond and Wechsler.

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The amounts accrued for the plan are determined as follows:

	As at December 31,	
	2010	2009
Obligation, beginning of year	\$ 456	\$ 438
Interest cost	26	26
Actuarial gain	(6)	(8)
Obligation, end of year	<u>\$ 476</u>	<u>\$ 456</u>

The following details the net cost components, all related to continuing operations, and underlying assumptions of postretirement benefits other than pensions:

	Years Ended December 31,		
	2010	2009	2008
Interest cost	\$ 26	\$ 26	\$ 25
Actuarial (gain) loss	(6)	(8)	11
	<u>\$ 20</u>	<u>\$ 18</u>	<u>\$ 36</u>

Weighted average assumptions used to determine the benefit obligation are:

	As at December 31,		
	2010	2009	2008
Discount rate	5.30%	5.75%	6.00%

Weighted average assumptions used to determine the net postretirement benefit expense are:

	Years Ended December 31		
	2010	2009	2008
Discount rate	4.50%	4.50%	5.00%

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

2011	\$ 13
2012	\$ 15
2013	\$ 31
2014	\$ 34
2015	\$ 38
Thereafter	\$ —

23. Discontinued Operations

(a) Tempe Theater

On December 11, 2009, the Company closed its owned and operated Tempe IMAX theater. The Company recognized lease termination and guarantee obligations of \$0.5 million to the landlord, which were offset by derecognition of other liabilities of \$0.9 million, for a net gain of \$0.4 million. In a related transaction, the Company leased the projection system and inventory of the Tempe IMAX theater to a third party theater exhibitor. Revenue from this operating lease transaction will be recognized on a straight-line basis over the term of the lease. For the year ended December 31, 2009, revenues for the Tempe IMAX theater were \$0.8 million (2008 — \$1.5 million) and the Company recognized a loss of \$0.5 million in 2009 (2008 — loss of \$0.3 million) from the operation of the theater. This transaction is reflected as discontinued operations as there are no significant continuing cash flows from

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either a migration or a continuation of activities. The remaining assets and liabilities of the owned and operated Tempe IMAX theater are included in the Company's consolidated balance sheets are disclosed in note 23(d).

In addition, the prior years' amounts in the consolidated statements of operations and the consolidated statements of cash flows have been adjusted to reflect the reclassification of the owned and operated Tempe IMAX theater as a discontinued operation.

(b) Starboard Theater Ltd

On September 30, 2009, the Company closed its owned and operated Vancouver IMAX theater. The amount of loss to the Company pertaining to lease and guarantee obligations owing to the landlord was estimated at \$0.3 million which the Company recognized as at September 30, 2009. In 2009, revenues for the Vancouver IMAX theater were \$1.1 million (2008 — \$2.0 million). The Company recognized a loss of \$0.1 million (net of income tax provision of \$nil), and income of \$0.2 million (net of income tax recovery of \$nil) in 2009 and 2008, respectively, from the operation of the theater. This transaction is reflected as discontinued operations as there are no continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the owned and operated Vancouver IMAX theater included in the Company's consolidated balance sheets are disclosed in note 23(d).

In addition, the prior years' amounts in the consolidated statements of operations and the consolidated statements of cash flows have been adjusted to reflect the reclassification of the owned and operated Vancouver IMAX theater as a discontinued operation.

(c) Operating Results for Discontinued Operations

The net earnings from discontinued operations summarized in the consolidated statements of operations, were comprised of the following:

	Years Ended December 31,		
	2010	2009	2008
Gain on termination of Tempe theater lease (net of tax recovery of \$nil)	\$ —	\$ 437	\$ —
Loss from Tempe Theater (net of tax recovery of \$nil, respectively)	—	(525)	(263)
(Loss) earnings from Vancouver Theater (net of tax recovery of \$nil, respectively)	—	(88)	171
Net loss from discontinued operations	\$ —	\$ (176)	\$ (92)

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(d) Assets and Liabilities of Discontinued Operations

The assets and liabilities related to the Tempe and Vancouver theaters are included in the consolidated balance sheet of IMAX Corporation and are comprised of the following:

	<u>As at December 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash	\$ —	\$ 299
Accounts receivable	—	129
Total assets	\$ —	\$ 428
Accounts payable	\$ —	\$ 149
Accrued liabilities	—	1,018
Total liabilities	\$ —	\$ 1,167

24. Asset Retirement Obligations

The Company has accrued costs related to obligations in respect of required reversion costs for its owned and operated theaters under long-term real estate leases which will become due in the future. The Company does not have any legal restrictions with respect to settling any of these long-term leases. A reconciliation of the Company's liability in respect of required reversion costs is shown below:

	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Beginning balance, January 1	\$ 267	\$ 297	\$ 301
Accretion expense	19	24	13
Reduction in asset retirement obligation due to lease renegotiation	—	(54)	(17)
Ending balance, December 31	\$ 286	\$ 267	\$ 297

25. Accumulated Other Comprehensive Income (Loss) Supplemental Information

Components of accumulated other comprehensive income consist of:

	<u>As at December 31,</u>	
	<u>2010</u>	<u>2009</u>
Unrecognized actuarial loss on defined benefit pension plan (net of income tax recovery (provision) of \$115, 2009 — (\$1,064))	\$ (2,124)	\$ (271)
Foreign currency translation adjustments	645	645
Unrealized hedging gain (net of income tax provision of \$182, 2009 — \$nil)	482	532
Accumulated other comprehensive (loss) income	\$ (997)	\$ 906

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. 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 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 December 31, 2010 and has concluded that, as of 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.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

Management has used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework in Internal Control-Integrated Framework to assess the effectiveness of the Company's internal control over financial reporting.

Management has assessed the effectiveness of the Company's internal control over financial reporting, as at December 31, 2010, and has concluded that such internal control over financial reporting was effective as at that date.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP, which has audited the Company's consolidated financial statements for the year ended December 31, 2010 accompanying this Annual Report, has also audited the effectiveness of the Company's internal control over financial reporting as at December 31, 2010 as stated in their report on page 70.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting which occurred during the year ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9 B. Other Information

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by Item 10 is incorporated by reference from the information under the following captions in the Company's Proxy Statement: "Item No. 1 — Election of Directors;" "Executive Officers;" "Section 16(a) Beneficial Ownership Reporting Compliance;" "Code of Ethics;" and "Audit Committee."

Item 11. *Executive Compensation*

The information required by Item 11 is incorporated by reference from the information under the following captions in the Company's Proxy Statement: "Compensation Discussion and Analysis;" "Summary Compensation Table;" "Grant of Plan-Based Awards;" "Outstanding Equity Awards at Fiscal Year-End;" "Options Exercised;" "Pension Benefits;" "Employment Agreements and Potential Payments upon Termination or Change-in-Control;" "Compensation of Directors;" and "Compensation Committee Interlocks and Insider Participation."

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by Item 12 is incorporated by reference from the information under the following captions in the Company's Proxy Statement: "Equity Compensation Plans;" "Principal Shareholders of Voting Shares;" and "Security Ownership of Directors and Management."

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by Item 13 is incorporated by reference from the information under the following caption in the Company's Proxy Statement: "Certain Relationships and Related Transactions;" "Review, Approval and Ratification of Transactions with Related Persons;" and "Director Independence."

Item 14. *Principal Accounting Fees and Services*

The information required by Item 14 is incorporated by reference from the information under the following captions in the Company's Proxy Statement: "Audit Fees;" "Audit-Related Fees;" "Tax Fees;" "All Other Fees;" and "Audit Committee's Pre-Approved Policies and Procedures."

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a)(1) Financial Statements

The consolidated financial statements filed as part of this Report are included under Item 8 in Part II.

Report of Independent Registered Public Accounting Firm, which covers both the financial statements and financial statement schedule in (a)(2), is included under Item 8 in Part II.

(a)(2) Financial Statement Schedules

Financial statement schedule for each year in the three-year period ended December 31, 2010.

II. Valuation and Qualifying Accounts.

(a)(3) Exhibits

The items listed as Exhibits 10.1 to 10.32 relate to management contracts or compensatory plans or arrangements.

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Exhibit No.	Description
3.1	Articles of Amalgamation of IMAX Corporation, dated January 1, 2002, as amended by the Articles of Amendment of IMAX Corporation, dated June 25, 2004. Incorporated by reference to Exhibit 4.1 to IMAX Corporation's Registration statement on Form S-3 (File No. 333-157300).
3.2	By-Law No. 1 of IMAX Corporation enacted on June 3, 2004. Incorporated by reference to Exhibit 3.2 to IMAX Corporation's Form 10-K for the year ended December 31, 2009 (File No. 000-24216).
4.1	Shareholders' Agreement, dated as of January 3, 1994, among WGIM Acquisition Corporation, the Selling Shareholders as defined therein, Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., Bradley J. Wechsler, Richard L. Gelfond and Douglas Trumbull (the "Selling Shareholders' Agreement"). Incorporated by reference to Exhibit 4.1 to IMAX Corporation's Form 10-K for the year ended December 31, 2006 (File No. 000-24216).
4.2	Amendment, dated as of March 1, 1994, to the Selling Shareholders' Agreement. Incorporated by reference to Exhibit 4.2 to IMAX Corporation's Form 10-K for the year ended December 31, 2006 (File No. 000-24216).
4.3	Registration Rights Agreement, dated as of February 9, 1999, by and among IMAX Corporation, Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., WPPN Inc., the Michael J. Biondi Voting Trust, Bradley J. Wechsler and Richard L. Gelfond. Incorporated by reference to Exhibit 4.3 to IMAX Corporation's Form 10-K for the year ended December 31, 2006 (File No. 000-24216).
*10.1	Stock Option Plan of IMAX Corporation, dated June 18, 2008.
10.2	IMAX Corporation Supplemental Executive Retirement Plan, as amended and restated as of January 1, 2006. Incorporated by reference to Exhibit 10.2 to IMAX Corporation's Form 10-K for the year ended December 31, 2006 (File No. 000-24216).
10.3	Employment Agreement, dated July 1, 1998, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.3 to IMAX Corporation's Form 10-K for the year ended December 31, 2006 (File No. 000-24216).
10.4	Amended Employment Agreement, dated July 12, 2000, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.4 to IMAX Corporation's Form 10-K for the year ended December 31, 2006 (File No. 000-24216).
10.5	Amended Employment Agreement, dated March 8, 2006, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.8 to IMAX Corporation's Form 10-K for the year ended December 31, 2005 (File No. 000-24216).
10.6	Amended Employment Agreement, dated February 15, 2007, between IMAX Corporation and Bradley, J. Wechsler. Incorporated by reference to Exhibit 10.31 to IMAX Corporation's Form 8-K dated February 16, 2007 (File No. 000-24216).
10.7	Amended Employment Agreement, dated December 31, 2007, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.7 to IMAX Corporation's Form 10-K for the year ended December 31, 2007 (File No. 000-24216).
10.8	Services Agreement, dated December 11, 2008, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.8 to IMAX Corporation's Form 10-K for the year ended December 31, 2008 (File No. 000-24216).
*10.9	Services Agreement Amendment, dated February 14, 2011, between IMAX Corporation and Bradley J. Wechsler.
10.10	Employment Agreement, dated July 1, 1998, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.7 to IMAX Corporation's Form 10-K for the year ended December 31, 2006 (File No. 000-24216).
10.11	Amended Employment Agreement, dated July 12, 2000, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.8 to IMAX Corporation's Form 10-K for the year ended December 31, 2006 (File No. 000-24216).
10.12	Amended Employment Agreement, dated March 8, 2006, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.14 to IMAX Corporation's Form 10-K dated December 31, 2005 (File No. 000-24216).
10.13	Amended Employment Agreement, dated February 15, 2007, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.30 to IMAX Corporation's Form 8-K dated February 16, 2007 (File No. 000-24216).
10.14	Amended Employment Agreement, dated December 31, 2007, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.12 to IMAX Corporation's Form 10-K for the year ended December 31, 2007 (File No. 000-24216).
10.15	Amended Employment Agreement, dated December 11, 2008, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.14 to IMAX Corporation's Form 10-K for the year ended December 31, 2008 (File No. 000-2416).
*10.16	Amended Employment Agreement, dated December 20, 2010, between IMAX Corporation and Richard L. Gelfond.
10.17	Employment Agreement, dated March 9, 2006, between IMAX Corporation and Greg Foster. Incorporated by reference to Exhibit 10.18 to IMAX Corporation's Form 10-K for the year ended December 31, 2005 (File No. 000-24216).

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<u>Exhibit No.</u>	<u>Description</u>
10.18	First Amending Agreement, dated December 31, 2007, between IMAX Corporation and Greg Foster. Incorporated by reference to Exhibit 10.14 to IMAX Corporation's Form 10-K for the year ended December 31, 2007 (File No. 000-24216).
10.19	Second Amending Agreement, dated April 29, 2010, between IMAX Corporation and Greg Foster. Incorporated by reference to IMAX Corporation's Form 10-Q for the quarter ended June 30, 2010 (File No. 000-24216).
10.20	Employment Agreement, dated May 17, 1999, between IMAX Corporation and Robert D. Lister. Incorporated by reference to Exhibit 10.15 to IMAX Corporation's Form 10-K for the year ended December 31, 2007 (File No. 000-24216).
10.21	Letter Agreement, dated August 21, 2000 between IMAX Corporation and Robert D. Lister. Incorporated by reference to Exhibit 10.15 to IMAX Corporation's Form 10-K for the year ended December 31, 2006 (File No. 000-24216).
10.22	Amended Employment Agreement, dated April 4, 2001 between IMAX Corporation and Robert D. Lister. Incorporated by reference to Exhibit 10.17 to IMAX Corporation's Form 10-K for the year ended December 31, 2007 (File No. 000-24216).
10.23	Amended Employment Agreement, dated January 1, 2004, between IMAX Corporation and Robert D. Lister. Incorporated by reference to Exhibit 10.17 to IMAX Corporation's Registration Statement on Form S-4 (File No. 333-113141).
*10.24	Third Amending Agreement, dated February 14, 2006, between IMAX Corporation and Robert D. Lister.
10.25	Fourth Amending Agreement, dated October 5, 2006, between IMAX Corporation and Robert D. Lister. Incorporated by reference to Exhibit 10.28 to IMAX Corporation's Form 10-Q for the quarter ended September 30, 2006 (File No. 000-24216).
10.26	Fifth Amending Agreement, dated December 31, 2007, between IMAX Corporation and Robert D. Lister. Incorporated by reference to Exhibit 10.21 to IMAX Corporation's Form 10-K for the year ended December 31, 2007 (File No. 000-24216).
10.27	Stock Appreciation Rights Agreement, dated December 31, 2007, between IMAX Corporation and Robert D. Lister. Incorporated by reference to Exhibit 10.22 to IMAX Corporation's Form 10-K for the year ended December 31, 2007 (File No. 000-24216).
10.28	Sixth Amending Agreement, dated December 31, 2009, between IMAX Corporation and Robert D. Lister. Incorporated by reference to IMAX Corporation's Form 10-K for the year ended December 31, 2009 (File No. 000-24216).
10.29	Employment Agreement, dated May 14, 2007, between IMAX Corporation and Joseph Sparacio. Incorporated by reference to Exhibit 10.25 to IMAX Corporation's Form 10-Q for the quarter ended September 30, 2007 (File No. 000-24216).
10.30	First Amending Agreement, dated May 14, 2009, between IMAX Corporation and Joseph Sparacio. Incorporated by reference to IMAX Corporation's Form 10-K for the year ended December 31, 2009 (File No. 000-24216).
10.31	Second Amending Agreement, dated May 14, 2010, between IMAX Corporation and Joseph Sparacio. Incorporated by reference to IMAX Corporation's Form 10-Q for the quarter ended June 30, 2010 (File No. 000-24216).
*10.32	Statement of Directors' Compensation, dated August 11, 2005.
10.33	Amended and Restated Credit Agreement, dated November 16, 2009 by and between IMAX Corporation and Wells Fargo Capital Finance Corporation Canada (formerly Wachovia Capital Finance Corporation (Canada)) and Export Development Canada. Incorporated by reference to IMAX Corporation's Form 10-K for the year ended December 31, 2009 (File No. 000-24216).
*10.34	First Amendment to the Amended and Restated Credit Agreement, dated January 21, 2011 between IMAX Corporation and Wells Fargo Capital Finance Corporation Canada (formerly known as Wachovia Capital Finance Corporation (Canada)).
10.35	Securities Purchase Agreement, dated as of May 5, 2008, by and between IMAX Corporation, Douglas Family Trust, James Douglas and Jean Douglas Irrevocable Descendants' Trust, James E. Douglas, III, and K&M Douglas Trust. Incorporated by reference to Exhibit 10.32 to IMAX Corporation's Form 10-Q for the quarter ended March 31, 2008 (File No. 000-24216).
10.36	Amendment No. 1 to Securities Purchase Agreement, dated December 1, 2008, by and between IMAX Corporation, Douglas Family Trust, James Douglas and Jean Douglas Irrevocable Descendants' Trust, James E. Douglas, III, and K&M Douglas Trust. Incorporated by reference to Exhibit 10.34 to IMAX Corporation's Form 10-K for the year ended December 31, 2008 (File No. 000-24216).
*21	Subsidiaries of IMAX Corporation.
*23	Consent of PricewaterhouseCoopers LLP.
*24	Power of Attorney of certain directors.
*31.1	Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated February 24, 2011, by Richard L. Gelfond.
*31.2	Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated February 24, 2011, by Joseph Sparacio.
*32.1	Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated February 24, 2011, by Richard L. Gelfond.
*32.2	Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated February 24, 2011, by Joseph Sparacio.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IMAX CORPORATION

By /s/ JOSEPH SPARACIO
 Joseph Sparacio
 Executive Vice-President & Chief Financial Officer

Date: February 24, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 24, 2011.

<u> /s/ RICHARD L. GELFOND </u> Richard L. Gelfond Chief Executive Officer & Director (Principal Executive Officer) * <hr/> Bradley J. Wechsler Chairman of the Board & Director * <hr/> Eric A. Demirian Director	<u> /s/ JOSEPH SPARACIO </u> Joseph Sparacio Executive Vice President & Chief Financial Officer (Principal Financial Officer) * <hr/> Neil S. Braun Director * <hr/> Garth M. Girvan Director * <hr/> Marc A. Utay Director	<u> /s/ JEFFREY VANCE </u> Jeffrey Vance Vice-President, Finance & Controller (Principal Accounting Officer) * <hr/> Kenneth G. Copland Director * <hr/> David W. Leebron Director
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By * /s/ JOSEPH SPARACIO
 Joseph Sparacio
 (as attorney-in-fact)

IMAX CORPORATION
Schedule II
Valuation and Qualifying Accounts
(In thousands of U.S. dollars)

	Balance at beginning of year	Additions/ (recoveries) charged to expenses	Other additions/ (deductions) ⁽¹⁾	Balance at end of year
Allowance for net investment in leases				
Year ended December 31, 2008	\$ 4,152	\$ 1,595	\$ (863)	\$ 4,884
Year ended December 31, 2009	\$ 4,884	\$ 761	\$ 89	\$ 5,734
Year ended December 31, 2010	\$ 5,734	\$ 1,056	\$ (1,952)	\$ 4,838
Allowance for financed sale receivables				
Year ended December 31, 2008	\$ —	\$ —	\$ —	\$ —
Year ended December 31, 2009	\$ —	\$ 178	\$ —	\$ 178
Year ended December 31, 2010	\$ 178	\$ (112)	\$ —	\$ 66
Allowance for doubtful accounts receivable				
Year ended December 31, 2008	\$ 3,045	\$ 382	\$ (526)	\$ 2,901
Year ended December 31, 2009	\$ 2,901	\$ 127	\$ (258)	\$ 2,770
Year ended December 31, 2010	\$ 2,770	\$ 499	\$ (1,281)	\$ 1,988
Inventories valuation allowance				
Year ended December 31, 2008	\$ 4,287	\$ 2,489	\$ (1,435)	\$ 5,341
Year ended December 31, 2009	\$ 5,341	\$ 897	\$ (2,488)	\$ 3,750
Year ended December 31, 2010	\$ 3,750	\$ 665	\$ (16)	\$ 4,399
Deferred income tax valuation allowance				
Year ended December 31, 2008	\$55,639	\$ 11,560	\$ 834	\$ 68,033
Year ended December 31, 2009	\$ 68,033	\$ 7,327	\$ 1,920	\$ 77,280
Year ended December 31, 2010	\$ 77,280	\$(67,501)	\$ (1,850)	\$ 7,929

(1) Deductions represent write-offs of amounts previously charged to the provision.

IMAX Corporation
Exhibit 10.1
IMAX CORPORATION
Stock Option Plan
June 2008

IMAX CORPORATION
AMENDED & RESTATED STOCK OPTION PLAN

1. Purpose

The purposes of the IMAX Stock Option Plan (the “*Plan*”) are to attract, retain and motivate directors, officers, key employees and consultants of the Company and its Subsidiaries and to provide to such persons incentives and awards for superior performance.

2. Definitions

As used in this *Plan* the following terms have the following meanings:

“**Agreement**” has the meaning set forth in Section 6 below.

“**Award**” means an Option.

“**Blackout Period**” means any period during which a policy of the *Company* prevents an *Insider* from trading in the *Common Shares*.

“**Board**” means the Board of Directors of the *Company*.

“**Cause**” means a termination of the *Participant’s* employment with the *Company* or one of its *Subsidiaries* (a) for “cause” as defined in an employment agreement applicable to the *Participant*, or (b) in the case of a *Participant* who does not have an employment agreement that defines “cause”, because of: (i) any act or omission that constitutes a material breach by the *Participant* of any of his obligations under his employment agreement with the *Company* or one of its *Subsidiaries* or the applicable *Agreement*; (ii) the continued failure or refusal of the *Participant* to substantially perform the duties reasonably required of him as an employee of the *Company* or one of its *Subsidiaries*; (iii) any wilful and material violation by the *Participant* of any law or regulation applicable to the business of the *Company* or one of its *Subsidiaries*, or the *Participant’s* conviction of a felony, or any wilful perpetration by the *Participant* of a common law fraud; or (iv) any other wilful misconduct by the *Participant* which is materially injurious to the financial condition or business reputation of, or is otherwise materially injurious to, the *Company* or any of its *Subsidiaries*.

“**Change of Control**” means an event or series of events where any person, or group of persons acting in concert, not including Bradley J. Wechsler and Richard L. Gelfond, acquire greater than fifty percent (50%) of the outstanding *Common Shares* of the *Company* whether by direct or indirect acquisition or as a result of a merger, reorganization or sale of substantially all of the assets of the *Company*.

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended.

“**Committee**” means a committee of the *Board* comprised of at least two directors selected by the *Board* to administer the *Plan*.

“**Common Share**” means a share of common stock, no par value, of the *Company*.

“**Company**” means IMAX Corporation, a corporation organized under the laws of Canada.

“**Date of Grant**” means the date specified by the *Board* or the *Committee* on which an *Award* shall become effective (which date shall not be earlier than the date on which the *Board* or the *Committee* takes action with respect thereto).

The “**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time.

“**Fair Market Value**” of a *Common Share* on a given date means the higher of the closing price of a *Common Share* on such date (or the most recent trading date if such date is not a trading date) on *Stock Exchanges*.

“**Insider**” means any person who is a director or an officer of the *Company* or any *Subsidiary*, or who is directly or indirectly the beneficial owner of, or who exercises control or direction, more than 10% of total *Common Shares* issued by the *Company*.

“**Option**” means the right to purchase a *Common Share* upon exercise of a stock option granted pursuant to the *Plan*.

“**Option Price**” means the purchase price per *Common Share* payable on exercise of an *Option*, as determined by the *Committee* in its sole discretion (subject to the terms of the *Plan*) and as set forth in the applicable *Agreement*.

“**Participant**” means a person to whom an *Award* is to be made under the *Plan* and who is at the time of such *Award* an employee or consultant of the *Company*, or any of its *Subsidiaries*, or a person who is a director of the *Company* or any of its *Subsidiaries* and who is not also an employee of the *Company* or any of its *Subsidiaries* at the *Date of Grant*, or a person who has agreed to commence serving in any such capacity within 90 days of the *Date of Grant*, or any personal holding corporation controlled by any such person, the shares of which are held directly or indirectly by such person or such person’s spouse, minor children or minor grandchildren, or any registered retirement savings plan or registered educational savings plan for the sole benefit of any such person.

“**Permanent Disability**” means a physical or mental disability or infirmity of the *Participant* that prevents the normal performance of substantially all his duties as an employee of the *Company* or any *Subsidiary*, which disability or infirmity shall exist for any continuous period of 180 days within any twelve-month period.

“**Stock Exchanges**” means one or more, as the context requires, of the New York Stock Exchange, the Toronto Stock Exchange and such securities exchange, if any, as may be designated by the *Board*, from time to time.

“**Subsidiary**” means any corporation or other entity in which the *Company* owns or controls, directly or indirectly, not less than 50% of the total combined voting power represented by all voting securities or other voting interests in such entity.

“**Vested Options**” means, as of any date, *Options* which by their terms are exercisable on such date.

3. Administration of the Plan

- (a) The *Plan* shall be administered, and *Awards* shall be granted hereunder, by the *Board* or by or under the authority of the *Committee*. A majority of the *Committee* shall constitute a quorum, and the action of the members of the *Committee* present at any meeting at which a quorum is present, or acts unanimously approved in writing, shall be the acts of the *Committee*.
 - (b) The interpretation and construction by the *Committee* of any provision of the *Plan* or of any *Agreement*, and any determination by the *Committee* pursuant to any provision of this *Plan* or of any *Agreement* shall be final and conclusive. No member of the *Committee* shall be liable for any such action or determination made in good faith.
-

4. Shares Available Under Plan

The maximum number of *Common Shares* which may be issued upon the exercise of *Options* granted under the *Plan* is 20% of the issued and outstanding *Common Shares*, subject to adjustment as provided in Section 10. Such *Common Shares* may be shares previously issued or treasury shares or a combination of the foregoing. Any *Common Shares* which are subject to *Options* which have been exercised, have expired or which have been surrendered without being exercised in full shall again be available for issuance under this *Plan*, resulting in a “reloading” of the *Plan* up to this maximum percentage of issued and outstanding *Common Shares*.

5. Limitations on Certain Grants

Section 162(m) of the *Code* requires that the *Plan* include a limitation on the number of *Options* which may be granted to certain *Participants*. The *Board* or *Committee* may, from time to time and upon such terms and conditions as it may determine, grant *Options* to *Participants* provided, however, the maximum number of *Options* intended to qualify for exemption under Section 162(m) of the *Code* that may be awarded to any *Participant* in any calendar year shall not exceed 4,000,000.

6. Agreement

The terms and conditions of each *Option* shall be embodied in a written agreement (the “*Agreement*”) in a form approved by the *Committee* which shall contain terms and conditions not inconsistent with the *Plan* and which shall incorporate the *Plan* by reference. *Options* granted under the *Plan* shall comply with the following terms and conditions:

- (a) Each *Agreement* shall specify the number of *Common Shares* for which *Options* have been granted.
 - (b) Each *Agreement* shall specify the *Option Price*, which shall not be less than 100% of the *Fair Market Value* per *Common Share* on the *Date of Grant*.
 - (c) Each *Agreement* shall specify that the *Option Price* shall be payable in cash or by cheque acceptable to the *Company* or by a combination of such methods of payment.
 - (d) Successive grants may be made to the same *Participant* whether or not any *Options* previously granted to such *Participant* remain unexercised.
 - (e) Each *Agreement* shall specify the applicable vesting schedule and the effective term of the *Option*. In the event of a termination of a *Participant’s* employment by reason of death or *Permanent Disability*, 50% of such *Participant’s Options* shall become *Vested Options* if such *Options* were less than 50% vested at the time of such termination.
 - (f) *Options* granted under the *Plan* are not intended to qualify as “incentive stock options” within the meaning of Section 422A of the *Code*.
 - (g) No *Option* issued prior to June 18, 2008 shall be exercisable more than ten years from the *Date of Grant*. No *Options* issued on or after June 18, 2008, subject to earlier cancellation, shall be exercisable for the later of ten years from the *Date of Grant*, or in the event the 10 year anniversary of the *Date of Grant* falls within a *Blackout Period*, the date which is ten days after the date on which the *Blackout Period* has ended.
 - (h) Each *Option* granted under the *Plan* shall be subject to such additional terms and conditions, not inconsistent with the *Plan*, which are prescribed by the *Board* or the *Committee* and set forth in the applicable *Agreement*.
-

- (i) As soon as practicable following the exercise of any *Options*, the *Common Shares* subject to the exercised *Options* shall be issued in the name of the *Participant* or as the *Participant* shall otherwise, in writing, direct.

7. Termination of Employment, Consulting Agreement or Term of Office

- (a) In the event that a *Participant's* employment, consulting arrangement or term of office with the *Company* or one of its *Subsidiaries* terminates for any reason, unless the *Board* or the *Committee* determines otherwise, any *Options* which have not become *Vested Options* shall terminate and be cancelled without any consideration being paid therefor.
- (b) In the event that a *Participant's* employment with the *Company* or one of its *Subsidiaries* is terminated without *Cause*, or the *Participant's* employment is terminated by reason of the *Participant's* voluntary resignation (including by reason of retirement), death or *Permanent Disability*, or upon the termination of a *Participant's* consulting arrangement or term of office, the *Participant* (or the *Participant's* estate) shall be entitled to exercise the *Participant's Options* which have become *Vested Options* as of the date of termination for a period of 30 days, or such longer period as the *Board* or the *Committee* determines, following the date of termination.
- (c) In the event that a *Participant's* employment, consulting arrangement or term of office with the *Company* or one of its *Subsidiaries* is terminated for *Cause*, such *Participant's Vested Options* shall terminate and be cancelled without any consideration being paid therefor.

8. Transferability

No *Option* shall be transferable by a *Participant* other than by will or the laws of descent and distribution, provided, however, that *Options* may be transferred if approved by the *Board* or the *Committee* and by any regulatory authority having jurisdiction or stock exchange on which the *Common Shares* subject to *Options* are listed. *Options* shall be exercisable during the *Participant's* lifetime only by the *Participant* or by the *Participant's* guardian or legal representative.

9. Change of Control

All *Options* granted under the *Plan* (or any predecessor of the *Plan*) shall immediately vest and become fully exercisable upon the occurrence of (a) a *Change of Control*; and (b) the occurrence of one or more of the following: (i) the *Participant's* employment or term of office with the *Company*, or one of its *Subsidiaries*, is terminated without *Cause*; (ii) the diminution of the *Participant's* title and/or responsibilities; and (iii) the *Participant* is asked to relocate more than twenty-five (25) miles from his/her existing office.

10. Adjustments

The *Committee* shall make or provide for such adjustments in the maximum number of *Common Shares* specified in Section 4, in the number of *Common Shares* or other securities or consideration covered by outstanding *Options* granted hereunder, and/or in the *Option Price* applicable to such *Options* as the *Board* or the *Committee* in their sole discretion may determine is equitably required to prevent dilution or enlargement of the rights of *Participants* that otherwise would result from any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the *Company*, merger, consolidation, spin-off, reorganization, partial or complete liquidation, issuance of rights or warrants to purchase securities or any other corporate transaction or event having an effect similar to any of the foregoing.

11. Fractional Shares

The *Company* shall not be required to issue any fractional *Common Shares* pursuant to the *Plan*. The *Committee* may provide for the elimination of fractions or for the settlement of fractions in cash.

12. Withholding Taxes

The *Company* and its *Subsidiaries* shall have the right to require any individual entitled to receive *Common Shares* pursuant to an *Option* to remit to the *Company*, prior to the issuance of any *Common Share* following the exercise of any *Options*, any amount sufficient to satisfy any Canadian or United States federal, state, provincial or local tax withholding requirements. Prior to the *Company's* determination of such withholding liability, such individual may make an irrevocable election to satisfy, in whole or in part, such obligation to remit taxes by directing the *Company* to withhold *Common Shares* that would otherwise be received by such individual. Such election may be denied by the *Company* in its discretion, or may be made subject to certain conditions specified by the *Company*, including, without limitation, conditions intended to avoid accounting charges and the imposition of liability against the individual under Section 16(b) of the *Exchange Act*, as amended, and the rules and regulations thereunder.

13. Registration Restrictions

An *Option* shall not be exercisable unless and until (i) a registration statement under the Securities Act of 1933, as amended, has been duly filed and declared effective pertaining to the *Common Shares* subject to such *Option*, or (ii) the *Committee*, in its sole discretion determines that such registration, qualification and status is not required as a result of the availability of an exemption from such registration, qualification, and status under such laws.

14. Shareholder Rights

A *Participant* shall have no rights as a shareholder with respect to any *Common Shares* issuable upon exercise of an *Option* until the *Participant* has duly exercised the *Option* in accordance with its terms and this *Plan*, and the *Common Shares* have been paid for in full and issued to the *Participant*.

15. Breach of Restrictive Covenants

If (i) a *Participant* is a party to an employment agreement with the *Company* or any of its *Subsidiaries* or affiliates and (ii) such *Participant* materially breaches any of the restrictive covenants set forth in such employment agreement (including, without limitation, any restrictive covenants relating to non-competition, non-solicitation or confidentiality), then all of such *Participant's Options* (whether or not *Vested Options*) shall terminate and be cancelled without consideration being paid therefor.

16. Section 409A of the Code

If any provision of the *Plan* or any *Agreement* contravenes any regulations or Treasury guidance promulgated under Section 409A of the *Code* or would cause the *Awards* to be subject to the interest and penalties under Section 409A of the *Code*, such provision of the *Plan* or any *Agreement* shall be modified to maintain, to the maximum extent practicable, the original intent of the applicable provision without violating the provisions of Section 409A of the *Code*.

17. Amendments

The *Board* or the *Committee* reserves the right, in its sole discretion, to amend, suspend or terminate the *Plan* or any portion thereof at any time, and outstanding *Options* or *Agreements* thereunder, in accordance with applicable legislation, without obtaining the approval of shareholders; provided, however, that no termination or amendment of the *Plan* or any waiver of any provision of any *Option* or *Agreement* may, without the consent of the *Participant* to whom any *Award* shall have been granted, adversely affect the rights of such *Participant* in such *Award*; provided further, however that amendments shall be subject to (i) the approval of a majority of the *Common Shares* entitled to vote if the *Committee* determines that such approval is necessary in order for the *Company* to rely on the exemptive relief provided under Rule 16b-3 under the *Exchange Act* and (ii) all other approvals, whether regulatory, shareholder or otherwise, which are required by regulatory authority having jurisdiction or a Stock Exchange. Notwithstanding the foregoing, the *Company* will be required to obtain the approval of the shareholders of the *Company* for any amendment related to:

- a) reduces the *Option Price* of an *Award* held by an *Insider*;
- b) extends the term of an *Award* held by an *Insider*, except as otherwise provided in Section 19; or
- c) increases the number of *Common Shares* reserved under the *Plan*.

18. Miscellaneous

The *Plan* shall not confer upon a *Participant* any right with respect to continuance of employment or other service with the *Company* or any *Subsidiary*, nor will it interfere in any way with any right the *Company* or any *Subsidiary* would otherwise have to terminate such *Participant's* employment or other service at any time.

19. Black Out Periods

Except as otherwise provided in Section 6(g) or in any *Option Agreement*, if the date on which an *Option* expires occurs during or within 10 days after the last day of a *Blackout Period*, the expiry date for the *Option* will be 10 days after the date on which the *Blackout Period* has ended.

20. Effective Date

The *Plan*, as amended, shall be effective as of June 18, 2008.

21. Governing Law

The *Plan* and all rights hereunder shall be construed in accordance with and governed by the laws of the Province of Ontario and the laws of Canada applicable therein.

June 2008

IMAX CORPORATION
EXHIBIT 10.9
AMENDING AGREEMENT

This Amendment to Services Agreement dated as of February 14, 2011 (the "Amending Agreement") is made between:

IMAX CORPORATION, a corporation incorporated under the laws of Canada (hereinafter referred to as the "Company"),
and

BRAD WECHSLER (the "Executive")

WHEREAS, the Company wishes to enter into this Amending Agreement to amend and extend the Services Agreement dated as of December 11, 2008 (the "Agreement").

NOWHEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the parties hereto agree as follows:

Section 1 of the Agreement shall be deleted and replaced with the following:

1. **Term.** The term of the Agreement shall begin on the Effective Date and run through the earlier of (i) such date that Chairman is not re-elected to the Board, and (ii) April 1, 2013 (the "**Term**") provided, however, that the Board agrees to use its best efforts to cause Chairman to be re-elected to the Board in 2013 provided the Agreement has been renewed for an additional term, unless Chairman has engaged in activity that would have constituted dismissal for Cause as that term is defined in the Employment Agreement.
2. **General.** Except as amended herein, all other terms of the Agreement shall remain in full force and unamended.

DATED as of February 14, 2011.

AGREED AND ACCEPTED:

/s/ Bradley J. Wechsler

Bradley J. Wechsler

IMAX CORPORATION

Per /s/ Garth M. Girvan

Name: Garth M. Girvan

Title: Director

IMAX CORPORATION

EXHIBIT 10.16

AMENDED EMPLOYMENT AGREEMENT

This agreement amends the amended employment agreement (the "Agreement") between Richard L. Gelfond (the "Executive") and IMAX Corporation (the "Company") dated July 1, 1998, as amended, on the same terms and conditions except as set out below:

1. **Term.** The term of the Agreement (the "Term") is extended until December 31, 2012 (the "Term End").
2. **Cash Compensation.** Effective January 1, 2011 (the "Renewal Commencement Date"), the Executive shall be paid a base salary at the rate of \$750,000 per year. Executive's bonus shall continue to be up to two times salary. Such bonus shall be at the discretion of the Board of Directors and shall be based upon the success of the Company in achieving the goals and objectives set by the Board after consultation with the Executive.
3. **SERP.** In connection with that July 2000 Supplemental Executive Retirement Plan, as amended (the "SERP"), the Executive and the Company agree that no compensation paid to Executive between the Renewal Commencement Date and the Term End shall be included in the calculation of benefits payable to Executive under the SERP (the "Gelfond SERP Payout"). The Company agrees that it will investigate in good faith the notion of fixing the Gelfond SERP Payout and will proceed to fix the Gelfond SERP Payout provided, and to the extent, (a) the Company's Board of Directors concludes it is in the reasonable best interests of the Company to do so and (b) Executive agrees.
4. **Incentive Compensation.** On December 31, 2010, the Executive shall be granted, in accordance with the terms of the IMAX Stock Option Plan (the "Plan"), stock options to purchase 800,000 common shares of the Company (the "Options") at an exercise price per Common Share equal to the Fair Market Value, as defined in the Plan. The Options shall have a 10-year term and vest as follows:

<u>Number of Options</u>	<u>Vesting Date</u>
160,000	May 1, 2011
160,000	September 1, 2011
160,000	January 1, 2012
160,000	May 1, 2012
160,000	September 1, 2012

The vesting of the Options shall be accelerated upon a "change of control" as defined in the Agreement, and shall be governed, to the extent applicable, by the provisions in the Agreement regarding change of control.

5. The entering into this agreement shall not prejudice any rights or waive any obligations under any other agreement between the Executive and the Company.

DATED as of December 20, 2010.

AGREED AND ACCEPTED:

/s/ Richard L. Gelfond

Richard L. Gelfond

IMAX CORPORATION

Per: /s/ Garth M. Girvan

Name: Garth M. Girvan

Title: Director

IMAX CORPORATION

EXHIBIT 10.24

THIRD AMENDING AGREEMENT

This Amendment to Employment Agreement dated as of February 14, 2006 (the "Amending Agreement") is made between:

IMAX CORPORATION, a corporation incorporated under the laws of Canada (hereinafter referred to as the "Company"),

and

ROBERT D. LISTER (the "Executive")

WHEREAS, the Company wishes to enter into this Amending Agreement to amend and extend the Employment Agreement dated as of May 17, 1999 between Imax Ltd, the Company and Executive, as modified and amended by those Amending Agreements dated as of April 4, 2001 and January 1, 2004, (together, the "Agreement"), whereunder the Executive provides services to the Company, and the Executive wishes to so continue such engagement, as hereinafter set forth;

AND WHEREAS, on January 1, 2001 Imax Ltd. assigned all of its rights and obligations pursuant to the Agreement to the Company, and the Executive has consented to such assignment;

NOW, THEREFORE, in consideration of good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Section 1.3 of the Agreement shall be deleted and replaced with the following:

"Section 1.3 Term of Employment. The Employee's employment under this Agreement commenced on the 17th day of May, 1999 (the "Commencement Date") and shall terminate on the earlier of (i) January 1, 2008, or (ii) the termination of the Employee's employment pursuant to this Agreement. The period commencing as of the Commencement Date and ending on January 1, 2008 or such later date to which the term of the Employee's employment under this Agreement shall have been extended is hereinafter referred to as the "Employment Term."

2. Section 2.1 of the Agreement shall be deleted and replaced with the following:

"Section 2.1 Base Salary. Effective January 1, 2006, the Executive's Base Salary shall be US\$ 365,700. Effective January 1, 2007, the Executive's Base Salary shall be US\$ 402,270."

3. Section 6 of the Agreement shall be deleted and replaced with the following:

Subject to Section 7.1 and 7.2, the Executive shall be required to mitigate the amount of any payment provided for in Section 4.1.1 (other than the Termination Payment) by seeking other employment or remunerative activity reasonably comparable to his duties hereunder, and, upon Executive's obtaining such other employment or remunerative activity any payment to be made by the Company under Section 4.1.1 (other than the Termination Payment) will be reduced by a total of one-quarter (1/4) of the amount of such payment prior to the Executive's obtaining new employment or remunerative activity. Notwithstanding anything herein to the contrary, in the event that there is either (a) a change in control of the Company i.e. any person, or group of persons acting in concert, other than Bradley J. Wechsler and Richard L. Gelfond, acquiring greater than fifty percent (50%) of the outstanding common shares of the Company, whether by direct or indirect acquisition or as a result of a merger or reorganization; or (b) a significant change in the Executive's reporting relationship (either, a "Non-Mitigation Event"), then, if at any time subsequent to the occurrence of such Non-Mitigation Event the Executive is terminated from the Company Without Cause, (i) Executive shall have no obligation to mitigate the amounts provided in Section 4.1.1, and (ii) the Severance Period (as defined in Section 4.1.1) shall be a minimum of eighteen (18) months in duration. For clarity, a termination of Executive's employment Without Cause shall include, but not be limited to, the events cited in Section 2.3(b)(iii) and (iv), and a termination by virtue of the expiry of the Agreement.

4. The parties confirm that the August 21, 2000 letter agreement with regard to Executive's incentive payments and benefits remains in full force and effect and Executive shall be entitled to US\$ 107,500 thereunder from the Company upon a termination Without Cause within two (2) years of the completion of a Transaction (as defined therein).

5. Effective as soon as is practicable after the date hereof, the Executive shall be granted non-qualified options (the "Options") to purchase 50,000 shares of common stock of the Company (the "Common Shares"), at an exercise price per Common Share equal to the Fair Market Value, as defined in the Company's Stock Option Plan. The Options shall vest as to 10% on the first anniversary of the grant date, 15% on the second anniversary of the grant date, 20% on the third anniversary of the grant date, 25% on the fourth anniversary of the grant date and 30% on the fifth anniversary of the grant date, and shall otherwise be treated in accordance with the terms of Section 2.3 of the Agreement.

Except as amended herein, all other terms of the Agreement shall remain in full force, unamended.

IN WITNESS WHEREOF, the Company and the Executive have duly executed and delivered this Amending Agreement on this 14th day of February, 2006.

IMAX CORPORATION

By: "Richard L. Gelfond"

Name: Richard L. Gelfond
Title: Co-Chief Executive Officer

By: "Bradley J. Wechsler"

Name: Bradley J. Wechsler
Title: Co-Chief Executive Officer

SIGNED, SEALED AND DELIVERED
in the presence of:

EXECUTIVE:

"Stephen G. Abraham"
Witness Stephen G. Abraham

"Robert D. Lister"
Robert D. Lister

IMAX CORPORATION

Exhibit 10.32

Summary of Directors' Compensation

1. In respect of each year during which an Eligible Director serves as a Director of the Corporation, he shall receive:
 - a. \$20,000 (Cdn.) per year payable quarterly in arrears provided that an Eligible Director may elect, at the commencement of each year of office, or as soon as practicable thereafter, to receive such number of options to purchase an equivalent number of Common Shares of the Corporation under the terms of the IMAX Stock Option Plan (the "Plan"). The options will be granted annually and will vest in equal amounts quarterly, in arrears;
 - b. \$1,500 (Cdn.) for every Board meeting attended in which an Eligible Director participates whether in person or by telephone;
 - c. \$1,200 (Cdn.) for any Committee of the Board meetings in which the Eligible Director participates, whether in person or by telephone;
 - d. at the commencement of each year of office or upon joining the Board, or as soon as practicable thereafter, a grant of options to purchase 8,000 Common Shares of the Corporation under the terms of the IMAX Stock Option Plan at an exercise price equal to the Fair Market Value of the shares, as defined in the Plan; and
 - e. reimbursement of any expenses incurred by the Eligible Director in connection with participation in Board or Committee meetings.
2. The Chair of the Audit Committee shall receive \$8,000 (Cdn.) per year payable quarterly, in arrears.
3. The annual compensation for Directors, as set out above, shall remain in effect until it is amended or revoked by further resolution.

August 11, 2005

IMAX CORPORATION

EXHIBIT 10.34

THIS FIRST AMENDMENT TO THE AMENDED AND RESTATED CREDIT AGREEMENT is made as of the 21st day of January, 2011

BETWEEN:

IMAX CORPORATION

("Borrower")

- and -

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA (formerly known as
WACHOVIA CAPITAL FINANCE CORPORATION (CANADA))

("Agent" and a "Lender")

- and —

EXPORT DEVELOPMENT CANADA

(a "Lender")

WHEREAS Borrower and Lenders entered into an amended and restated credit agreement dated November 16, 2009 (as amended, amended and restated, modified, supplemented, extended, renewed, restated or replaced, the "**Credit Agreement**"), pursuant to which certain credit facilities were established in favour of Borrower;

AND WHEREAS the parties hereto wish to amend certain terms and conditions of the Credit Agreement as provided herein;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT in consideration of the covenants and agreements contained herein and for other good and valuable consideration, the parties hereto agree to amend the Credit Agreement as provided herein:

1. **General**

In this Agreement, unless otherwise defined or the context otherwise requires, all capitalized terms shall have the respective meanings specified in the Credit Agreement.

2. **To be Read with Credit Agreement**

Unless the context of this Agreement otherwise requires, the Credit Agreement and this Agreement shall be read together and shall have effect as if the provisions of the Credit Agreement and this Agreement were contained in one agreement. The term "**Agreement**" when used in the Credit Agreement means the Credit Agreement as

amended by this Agreement, together with all amendments, amendments and restatements, modifications, supplements, extensions, renewals, restatements and replacements thereto from time to time. This Agreement is a Financing Agreement.

3. **No Novations**

Nothing in this Agreement, nor in the Credit Agreement when read together with this Agreement, shall constitute a novation, payment, re-advance or reduction or termination in respect of any Obligations.

4. **Amendments to the Credit Agreement**

Section 9.13 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

“9.13 Fixed Charge Coverage Ratio

(a) Subject to Section 9.13(b) below, if, at any time prior to the indefeasible payment in full of the Term Loan, the Cash and Excess Availability of Borrower is less than \$25,000,000, Borrower shall thereafter maintain a Fixed Charge Coverage Ratio of not less than 1.1:1.0 calculated at the end of each Fiscal Quarter (commencing with the December 31, 2009 Fiscal Quarter) on a quarterly cumulative basis until the December 31, 2010 Fiscal Quarter and thereafter on a rolling four (4) Fiscal Quarter basis.

(b) Upon indefeasible payment in full of the Term Loan, Borrower shall only be required to maintain the Fixed Charge Coverage Ratio set out in Section 9.13(a) above if, at any time, (i) Excess Availability is less than \$10,000,000 or (ii) Cash and Excess Availability of Borrower is less than \$15,000,000.”

5. **Representations and Warranties**

In order to induce Agent and Lenders to enter into this Agreement, Borrower represents and warrants to Agent and Lenders the following, which representations and warranties shall survive the execution and delivery hereof:

- (a) the execution, delivery and performance of this Agreement and the transactions contemplated hereunder are all within Borrower’s 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’s property is bound;
 - (b) Borrower has duly executed and delivered this Agreement;
 - (c) this Agreement is a legal, valid and binding obligation of Borrower, enforceable against it by Agent and Lenders in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, moratorium, reorganization and other laws of general application
-

limiting the enforcement of creditor's rights generally and the fact that the courts may deny the granting or enforcement of equitable remedies;

- (d) the representations and warranties set forth in Section 8 of the Credit Agreement continue to be true and correct as of the date hereof; and
- (e) no Default or Event of Default exists.

6. Fees and Expenses; Further Assurances

Borrower shall pay to Agent and Lenders on demand all reasonable fees and expenses, including, without limitation, legal fees, incurred by or payable to Agent and Lenders in connection with the preparation, negotiation, completion, execution, delivery and review of this Agreement and all other documents, registrations and instruments arising therefrom and/or executed in connection therewith. Borrower shall execute and deliver such documents and take such actions as may be necessary or desirable by Agent or any Lender to give effect to the provisions and purposes of this Agreement, all at the expense of Borrower.

7. Continuance of the Credit Agreement and Security

The Credit Agreement, as amended this Agreement, shall be and continue in full force and effect and is hereby confirmed and the rights and obligations of all parties thereunder shall not be affected or prejudiced in any manner except as specifically provided for herein. It is agreed and confirmed that after giving effect to this Agreement, all security and guarantees delivered by Borrower and/or any Obligor secures the payment of all of the Obligations including, without limitation, the obligations arising under the Credit Agreement, as amended by the terms of this Agreement.

8. Counterparts

This Agreement may be executed in any number of counterparts, by original, pdf or facsimile signature, each of which shall be deemed an original and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

9. Governing Law

The validity, interpretation and enforcement of this Agreement 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.

(Signature Page Follows)

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of and with effect from the day and year first above written.

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA**

By: /s/ Sean M. Noonan
Name: Sean M. Noonan
Title: Relationship Manager

EXPORT DEVELOPMENT CANADA

By: /s/ Geoff Bleich
Name: Geoff Bleich
Title: Senior Asset Manager

By: /s/ Samuel Asiedu, P.h.D., CFA, CMA
Name: Samuel Asiedu, P.h.D., CFA, CMA
Title: Loan Portfolio Manager

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

Each of the undersigned Obligor hereby:

- (a) acknowledges, confirms, and agrees that such Obligor's obligations under the Credit Agreement and the other Financing Agreements remain in full force and effect as of the date hereof; and
- (b) acknowledges and confirms that such Obligor has received a copy of the Credit Agreement and this Agreement and understands and consents to the terms thereof and hereof.

Dated this 21st day of January 2011.

IMAX U.S.A INC.

By: /s/ Joseph Sparacio
Name: Joseph Sparacio
Title: Vice President, Finance

By: /s/ Ed MacNeil
Name: Ed MacNeil
Title: Vice President

IMAX II U.S.A. INC.

By: /s/ Joseph Sparacio
Name: Joseph Sparacio
Title: Vice President, Finance

By: /s/ Ed MacNeil
Name: Ed MacNeil
Title: Vice President

1329507 ONTARIO INC.

By: /s/ Joseph Sparacio
Name: Joseph Sparacio
Title: Vice President, Finance

By: /s/ Ed MacNeil
Name: Ed MacNeil
Title: Vice President

**DAVID KEIGHLEY PRODUCTIONS
70 MM INC.**

By: /s/ Joseph Sparacio
Name: Joseph Sparacio
Title: Vice President, Finance

By: /s/ Ed MacNeil
Name: Ed MacNeil
Title: Vice President

IMAX Corporation

Exhibit 21

Subsidiaries of IMAX Corporation

Significant and other major subsidiary companies of the Company, as at December 31, 2010, comprise of the following:

Name of Subsidiary	Jurisdiction of Organization	Percentage held by the Company
3183 Films Ltd.	Canada	100%
1329507 Ontario Inc.	Ontario	100%
4507592 Canada Ltd.	Canada	100%
6822967 Canada Ltd.	Canada	100%
7096267 Canada Ltd. (formerly 3D Sea II Ltd.)	Canada	100%
7103077 Canada Ltd.	Canada	100%
7109857 Canada Ltd.	Canada	100%
7214316 Canada Ltd.	Canada	100%
7550324 Canada Inc.	Canada	100%
Animal Orphans 3D Ltd.	Ontario	100%
Arizona Big Frame Theatres, L.L.C.	Arizona	100%
Big Engine Films Inc.	Delaware	100%
Coral Sea Films Ltd.	Canada	100%
David Keighley Productions 70 MM Inc.	Delaware	100%
IMAX Chicago Theatre LLC	Delaware	100%
IMAX 3D TV Ventures, LLC	Delaware	100%
IMAX II U.S.A. Inc.	Delaware	100%
IMAX Indianapolis LLC	Indiana	100%
IMAX International Sales Corporation	Canada	100%
IMAX Japan Inc.	Japan	100%
IMAX Minnesota Holding Co.	Delaware	100%
IMAX Rhode Island Limited Partnership	Rhode Island	100%
IMAX Scribe Inc.	Delaware	100%
IMAX Space Ltd.	Ontario	100%
IMAX Space Productions Ltd.	Canada	100%
IMAX Theatre Holding Co.	Delaware	100%
IMAX Theatre Holdings (OEI), Inc.	Delaware	100%
IMAX Theatre Management Company	Delaware	100%
IMAX Theatre Services Ltd.	Ontario	100%
IMAX U.S.A. Inc.	Delaware	100%
Magnitude II Productions Ltd.	Canada	100%
Magnitude Productions Ltd.	Canada	100%
Nyack Theatre LLC	New York	100%
Raining Arrows Productions Ltd.	Canada	100%
Ridefilm Corporation	Delaware	100%
Ruth Quentin Films Ltd. (formerly Acorn Rain Productions Ltd.)	Canada	100%
Sacramento Theatre LLC	Delaware	100%
Starboard Theatres Ltd.	Canada	100%
Sonics Associates, Inc.	Alabama	100%
Strategic Sponsorship Corporation	Delaware	100%
Taurus-Littrow Productions Inc.	Delaware	100%
The Deep Magic Company Ltd.	Canada	100%
Walking Bones Pictures Ltd.	Canada	100%

IMAX CORPORATION

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in (i) the Registration Statements on Form S-8 (No. 333-2076; No. 333-5720; No. 333-30970; No. 333-44412; No. 333-155262, No. 333-165400), (ii) the Post-Effective Amendment No. 1 to Form S-8 (No. 333-5720) as amended, and (iii) the Registration Statements on Form S-3 (No. 333-157300, No. 333-171823) of IMAX Corporation of our report dated February 24, 2011, relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

February 24, 2011

IMAX CORPORATION
EXHIBIT 24
POWER OF ATTORNEY

Each of the persons whose signature appears below hereby constitutes and appoints Joseph Sparacio and Robert D. Lister, and each of them severally, as his true and lawful attorney or attorneys with power of substitution and re-substitution to sign in his name, place and stead in any and all such capacities the 10-K, including the French language version thereof, and any and all amendments thereto and documents in connection therewith, and to file the same with the United States Securities Exchange Commission (the "SEC") and such other regulatory authorities as may be required, each of said attorneys to have power to act with and without the other, and to have full power and authority to do and perform, in the name and on behalf of each of the directors of the Corporation, every act whatsoever which such attorneys, or either of them, may deem necessary or desirable to be done in connection therewith as fully and to all intent and purposes as such directors of the Corporation might or could do in person.

Dated this 23rd day of February, 2011

<u>Signature</u>	<u>Title</u>
<u>/s/ Bradley J. Wechsler</u> Bradley J. Wechsler	Chairman of the Board & Director
<u>/s/ Richard L. Gelfond</u> Richard L. Gelfond	Chief Executive Officer (Principal Executive Officer)
<u>/s/ Neil S. Braun</u> Neil S. Braun	Director
<u>/s/ Kenneth G. Copland</u> Kenneth G. Copland	Director
<u>/s/ Eric A. Demirian</u> Eric A. Demirian	Director
<u>/s/ Garth M. Girvan</u> Garth M. Girvan	Director
<u>/s/ David W. Leebron</u> David W. Leebron	Director
<u>/s/ Marc A. Utay</u> Marc A. Utay	Director
<u>/s/ Joseph Sparacio</u> Joseph Sparacio	Chief Financial Officer (Principal Financial Officer)
<u>/s/ Jeffrey Vance</u> Jeffrey Vance	Controller (Principal Accounting Officer)

IMAX CORPORATION

EXHIBIT 31.1

Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002

I, Richard L. Gelfond, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2010 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: February 24, 2011

By: /s/ Richard L. Gelfond
Richard L. Gelfond
Chief Executive Officer

IMAX CORPORATION

EXHIBIT 31.2

Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002

I, Joseph Sparacio, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2010 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: February 24, 2011

By: /s/ Joseph Sparacio

Joseph Sparacio
Executive Vice President and
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 Annual Report on Form 10-K for the year ended December 31, 2010 (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 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, Chief Financial Officer of IMAX Corporation, a Canadian corporation (the "Company"), hereby certify, to my knowledge, that:

The Annual Report on Form 10-K for the year ended December 31, 2010 (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2011

/s/ Joseph Sparacio

Joseph Sparacio
Executive Vice President &
Chief Financial Officer