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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

Commission file Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

Canada
(State or other jurisdiction of
incorporation or organization)

98-0140269
(I.R.S. Employer
Identification Number)

2525 Speakman Drive,
Mississauga, Ontario, Canada L5K 1B1
(905) 403-6500

902 Broadway, Floor 20
New York, New York, USA 10010
(212) 821-0100

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

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

Title of Each Class
Common Shares, no par value

Name of Exchange on Which Registered
The New York Stock Exchange

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

None
(Title of class)

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

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

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

Large accelerated filer

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

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

<u>Class</u>	<u>Outstanding as of June 30, 2018</u>
Common stock, no par value	62,521,916

[Table of Contents](#)

IMAX CORPORATION

Table of Contents

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	52
Item 3. Quantitative and Qualitative Factors about Market Risk	89
Item 4. Controls and Procedures	90
<u>PART II. OTHER INFORMATION</u>	
Item 1. Legal Proceedings	91
Item 1A. Risk Factors	91
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	91
Item 6. Exhibits	91
Signatures	92

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

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

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

IMAX CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>Page</u>
Condensed Consolidated Balance Sheets as at June 30, 2018 and December 31, 2017	5
Condensed Consolidated Statements of Operations for the three and six month periods ended June 30, 2018 and 2017	6
Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six month periods ended June 30, 2018 and 2017	7
Condensed Consolidated Statements of Cash Flows for the six month periods ended June 30, 2018 and 2017	8
Notes to Condensed Consolidated Financial Statements	9

IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)
(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$133,042	\$ 158,725
Accounts receivable, net of allowance for doubtful accounts of \$2,348 (December 31, 2017 — \$1,613)	113,461	130,546
Financing receivables	125,756	129,494
Inventories	40,705	30,788
Prepaid expenses	9,401	7,549
Film assets	15,193	5,026
Property, plant and equipment	276,129	276,781
Other assets	61,956	26,757
Deferred income taxes	24,386	30,708
Other intangible assets	30,456	31,211
Goodwill	39,027	39,027
Total assets	<u>\$869,512</u>	<u>\$ 866,612</u>
Liabilities		
Bank indebtedness	\$ 24,377	\$ 25,357
Accounts payable	15,027	24,235
Accrued and other liabilities	107,799	100,140
Deferred revenue	110,286	113,270
Total liabilities	<u>257,489</u>	<u>263,002</u>
Commitments and contingencies		
Non-controlling interests	<u>7,578</u>	<u>1,353</u>
Shareholders' equity		
Capital stock common shares — no par value. Authorized — unlimited number. 62,747,512 issued and 62,521,916 outstanding (December 31, 2017 — 64,902,201 issued and 64,695,550 outstanding)	431,003	445,797
Less: Treasury stock, 225,596 shares at cost (December 31, 2017 — 206,651)	(4,636)	(5,133)
Other equity	179,767	175,300
Accumulated deficit	(75,908)	(87,592)
Accumulated other comprehensive loss	(2,762)	(626)
Total shareholders' equity attributable to common shareholders	<u>527,464</u>	<u>527,746</u>
Non-controlling interests	76,981	74,511
Total shareholders' equity	<u>604,445</u>	<u>602,257</u>
Total liabilities and shareholders' equity	<u>\$864,512</u>	<u>\$ 866,612</u>

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues				
Equipment and product sales	\$15,368	\$21,334	\$ 34,881	\$ 32,879
Services	54,785	44,603	99,531	83,447
Rentals	25,124	19,438	43,326	35,294
Finance income	3,068	2,383	5,591	4,794
	<u>98,345</u>	<u>87,758</u>	<u>183,329</u>	<u>156,414</u>
Costs and expenses applicable to revenues				
Equipment and product sales	7,549	11,453	15,521	18,917
Services	23,633	21,266	43,984	41,080
Rentals	6,759	5,580	12,728	11,187
	<u>37,941</u>	<u>38,299</u>	<u>72,233</u>	<u>71,184</u>
Gross margin	60,404	49,459	111,096	85,230
Selling, general and administrative expenses (including share-based compensation expense of \$6.2 million and \$10.7 million for the three and six months ended June 30, 2018 (2017 — \$6.2 million and \$11.0 million, respectively))	32,608	28,589	60,691	59,531
Research and development	3,922	5,678	7,514	10,012
Asset impairments	—	1,225	—	1,225
Amortization of intangibles	965	779	1,857	1,380
Receivable provisions, net of recoveries	355	940	806	1,125
Legal arbitration award	7,500	—	7,500	—
Exit costs, restructuring charges and associated impairments	456	10,258	1,158	10,258
Income from operations	14,598	1,990	31,570	1,699
Interest income	243	280	490	508
Interest expense	(851)	(435)	(1,345)	(890)
Income from operations before income taxes	13,990	1,835	30,715	1,317
(Provision for) recovery of income taxes	(3,635)	238	(8,088)	124
Loss from equity-accounted investments, net of tax	(100)	(264)	(305)	(519)
Net income	10,255	1,809	22,322	922
Less: net income attributable to non-controlling interests	(2,630)	(3,521)	(6,192)	(2,559)
Net income (loss) attributable to common shareholders	\$ 7,625	\$ (1,712)	\$ 16,130	\$ (1,637)
Net income (loss) per share attributable to common shareholders - basic and diluted:				
Net income (loss) per share — basic and diluted	<u>\$ 0.12</u>	<u>\$ (0.03)</u>	<u>\$ 0.25</u>	<u>\$ (0.02)</u>

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands of U.S. dollars)
(Unaudited)

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

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash provided by (used in):		
Operating Activities		
Net income	\$ 22,322	\$ 922
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	28,034	25,354
Write-downs, net of recoveries	1,686	13,155
Change in deferred income taxes	347	(3,133)
Stock and other non-cash compensation	11,920	12,570
Unrealized foreign currency exchange loss (gain)	473	(462)
Loss from equity-accounted investments	106	321
Loss on non-cash contribution to equity-accounted investees	199	198
Investment in film assets	(18,219)	(19,589)
Changes in other non-cash operating assets and liabilities	(214)	7,884
Net cash provided by operating activities	46,654	37,220
Investing Activities		
Purchase of property, plant and equipment	(8,632)	(9,771)
Investment in joint revenue sharing equipment	(8,455)	(17,550)
Acquisition of other intangible assets	(1,705)	(2,624)
Investment in new business ventures	—	(1,500)
Net cash used in investing activities	(18,792)	(31,445)
Financing Activities		
Repayment of bank indebtedness	(1,000)	(1,000)
Repurchase of common shares	(46,452)	(46,138)
Treasury stock purchased for future settlement of restricted share units	(4,636)	(5,412)
Taxes withheld and paid on employee stock awards vested	(1,279)	(187)
Settlement of restricted share units and options	(1,529)	(14,048)
Issuance of subsidiary shares to a non-controlling interest	6,696	—
Common shares issued - stock options exercised	799	14,419
Dividend paid to non-controlling shareholders	(4,623)	—
Credit facility amendment fees paid	(1,963)	—
Net cash used in financing activities	(53,987)	(52,366)
Effects of exchange rate changes on cash	442	76
Decrease in cash and cash equivalents during period	(25,683)	(46,515)
Cash and cash equivalents, beginning of period	158,725	204,759
Cash and cash equivalents, end of period	\$133,042	\$158,244

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

IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands of U.S. dollars, unless otherwise stated)
(Unaudited)

1. Basis of Presentation

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

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

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

The Company has ten film production companies that are VIEs. For five of the Company’s film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the respective VIE that most significantly impact the respective VIE’s economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. The majority of these consolidated assets are held by the IMAX Original Film Fund (the “Original Film Fund”) and the IMAX Virtual Reality Fund (the “VR Fund”) as described in note 17(b). For the other five film production companies which are VIEs, the Company does not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company used the equity method of accounting for these entities. A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statements of operations.

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

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

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

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

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

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

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

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company’s 2017 Annual Report on Form 10-K for the year ended December 31, 2017 (“the 2017 Form 10-K”) which should be consulted for a

[Table of Contents](#)

summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company's financial statements for the year ended December 31, 2017, except as noted below.

2. New Accounting Standards and Accounting Changes

Adoption of New Accounting Policies

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

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

Recently Issued FASB Accounting Standard Codification Updates

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The purpose of the amendment is to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. New disclosures will include qualitative and quantitative requirements to provide additional information about the amounts recorded in the financial statements. Lessor accounting will remain largely unchanged from current guidance; however, ASU 2016-02 will provide improvements that are intended to align lessor accounting with the lessee model and with updated revenue recognition guidance. For public entities, the amendments in ASU 2016-02 are effective for interim and annual reporting periods beginning after December 15, 2018. As a lessor, the Company has a significant portion of its revenue derived from leases, including its joint revenue sharing arrangements, and while the lessor accounting model is not fundamentally different, the Company continues to evaluate the effect of the standard on this revenue stream. The Company as a lessee, has entered into several leases that under ASC 840 are considered operating leases. The Company has inventoried its leases and continues to review its arrangements to identify any implied leases. The Company's leases are primarily facility leases with various terms remaining. The Company is in the process of determining the rates to be used to discount its future performance obligation liabilities. The Company is currently evaluating the practical expedients offered by the standard and has not yet determined whether it will elect to apply them.

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

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

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

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

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

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

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

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

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

[Table of Contents](#)

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

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

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

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

The Company recorded an increase to opening retained earnings of \$27.2 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting ASC Topic 606, with the impact primarily related to revenue from its theater system business. The impact to revenues as a result of applying ASC Topic 606 was an increase of \$0.5 million and \$1.2 million for the three and six months ended June 30, 2018.

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

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

[Table of Contents](#)

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

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

	Three Months Ended June 30, 2018		
	Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Network business			
IMAX DMR	\$ 36,161	\$ —	\$36,161
Joint revenue sharing arrangements – contingent rent(1)	25,850	(1,120)	24,730
IMAX systems – contingent rent(1)	475	(475)	—
	<u>62,486</u>	<u>(1,595)</u>	<u>60,891</u>
Theater business			
IMAX systems			
Sales and sales-type leases(2)	8,588	3,393	11,981
Ongoing fees and finance income(3)	2,828	454	3,282
Joint revenue sharing arrangements – fixed fees(4)	2,762	(1,740)	1,022
Theater system maintenance	12,335	—	12,335
Other theater	2,255	—	2,255
	<u>28,768</u>	<u>2,107</u>	<u>30,875</u>
New business	<u>3,116</u>	<u>—</u>	<u>3,116</u>
Other			
Film post-production	1,087	—	1,087
Film distribution	1,273	—	1,273
Other	1,103	—	1,103
	<u>3,463</u>	<u>—</u>	<u>3,463</u>
Total	<u>\$ 97,833</u>	<u>\$ 512</u>	<u>\$98,345</u>

[Table of Contents](#)

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

- (1) Contingent rent of \$1.1 million and \$1.8 million, respectively in the three and six months ended June 30, 2018, related to theater systems under hybrid sales arrangements and \$0.5 million and \$1.3 million, respectively in the three and six months ended June 30, 2018 related to theater systems under sales arrangements was recognized in the Company's transition adjustment.
- (2) Variable consideration of \$1.7 million and \$3.3 million, respectively in the three and six months ended June 30, 2018 relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the respective period and the fixed consideration recognized for theater systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement – fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.
- (3) Finance income of \$0.5 million and \$0.6 million, respectively in the three and six months ended June 30, 2018 was recognized on the future consideration related to contracts.
- (4) Fixed consideration of \$1.7 million and \$2.9 million, respectively in the three and six months ended June 30, 2018 related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and sales-type leases.

[Table of Contents](#)

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

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

[Table of Contents](#)

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

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

	Balance at December 31, 2017	ASC Topic 606 Adjustments	Balance at January 1, 2018
Assets			
Other Assets	\$ 26,757	\$ 34,384	\$ 61,141
Deferred income taxes	30,708	(6,436)	24,272
Shareholders' equity			
Accumulated deficit	(87,592)	27,213	(60,379)
Non-controlling interests	74,511	735	75,246

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

[Table of Contents](#)

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

Contracts with Multiple Performance Obligations

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

Theater Systems

The Company has identified the projection system, sound system, screen system and, if applicable, 3D glasses cleaning machine, theater design support, supervision of installation, projectionist training and the use of the IMAX brand to be, as a group, a distinct performance obligation, and a single unit of accounting (the "System Obligation"). When an arrangement does not include all the performance obligations of a System Obligation, the performance obligations of the System Obligation included in the arrangement are considered by the Company to be a grouped distinct performance obligation and a single unit of accounting. The Company is not responsible for the physical installation of the equipment in the customer's facility; however, the Company supervises the installation by the customer. The customer has the right to use the IMAX brand from the date the Company and the customer enter into an arrangement.

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

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

Sales Arrangements

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

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

[Table of Contents](#)

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

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

Lease Arrangements

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

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

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

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

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

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

Finance Income

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

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

Table of Contents

Improvements and Modifications

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

Cost of Equipment and Product Sales

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

Cost of Rentals

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

Terminations, Consensual Buyouts and Concessions

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

In addition, the Company could agree with customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX digital theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new arrangement for the IMAX digital theater system. For all arrangements entered into or modified prior to the date of adoption of the amended FASB ASC 605-25, the Company continues to defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the selling price of the IMAX digital theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed. Under the amended FASB ASC 605-25, for all arrangements entered into or materially modified after the date of adoption, the total arrangement consideration to be received is allocated on a relative selling price basis to the digital upgrade and the termination of the previous theater system. The arrangement consideration allocated to the termination of the existing arrangement is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed.

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

[Table of Contents](#)

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

Maintenance and Extended Warranty Services

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

Film Production and IMAX DMR Services

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

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

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

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

Film Distribution

Revenue from the flat-fee licensing of films whose distribution rights are owned by the Company is recognized in Services revenues when persuasive evidence of a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed or determinable and collectability is reasonably assured. When license fees are based on a percentage of box-office receipts, the revenue is subject to the sales-based royalty exception and is recognized when box-office receipts are reported by exhibitors, provided collectability is reasonably assured. Film exploitation costs, including advertising and marketing, are recorded in costs and expenses applicable to revenues-services as incurred.

Film Post-Production Services

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

[Table of Contents](#)

Other

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

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

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

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

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

4. Financing Receivables

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

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

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

[Table of Contents](#)

5. Inventories

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

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

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

6. Property, Plant and Equipment

	As at June 30, 2018		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	\$271,303	\$ 113,578	\$157,725
Camera equipment	5,757	4,220	1,537
	<u>277,060</u>	<u>117,798</u>	<u>159,262</u>
Assets under construction	24,435	—	24,435
Other property, plant and equipment			
Land	8,203	—	8,203
Buildings	75,880	18,659	57,221
Office and production equipment	45,620	25,250	20,370
Leasehold improvements	11,044	4,406	6,638
	<u>140,747</u>	<u>48,315</u>	<u>92,432</u>
	<u>\$442,242</u>	<u>\$ 166,113</u>	<u>\$276,129</u>
	As at December 31, 2017		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	\$264,259	\$ 103,922	\$160,337
Camera equipment	5,757	3,939	1,818
	<u>270,016</u>	<u>107,861</u>	<u>162,155</u>
Assets under construction	23,398	—	23,398
Other property, plant and equipment			
Land	8,203	—	8,203
Buildings	74,478	17,364	57,114
Office and production equipment	40,442	22,164	18,278
Leasehold improvements	10,974	3,341	7,633
	<u>134,097</u>	<u>42,869</u>	<u>91,228</u>
	<u>\$427,511</u>	<u>\$ 150,730</u>	<u>\$276,781</u>

[Table of Contents](#)

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

7. Other Intangible Assets

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

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

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

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

During the three and six months ended June 30, 2018, the Company incurred costs of \$0.1 million and \$0.2 million, respectively to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses (2017 – less than \$0.1 million and \$0.1 million, respectively).

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

2018 (six months remaining)	\$2,507
2019	5,015
2020	5,015
2021	5,015
2022	5,015

8. Credit Facility and Other Financing Arrangements

Credit Facility

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

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

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

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

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

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

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

Working Capital Loan

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

Playa Vista Financing

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

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

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

	June 30, 2018	December 31, 2017
Playa Vista Loan	\$24,667	\$ 25,667
Deferred charges on debt financing	(290)	(310)
	<u>\$24,377</u>	<u>\$ 25,357</u>

[Table of Contents](#)

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

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

Wells Fargo Foreign Exchange Facility

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

Bank of Montreal Facility

As at June 30, 2018, the Company has available a \$10.0 million facility (December 31, 2017 — \$10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit fully insured by Export Development Canada (the “Bank of Montreal Facility”). As at June 30, 2018, the Company has outstanding letters of credit and advance payment guarantees outstanding of \$0.1 million (December 31, 2017 — Nil), under the Bank of Montreal Facility.

9. Commitments, Contingencies and Guarantees

Commitments

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

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

Contingencies and guarantees

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

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

(a) On May 15, 2006, the Company initiated arbitration against Three-Dimensional Media Group, Ltd. (“3DMG”) before the International Centre for Dispute Resolution in New York (the “ICDR”), alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties’ license agreement. The proceeding was suspended on May 4, 2009 due to failure of 3DMG to pay fees associated with the proceeding. The proceeding was further suspended on October 11, 2010 pending resolution of re-examination proceedings involving one of 3DMG’s patents. Following a status conference on April 27, 2016 before the ICDR, the ICDR granted 3DMG leave to amend its answer and counterclaims, and subsequently lifted the stay in this matter. In its amended counterclaims, 3DMG sought damages for alleged unpaid royalties, damages and other fees under the license and consulting agreements, and the Panel also permitted 3DMG to advance new damage theories. The ICDR held a final hearing in July and October 2017, the parties submitted final, post-hearing briefs in December 2017, and the ICDR held closing oral arguments in March 2018. On July 11, 2018, the ICDR issued a Partial Final Award that found for 3DMG on certain claims and for the Company on other claims. As part of the Partial Final

Table of Contents

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

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chamber of Commerce (the “ICC”) with respect to the breach by Electronic Media Limited (“EML”) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML’s affiliate, E-City Entertainment (I) PVT Limited (“E-City”). On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, consisting of past and future rents owed to the Company, plus interest and costs, as well as an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India and on June 10, 2013, the Bombay High Court ruled that it had jurisdiction over the proceeding filed by E-City. The Company appealed that ruling to the Supreme Court of India, and on March 10, 2017, the Supreme Court set aside the Bombay High Court’s judgement and dismissed E-City’s petition. On March 29, 2017, the Company filed an Execution Application in the Bombay High Court seeking to enforce the ICC award against E-City and several related parties. That matter is currently pending. The Company has also taken steps to enforce the ICC final award outside of India. In December 2011, the Ontario Superior Court of Justice issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application, and in October 2015, the New York Supreme Court recognized the Canadian judgment and entered it as a New York judgment. The Company intends to continue pursuing its rights and seeking to enforce the award, although no assurances can be given with respect to the ultimate outcome.

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

(d) On November 11, 2013, Giencourt Investments, S.A. (“Giencourt”) initiated arbitration before the International Centre for Dispute Resolution in Miami, Florida, based on alleged breaches by the Company of its theater agreement and related license agreement with Giencourt. An arbitration hearing for witness testimony was held during the week of December 14, 2015. At the hearing, Giencourt’s expert identified monetary damages of up to approximately \$10.4 million, which Giencourt sought to recover from the Company. The Company asserted a counterclaim against Giencourt for breach of contract and sought to recover lost profits in excess of \$24.0 million under the agreements. Subsequently, in December 2015, Giencourt made a motion to the panel seeking to enforce a purported settlement of the matter based on negotiations between Giencourt and the Company. The panel held a final hearing with closing arguments in October 2016. On February 7, 2017, the panel issued a Partial Final Award and on July 21, 2017, the panel issued a Final Award (collectively, the “Award”), which held that the parties had reached a binding settlement, and therefore the panel did not reach the merits of the dispute. The Company strongly disputes that discussions about a potential resolution of this matter amounted to an enforceable settlement. In October 2017, the Company filed a petition to vacate the arbitration award in the United States Court for the Southern District of Florida on various grounds, including that the panel exceeded its jurisdiction. The petition is still pending. At this time, the Company is unable to determine the amounts that it may owe pursuant to the Award, or the timing of any such payments, and therefore no assurances can be given with respect to the ultimate outcome of the matter.

[Table of Contents](#)

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

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

Financial Guarantees

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

Product Warranties

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

Director/Officer Indemnifications

The Company's General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amounts actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. In addition, the Company has entered into indemnification agreements with each of its directors in order to effectuate the foregoing. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the condensed consolidated balance sheets as at June 30, 2018 and December 31, 2017, with respect to this indemnity.

Other Indemnification Agreements

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

10. Condensed Consolidated Statements of Operations Supplemental Information

(a) Selling Expenses

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to Revenues – Equipment and product sales, totaled \$0.5 million and \$1.2 million for the three and six months ended June 30, 2018 (2017 — \$0.8 million and \$1.1 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$7.3 million and \$12.6 million for the three and six months ended June 30, 2018 (2017 — \$4.1 million and \$6.6 million, respectively), and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to Revenues – Rentals in the month they are earned. These costs totaled \$0.5 million and \$0.6 million for the three and six months ended June 30, 2018 (2017 — \$0.4 million and \$0.5 million, respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to Revenues – Rentals as incurred. These costs totaled an expense of \$0.6 million and \$0.7 million for the three and six months ended June 30, 2018 (2017 — \$0.4 million and \$0.7 million, respectively).

(b) Foreign Exchange

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

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

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

The Company has signed joint revenue sharing agreements with 39 exhibitors for a total of 1,192 theater systems, of which 738 theaters were operating as at June 30, 2018, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 3.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Revenue—Equipment and product sales and Rentals and for the three and six months ended June 30, 2018 amounted to \$25.7 million and \$43.6 million, respectively (2017 — \$20.3 million and \$36.0 million, respectively).

[Table of Contents](#)

IMAX DMR

In an IMAX DMR arrangement, the Company transforms conventional motion pictures into the Company's large screen format, allowing the release of Hollywood content to the global IMAX theater network. In a typical IMAX DMR film arrangement, the Company will absorb its costs for the digital re-mastering and then recoup this cost from a percentage of the box-office receipts of the film, which in recent years has averaged approximately 12.5% outside of Greater China and a lower percentage for certain films within Greater China. The Company does not typically hold distribution rights or the copyright to these films.

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

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and six months ended June 30, 2018 amounted to \$36.1 million and \$63.2 million, respectively (2017 — \$27.8 million and \$51.2 million, respectively).

Co-Produced Film Arrangements

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

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

For the three and six months ended June 30, 2018, amounts totaling a recovery of less than \$0.1 million and expense of \$0.2 million, respectively (2017 — expense of \$0.2 million and \$0.7 million, respectively) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to Revenues – Services.

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

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

11. Condensed Consolidated Statements of Cash Flows Supplemental Information

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

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

(b) Cash payments made on account of:

	Six Months Ended June 30,	
	2018	2017
Income taxes	<u>\$8,224</u>	<u>\$13,625</u>
Interest	<u>\$ 561</u>	<u>\$ 395</u>

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

	Six Months Ended June 30,	
	2018	2017
Film assets	\$ 8,053	\$ 8,347
Property, plant and equipment		
Joint revenue sharing arrangements	10,040	8,596
Other property, plant and equipment	6,376	5,674
Other intangible assets	2,398	2,030
Other assets	612	446
Deferred financing costs	555	261
	<u>\$28,034</u>	<u>\$25,354</u>

[Table of Contents](#)

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

	Six Months Ended June 30,	
	2018	2017
Accounts receivable	\$ 706	\$ 2,164
Property, plant and equipment (1)(3)	506	4,273
Joint revenue sharing arrangements (1)	336	—
Financing receivables	100	186
Other intangible assets	38	—
Film assets (2)(3)	—	4,963
Other assets (3)	—	1,522
Inventories	—	47
	<u>\$1,686</u>	<u>\$13,155</u>

- (1) The Company recognized asset impairment charges of \$0.8 million (2017 — \$0.6 million) against property, plant and equipment after an assessment of the carrying value of certain assets in light of their future expected cash flows.
- (2) The Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period and revised expectations for future revenues based on the latest information available. In the six months ended June 30, 2017, an impairment of \$4.6 million was recorded based on the carrying value of these documentary films as compared to the related estimated future box office and revenues that would ultimately be generated by these films. No such impairment was recognized in the six months ended June 30, 2018.
- (3) In 2017, as a result of the Company's restructuring activities, certain long-lived assets were deemed to be impaired as the Company's exit from certain activities limited the future revenue associated with these assets. The Company recognized film impairment charges of \$0.3 million, property, plant and equipment charges of \$3.7 million and other asset charges of \$1.5 million. See note 18 for additional details.

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

	Six Months Ended June 30,	
	2018	2017
Net accruals related to:		
Purchases of property, plant and equipment	\$500	\$ 1,293
Investment in joint revenue sharing arrangements	(20)	(4,612)
Acquisition of other intangible assets	(23)	74
	<u>\$457</u>	<u>\$(3,245)</u>

12. Income Taxes

(a) Income Taxes

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the quarter ended June 30, 2018, there was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings.

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

13. Capital Stock

(a) Stock-Based Compensation

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock options	\$1,361	\$1,012	\$ 2,750	\$ 2,366
Restricted Share Units	4,805	5,096	8,020	8,482
China Long Term Incentive Plan Restricted Share Units	537	244	720	412
China Options	53	381	94	631
China Cash Settled Share-Based Payments	—	129	—	235
	<u>\$6,756</u>	<u>\$6,862</u>	<u>\$11,584</u>	<u>\$12,126</u>

Table of Contents

Stock Option Summary

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

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

Restricted Share Units ("RSU") Summary

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

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

Issuer Purchases of Equity Securities

In 2017, the Company's Board of Directors approved a new \$200.0 million share repurchase program for shares of the Company's common stock. The share repurchase program expires on June 30, 2020. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time. During the three and six months ended June 30, 2018, the Company repurchased 1,500,465 and 2,154,689 common shares, respectively (2017 – 1,736,150 and 1,736,150, respectively) at an average price of \$22.01 and \$21.54 per share, respectively (2017 – \$26.57 and \$26.57 per share, respectively).

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

[Table of Contents](#)

(b) Net Income (Loss) Per Share

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

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

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

(c) Shareholders' Equity Attributable to Common Shareholders

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

Balance as at December 31, 2017	\$ 527,746
Adjustments to capital stock:	
Average carrying value of repurchased and retired common shares	(14,794)
Share held in treasury	497
Adjustments to other equity:	
Employee stock options granted	2,843
RSUs granted	8,740
RSUs vested	(7,915)
Cash received from the issuance of common shares in excess of par value	799
Adjustments to accumulated deficit:	
Net income attributable to common shareholders	16,130
Adoption of ASC Topic 606, Revenue from Contracts with Customers	27,213
Common shares repurchased and retired	(31,659)
Adjustments to accumulated other comprehensive loss:	
Unrealized net loss from cash flow hedging instruments	(1,686)
Realization of cash flow hedging net gain upon settlement	(332)
Foreign currency translation adjustments	(646)
Tax effect of movement in other comprehensive loss	528
Balance as at June 30, 2018	\$ 527,464

14. Segmented Information

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

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

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

[Table of Contents](#)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue⁽¹⁾				
Network business				
IMAX DMR	\$36,161	\$27,757	\$ 63,214	\$ 51,166
Joint revenue sharing arrangements – contingent rent ⁽²⁾	24,730	18,896	42,593	34,130
IMAX systems – contingent rent ⁽²⁾	—	790	—	1,478
	<u>60,891</u>	<u>47,443</u>	<u>105,807</u>	<u>86,774</u>
Theater business				
IMAX systems ⁽²⁾	15,263	18,738	36,130	28,265
Joint revenue sharing arrangements – fixed fees ⁽²⁾	1,022	1,408	1,022	1,878
Theater system maintenance	12,335	10,904	25,047	21,949
Other theater	2,255	1,699	3,631	3,864
	<u>30,875</u>	<u>32,749</u>	<u>65,830</u>	<u>55,956</u>
New business	<u>3,116</u>	<u>1,311</u>	<u>3,723</u>	<u>2,591</u>
Other				
Film post-production	1,087	4,149	4,250	7,220
Film distribution	1,273	938	1,844	1,450
Other	1,103	1,168	1,875	2,423
	<u>3,463</u>	<u>6,255</u>	<u>7,969</u>	<u>11,093</u>
Total	<u>\$98,345</u>	<u>\$87,758</u>	<u>\$183,329</u>	<u>\$156,414</u>
Gross Margin				
Network business				
IMAX DMR ⁽³⁾	\$24,280	\$16,998	\$ 43,063	\$ 34,466
Joint revenue sharing arrangements – contingent rent ⁽²⁾⁽³⁾	18,621	13,668	31,362	23,920
IMAX systems – contingent rent ⁽²⁾	—	790	—	1,478
	<u>42,901</u>	<u>31,456</u>	<u>74,425</u>	<u>59,864</u>
Theater business				
IMAX systems ⁽²⁾⁽³⁾	10,133	12,263	24,425	18,004
Joint revenue sharing arrangements – fixed fees ⁽²⁾⁽³⁾	246	176	246	264
Theater system maintenance	5,088	4,434	11,292	8,683
Other theater	563	405	517	834
	<u>16,030</u>	<u>17,278</u>	<u>36,480</u>	<u>27,785</u>
New business	<u>1,906</u>	<u>(1,183)</u>	<u>436</u>	<u>(1,520)</u>
Other				
Film post-production	(150)	2,425	1,535	3,525
Film distribution ⁽³⁾	(237)	(427)	(1,476)	(4,190)
Other	(46)	(90)	(304)	(234)
	<u>(433)</u>	<u>1,908</u>	<u>(245)</u>	<u>(899)</u>
Total	<u>\$60,404</u>	<u>\$49,459</u>	<u>\$111,096</u>	<u>\$ 85,230</u>

Table of Contents

- (1) The Company's largest customer represented 18.7% and 18.0% of total revenues for the three and six months ended June 30, 2018, respectively (2017 — 15.1% and 15.8%, respectively).
- (2) On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company's open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company's exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts. Refer to note 3 for additional information.
- (3) IMAX DMR segment margins include marketing costs of \$6.5 million and \$10.6 million for the three and six months ended June 30, 2018, respectively (2017 — \$4.7 million and \$7.3 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.0 million and \$1.2 million for the three and six months ended June 30, 2018, respectively (2017 — \$0.8 million and \$1.2 million, respectively). IMAX systems segment margins include marketing and commission costs of \$0.5 million and \$1.2 million for the three and six months ended June 30, 2018, respectively (2017 — \$0.8 million and \$1.1 million, respectively). Film distribution segment margins include marketing expense of \$0.8 million and \$2.0 million for the three and six months ended June 30, 2018, respectively (2017 — a recovery of \$0.6 million and a recovery of \$0.7 million, respectively).

Geographic Information

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

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

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

[Table of Contents](#)

15. Employee's Pension and Postretirement Benefits

(a) Defined Benefit Plan

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest cost	<u>\$ 105</u>	<u>\$ 107</u>	<u>\$ 211</u>	<u>\$ 213</u>
Pension expense	<u>\$ 105</u>	<u>\$ 107</u>	<u>\$ 211</u>	<u>\$ 213</u>

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

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

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

2018 (six months remaining)	\$ —
2019	—
2020	20,076
2021	—
2022	—
Thereafter	—
	<u>\$20,076</u>

The SERP assumptions are that Mr. Gelfond will receive a lump sum payment six months after retirement at the end of the current term of his employment agreement (December 31, 2019), although Mr. Gelfond has not informed the Company that he intends to retire at that time.

(b) Defined Contribution Pension Plan

The Company also maintains defined contribution plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and six months ended June 30, 2018, the Company contributed and expensed an aggregate of \$0.3 million and \$0.6 million, respectively (2017 — \$0.3 million and \$0.6 million, respectively) to its Canadian defined contribution plan and an aggregate of \$0.1 million and \$0.3 million, respectively (2017 — \$0.2 million and \$0.4 million, respectively) to its defined contribution employee plan under Section 401(k) of the U.S. Internal Revenue Code.

[Table of Contents](#)

(c) Postretirement Benefits—Executives

The Company has an unfunded postretirement plan for Mr. Gelfond and Bradley J. Wechsler, Chairman of the Company’s Board of Directors. The plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by Messrs. Gelfond and Wechsler. The postretirement benefits obligation as at June 30, 2018 is \$0.7 million (December 31, 2017 — \$0.7 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and six months ended June 30, 2018, respectively (2017 — less than \$0.1 million and less than \$0.1 million, respectively).

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

2018 (six months remaining)	\$ 24
2019	26
2020	33
2021	37
2022	40
Thereafter	<u>550</u>
Total	<u>\$710</u>

(d) Postretirement Benefits – Canadian Employees

The Company has an unfunded postretirement plan for its Canadian employees upon meeting specific eligibility requirements. The Company will provide eligible participants, upon retirement, with health and welfare benefits. The postretirement benefits obligation as at June 30, 2018 is \$1.6 million (December 31, 2017 — \$1.7 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and six months ended June 30, 2018, respectively (2017 — less than \$0.1 million and less than \$0.1 million, respectively).

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

2018 (six months remaining)	\$ 89
2019	107
2020	84
2021	109
2022	97
Thereafter	<u>1,130</u>
Total	<u>\$1,616</u>

(e) Deferred Compensation Retirement Plan

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

16. Financial Instruments

(a) Financial Instruments

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

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

(b) Fair Value Measurements

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

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

(1) Recorded at cost, which approximates fair value.

(2) Estimated based on discounting future cash flows at currently available interest rates with comparable terms.

(3) Value determined using quoted prices in active markets.

There were no significant transfers between Level 1 and Level 2 during the three and six months ended June 30, 2018 or 2017. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. There were no transfers in or out of the Company's level 3 assets during the three and six months ended June 30, 2018.

(c) Financing Receivables

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

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

Table of Contents

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

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

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

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

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

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

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

[Table of Contents](#)

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

	As at June 30, 2018		As at December 31, 2017	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	881	(739)	1,192	(922)
Total	<u>\$ 881</u>	<u>\$ (739)</u>	<u>\$ 1,192</u>	<u>\$ (922)</u>

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

The Company's aged financing receivables are as follows:

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

	As at December 31, 2017							
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 103	\$ 74	\$ 376	\$ 553	\$ 6,837	\$ 7,390	\$ (155)	\$ 7,235
Net financed sales receivables	3,285	1,399	3,763	8,447	114,734	123,181	(922)	122,259
Total	<u>\$ 3,388</u>	<u>\$ 1,473</u>	<u>\$ 4,139</u>	<u>\$ 9,000</u>	<u>\$ 121,571</u>	<u>\$ 130,571</u>	<u>\$ (1,077)</u>	<u>\$ 129,494</u>

[Table of Contents](#)

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

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

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

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

[Table of Contents](#)

	For the Three Months Ended June 30, 2018				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	869	12	(739)	930	—
With no related allowance recorded:					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
Total:					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	\$ 869	\$ 12	\$ (739)	\$ 930	\$ —
For the Three Months Ended June 30, 2017					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	427	—	(427)	463	—
With no related allowance recorded:					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
Total:					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	\$ 427	\$ —	\$ (427)	\$ 463	\$ —
For the Six Months Ended June 30, 2018					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	869	12	(739)	991	—
Recorded investment for which there is no related allowance:					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
Total recorded investment in impaired loans:					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	\$ 869	\$ 12	\$ (739)	\$ 991	\$ —
For the Six Months Ended June 30, 2017					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	427	—	(427)	494	—
Recorded investment for which there is no related allowance:					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
Total recorded investment in impaired loans:					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	\$ 427	\$ —	\$ (427)	\$ 494	\$ —

[Table of Contents](#)

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

	<u>Three Months Ended June 30, 2018</u>		<u>Six Months Ended June 30, 2018</u>	
	<u>Net Investment in Leases</u>	<u>Net Financed Sales Receivables</u>	<u>Net Investment in Leases</u>	<u>Net Financed Sales Receivables</u>
<u>Allowance for credit losses:</u>				
Beginning balance	\$ 155	\$ 922	\$ 155	\$ 922
Charge-offs	—	(183)	—	(183)
Recoveries	—	—	—	—
Provision	—	100	—	100
Ending balance	<u>\$ 155</u>	<u>\$ 839</u>	<u>\$ 155</u>	<u>\$ 839</u>
Ending balance: individually evaluated for impairment	<u>\$ 155</u>	<u>\$ 839</u>	<u>\$ 155</u>	<u>\$ 839</u>
<u>Financing receivables:</u>				
Ending balance: individually evaluated for impairment	<u>\$ 6,935</u>	<u>\$ 119,815</u>	<u>\$ 6,935</u>	<u>\$ 119,815</u>
	<u>Three Months Ended June 30, 2017</u>		<u>Six Months Ended June 30, 2017</u>	
	<u>Net Investment in Leases</u>	<u>Net Financed Sales Receivables</u>	<u>Net Investment in Leases</u>	<u>Net Financed Sales Receivables</u>
<u>Allowance for credit losses:</u>				
Beginning balance	\$ 672	\$ 494	\$ 672	\$ 494
Charge-offs	(351)	(67)	(351)	(67)
Recoveries	—	—	—	—
Provision	—	—	—	—
Ending balance	<u>\$ 321</u>	<u>\$ 427</u>	<u>\$ 321</u>	<u>\$ 427</u>
Ending balance: individually evaluated for impairment	<u>\$ 321</u>	<u>\$ 427</u>	<u>\$ 321</u>	<u>\$ 427</u>
<u>Financing receivables:</u>				
Ending balance: individually evaluated for impairment	<u>\$ 6,698</u>	<u>\$ 113,329</u>	<u>\$ 6,698</u>	<u>\$ 113,329</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 China and Japan, the Company has ongoing operating expenses related to its operations in Chinese Renminbi and Japanese yen, respectively. Net cash flows are converted to and from U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Chinese Renminbi, Japanese yen, Canadian dollars and Euros which are converted to U.S. dollars through the spot market. In addition, because IMAX films generate box office in 79 different countries, unfavourable exchange rates between applicable local currencies, and the U.S. dollar affect the Company's reported gross box-office and revenues, further impacting the Company's results of operations. The Company's policy is to not use any financial instruments for trading or other speculative purposes.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at June 30, 2018 (the "Foreign Currency Hedges"), with settlement dates throughout 2018 and 2019. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statements of operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. For foreign currency cash flow hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statements of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The Company currently does not hold any derivatives which are not designated as hedging instruments.

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

Notional value of foreign exchange contracts:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Derivatives designated as hedging instruments:		
Foreign exchange contracts — Forwards	\$43,440	\$ 35,170

Fair value of derivatives in foreign exchange contracts:

	<u>Balance Sheet Location</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Derivatives designated as hedging instruments:			
Foreign exchange contracts — Forwards	Other assets	\$ 149	\$ 1,447
	Accrued and other liabilities	(742)	(22)
		<u>\$ (593)</u>	<u>\$ 1,425</u>

[Table of Contents](#)

Derivatives in Foreign Currency Hedging relationships are as follows:

		<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Foreign exchange contracts — Forwards	Derivative (Loss) Gain Recognized in OCI (Effective Portion)	\$ (679)	\$ 772	\$ (1,686)	\$ 1,085
		<u>Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</u>		<u>Three Months Ended June 30,</u>	
		<u>2018</u>	<u>2017</u>	<u>Six Months Ended June 30,</u>	<u>2017</u>
Foreign exchange contracts — Forwards	Selling, general and administrative expenses	\$ 112	\$ 101	\$ 332	\$ (184)
		<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Foreign exchange contracts — Forwards	Derivative Gain (Loss) Recognized In and Out of OCI (Effective Portion)	\$ —	\$ (33)	\$ 46	\$ (80)

The Company's estimated net amount of the existing losses as at June 30, 2018 is \$0.2 million, which is expected to be reclassified to earnings within the next twelve months.

(e) Investments in New Business Ventures

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 or FASB ASC 320, as appropriate.

As at June 30, 2018, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2017 — \$nil). The Company's accumulated losses in excess of its equity investment were \$2.2 million as at June 30, 2018, and are classified in Accrued and other liabilities. For the three months ended June 30, 2018, gross revenues, cost of revenue and net loss for the Company's investment was \$1.0 million, \$0.8 million and \$0.4 million, respectively (2017 — \$0.2 million, \$0.9 million and \$0.7 million, respectively). For the six months ended June 30, 2018, gross revenues, cost of revenue and net loss for the Company's investment was \$1.5 million, \$1.7 million and \$1.0 million, respectively (2017 — \$0.5 million, \$1.8 million and \$1.4 million, respectively) The Company has determined it is not the primary beneficiary of this VIE, and therefore this entity has not been consolidated. In a prior year, the Company issued a convertible loan of \$1.5 million to this entity with a term of 3 years with an annual effective interest rate of 5.0%. The instrument is classified as an available-for-sale investment due to certain features that allow for conversion to common stock in the entity in the event of certain triggers occurring.

In addition, the Company has an investment in preferred stock of another business venture of \$1.5 million which meet the criteria for classification as a debt security under the FASB ASC 320 and is recorded at a fair value of \$nil at June 30, 2018 (December 31, 2017 — \$nil). This investment was classified as an equity investment.

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

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

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

[Table of Contents](#)

17. Non-Controlling Interests

(a) IMAX China Non-Controlling Interest

The Company indirectly owns approximately 67.93% of IMAX China Holding, Inc. ("IMAX China"), whose shares trade on the Hong Kong Stock Exchange. IMAX China remains a consolidated subsidiary of the Company.

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

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

(b) Other Non-Controlling Interest

The Company's Original Film Fund was established in 2014 to co-finance a portfolio of 10 original large-format films. The initial investment in the Original Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company has contributed \$9.0 million to the Original Film Fund since 2014, and has reached its maximum contribution. The Company sees the Original Film Fund as a self-perpetuating vehicle designed to generate a continuous, steady flow of high-quality documentary content. As at June 30, 2018, the Original Film Fund invested \$19.7 million toward the development of original films. The related production, financing and distribution agreement includes put and call rights relating to change of control of the rights, title and interest in the co-financed pictures.

The Company also established its VR Fund among the Company, its subsidiary IMAX China and other strategic investors to help finance the creation of interactive VR content experiences for use across all VR platforms, including in the pilot IMAX VR Centers. The VR Fund recently helped finance the production of one interactive VR experience, which debuted exclusively in the pilot IMAX VR Centers in November 2017 before being made available to other VR platforms. The VR Fund continues to finance other productions of interactive VR experiences as part of its ongoing activities. As at June 30, 2018, the Company invested \$4.0 million toward the development of VR content.

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

Balance as at December 31, 2017	\$1,353
Issuance of subsidiary shares to non-controlling interests	6,696
Net loss	(471)
Balance as at June 30, 2018	<u>\$7,578</u>

[Table of Contents](#)

18. Exit costs, restructuring charges and associated impairments

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Restructuring charges	\$ 456	\$ 4,705	\$1,158	\$ 4,705
Asset impairments	—	5,553	—	5,553
	<u>\$ 456</u>	<u>\$ 10,258</u>	<u>\$1,158</u>	<u>\$10,258</u>

(a) Restructuring charges

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

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

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

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

[Table of Contents](#)

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

	Employee Severance and Benefits
Balance as at December 31, 2017	\$ 2,221
Restructuring charges	1,158
Cash payments	<u>(2,158)</u>
Balance as at June 30, 2018	<u>\$ 1,221</u>

(b) Associated Impairments

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

Film assets	\$ 335
Property, plant and equipment	3,696
Other assets	<u>1,522</u>
	<u>\$ 5,553</u>

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

IMAX CORPORATION

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

OVERVIEW

IMAX Corporation, together with its consolidated subsidiaries (the "Company"), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as "IMAX theaters". IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as a result, IMAX's network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 1,410 IMAX theater systems (1,314 commercial multiplexes, 12 commercial destinations, 84 institutional) operating in 79 countries as of June 30, 2018. This compares to 1,257 theater systems (1,154 commercial multiplexes, 13 commercial destinations, 90 institutional) operating in 75 countries as of June 30, 2017.

The Company's core business consists of:

- the Digital Re-Mastering ("DMR") of films into the IMAX format for exhibition in the IMAX theater network in exchange for a certain percentage of contingent box office receipts from both studios and exhibitors; and
- the provision of IMAX premium theater systems ("IMAX theater systems") to exhibitor customers through sales, long-term leases or joint revenue sharing arrangements.

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

- the ability to exhibit content that has undergone IMAX DMR conversion, which results in higher image and sound fidelity than conventional cinema experiences;
- advanced, high-resolution projectors with specialized equipment and automated theater control systems, which generate significantly more contrast and brightness than conventional theater systems;
- large screens and proprietary theater geometry, which result in a substantially larger field of view so that the screen extends to the edge of a viewer's peripheral vision and creates more realistic images;
- sound system components, which deliver more expansive sound imagery and pinpointed origination of sound to any specific spot in an IMAX theater;
- specialized theater acoustics, which result in a four-fold reduction in background noise; and
- a license to the globally recognized IMAX brand.

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

As a result of the immersiveness and superior image and sound quality of *The IMAX Experience*, the Company's exhibitor customers typically charge a premium for IMAX DMR films over films exhibited in their other auditoriums. The premium pricing, combined with the higher attendance levels associated with IMAX DMR films, generates incremental box office for the Company's exhibitor customers and for the movie studios releasing their films to the IMAX theater network. The incremental box office generated by IMAX DMR films has helped establish IMAX as a key premium distribution and marketing platform for Hollywood blockbuster films. The Company released 60 IMAX DMR films in 2017 and expects to release a similar number of IMAX DMR films in 2018.

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

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

[Table of Contents](#)

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

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

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

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

SOURCES OF REVENUE

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

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

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

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

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

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

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

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

Digital Re-Mastering (IMAX DMR)

The Company has developed a proprietary technology, known as IMAX DMR, to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in IMAX theaters. IMAX DMR digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which *The IMAX Experience* is known. In a typical IMAX DMR film arrangement, the Company receives a percentage, which in recent years has averaged approximately 12.5%, of net box office receipts, defined as gross box office receipts less applicable sales taxes, of any commercial films released outside of Greater China in return for converting them to the IMAX DMR format and distributing them through the IMAX theater network. Within Greater China, the Company receives a lower percentage of box office receipts for certain Hollywood films.

IMAX films also benefit from enhancements made by individual filmmakers exclusively for the IMAX release, and filmmakers and studios have sought IMAX-specific enhancements in recent years to generate interest in and excitement for their films. Such enhancements include shooting select scenes with IMAX cameras to increase the audience's immersion in the film and taking advantage of the unique dimensions of the IMAX screen by projecting the film in a larger aspect ratio. For example, Marvel's *Avengers: Infinity War*, which was released in April 2018, was shot in its entirety using IMAX cameras, and the *Untitled Avengers Sequel* is also expected to be filmed entirely with IMAX cameras. In addition, in July 2018, *Ant-Man and the Wasp* and *Mission: Impossible – Fallout* will be released with select scenes specifically formatted for IMAX screens, and in October 2018, *First Man* will be released with select scenes filmed using IMAX cameras.

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

The Company believes that the growth in international box office remains an important driver of future growth for the Company. To support continued growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets (particularly in China). During 2017, 22 local language IMAX DMR films, including 15 in China, three in Russia, three in Japan and one in India were released to the IMAX theater network. During the six months ended June 30, 2018, six local language IMAX DMR films, including five in China and one in India, were released to the IMAX theater network. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in the remainder of 2018 and beyond.

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

- *Ant-Man and the Wasp: The IMAX Experience* (Walt Disney Studios, July 2018);
- *Dying to Survive: The IMAX Experience* (Beijing Culture, July 2018);
- *Hidden Man: The IMAX Experience* (Maoyan, July 2018);
- *Skyscraper: The IMAX Experience* (Universal Pictures, July 2018, select international markets);
- *Mamma Mia! Here We Go Again: The IMAX Experience* (Universal Pictures, July 2018);
- *The Equalizer 2: The IMAX Experience* (Sony Pictures, July 2018);
- *Mission: Impossible – Fallout: The IMAX Experience* (Paramount Pictures, July 2018);
- *Detective Dee: The Four Heavenly Kings: The IMAX Experience* (Huayi Bros., July 2018);
- *Hello Mr. Billionaire: The IMAX Experience* (New Classics, July 2018);
- *Along with the Gods 2: The IMAX Experience* (Lotte, August 2018, Korea and select international markets);
- *The Meg: The IMAX Experience* (Warner Bros. Pictures, August 2018);
- *The Nun: The IMAX Experience* (Warner Bros. Pictures, September 2018);
- *The Predator: The IMAX Experience* (20th Century Fox, September 2018);
- *Venom: The IMAX Experience* (Sony Pictures Entertainment, October 2018);
- *First Man: The IMAX Experience* (Universal Pictures, October 2018);
- *Fantastic Beasts: The Crimes of Grindelwald: The IMAX Experience* (Warner Bros. Pictures, November 2018);
- *Thugs of Hindustan: The IMAX Experience* (Yash Raj Films, November 2018, India and select international markets);

[Table of Contents](#)

- *Ralph Breaks the Internet: The IMAX Experience* (Walt Disney Studios, December 2018, select international markets);
- *Mortal Engines: The IMAX Experience* (Universal Pictures, December 2018);
- *Alita: Battle Angel: The IMAX Experience* (20th Century Fox, December 2018); and
- *Aquaman: The IMAX Experience* (Warner Bros. Pictures, December 2018).

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

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

- *Ad Astra: The IMAX Experience* (20th Century Fox, January 2019);
- *Glass: The IMAX Experience* (Universal Pictures and Disney Studios, January 2019);
- *X-Men: Dark Phoenix: The IMAX Experience* (20th Century Fox, February 2019);
- *How to Train Your Dragon: The Hidden World: The IMAX Experience* (Universal Pictures, March 2019);
- *Captain Marvel: The IMAX Experience* (Walt Disney Studios, March 2019);
- *Shazam!: The IMAX Experience* (Warner Bros. Pictures, April 2019);
- *Avengers 4: The IMAX Experience* (Walt Disney Studios, April 2019);
- *Godzilla: King of Monsters: The IMAX Experience* (Warner Bros. Pictures, May 2019);
- *Toy Story 4: The IMAX Experience* (Walt Disney Studios, June 2019);
- *Spider-Man: Far From Home: The IMAX Experience* (Sony Pictures, July 2019);
- *Lion King: The IMAX Experience* (Walt Disney Studios, July 2019);
- *The New Mutants: The IMAX Experience* (20th Century Fox, August 2019);
- *Artemis Fowl: The IMAX Experience* (Walt Disney Studios, August 2019);
- *IT: Chapter 2: The IMAX Experience* (TBD, September 2019);
- *Wonder Woman 1984: The IMAX Experience* (Warner Bros. Pictures, November 2019);
- *Frozen 2: The IMAX Experience* (Walt Disney Studios, November 2019); and
- *Star Wars: Episode IX: The IMAX Experience* (Walt Disney Studios, December 2019).

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate, and anticipates that the number of IMAX DMR films to be released to the IMAX theater network in 2018 will be similar to the 60 IMAX DMR films released to the IMAX theater network in 2017.

Joint Revenue Sharing Arrangements – Contingent Rent

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

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

Under a hybrid joint revenue sharing arrangement, by contrast, the customer is responsible for making upfront payments prior to the delivery and installation of the IMAX theater system in an amount that is typically half of what the Company would receive from a straight sale transaction. As with a traditional joint revenue sharing arrangement, the customer also pays the Company a portion of the customer’s IMAX box office receipts over the term of the arrangement, although the percentage of box office receipts owing to the Company is typically half that of a traditional joint revenue sharing arrangement.

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

[Table of Contents](#)

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

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

The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company's commercial theater network. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box office. The Company funds its joint revenue sharing arrangements through cash flows from operations. As at June 30, 2018, the Company had 738 theaters in operation under joint revenue sharing arrangements, a 10.0% increase as compared to the 671 joint revenue sharing arrangements open as at June 30, 2017. The Company also had contracts in backlog for an additional 454 theaters under joint revenue sharing arrangements as at June 30, 2018.

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

IMAX Systems – Contingent Rent

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

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

IMAX Systems

The Company also provides IMAX theater systems to customers on a sales or long-term lease basis, typically with an initial 10-year term. These agreements typically require the payment of initial fees and ongoing fees (which can include a fixed minimum amount per annum and contingent fees in excess of the minimum payments), as well as maintenance and extended warranty fees. The initial fees vary depending on the system configuration and location of the theater. Initial fees are paid to the Company in installments between the time of system signing and the time of system installation, which is when the total of these fees, in addition to the present value of future annual minimum payments, are recognized as revenue. Ongoing fees are paid over the term of the contract, commencing after the theater system has been installed, and is a fixed minimum amount per annum. Finance income is derived over the term of a financed sale or sales-type lease arrangement as the unearned income on that financed sale or sales-type lease is earned. Certain maintenance and extended warranty services are provided to the customer for a separate fixed annual fee.

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

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

[Table of Contents](#)

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

Joint Revenue Sharing Arrangements – Fixed Fees

As discussed in joint revenue sharing arrangements above, under a hybrid joint revenue sharing arrangement that takes the form of a lease arrangement, the customer is responsible for making upfront payments prior to the delivery and installation of the IMAX theater system in an amount that is typically half of what the Company would receive from a straight sale transaction. These fixed upfront payments are included in the Company's theater business operations.

Theater System Maintenance

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

Other Theater Revenues

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

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

New Business

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

Virtual Reality

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

Since 2017, the Company has opened six pilot IMAX VR centers, including its flagship pilot IMAX VR Center in Los Angeles (along with two in New York City, one in Toronto, one in Manchester, England, one in Shanghai, China and one in Bangkok, Thailand). Although the Company continues to evaluate its pilot VR strategy, at this time it has no intentions to open any additional IMAX VR Centers and closed its location in Shanghai on June 30, 2018 and one of its locations in New York on July 2, 2018.

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

[Table of Contents](#)

Original Content

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

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

The Company has also created two film funds to help finance the production of original content. The Company is forming the IMAX China Film Fund (the “China Film Fund”) with its subsidiary IMAX China Holding Inc. (“IMAX China”), its partner CMC and several other large investors to help fund Mandarin language commercial films. The China Film Fund, which is expected initially to be capitalized with over \$80.0 million, will target productions that can leverage the Company’s brand, relationships, technology and release windows in China. The China Film Fund is expected to co-finance approximately 15 Mandarin-language tent-pole films over three years, and will target contributions of between \$3.0 million and \$7.0 million per film. The China Film Fund will operate under an IMAX China-CMC controlled greenlight committee.

In addition, the Company’s IMAX Original Film Fund (the “Original Film Fund”) was established in 2014 to co-finance a portfolio of 10 original large format films. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company has contributed \$9.0 million to the Original Film Fund since 2014, and has reached its maximum contribution. The Company sees the Original Film Fund as a self-perpetuating vehicle designed to generate a continuous, steady flow of high-quality documentary content. As at June 30, 2018, the Original Film Fund has invested \$19.7 million toward the development of original films.

IMAX Home Entertainment

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

Other

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

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

The Company derives a small portion of its revenues from other sources. As at June 30, 2018, the Company had two owned and operated IMAX theaters (December 31, 2017 — two owned and operated theaters). In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses and provides management services to four other theaters. The Company also rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers.

[Table of Contents](#)

IMAX Theater Network and Backlog

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

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

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

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

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 2,855 IMAX theaters worldwide from 1,314 commercial multiplex IMAX theaters operating as of June 30, 2018. The Company believes that the majority of its future growth will come from international markets. As at June 30, 2018, 67.9% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 64.8% as at June 30, 2017. Revenues and gross box office derived from outside the United States and Canada continue to exceed revenues and gross box office from the United States and Canada. Risks associated with the Company's international business are outlined in Risk Factors – "The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects" in Item 1A of the Company's 2017 Form 10-K.

Greater China continues to be the Company's second-largest market, measured by revenues, with approximately 28% of overall revenues generated from the Company's China operations in the six months ended June 30, 2018. As at June 30, 2018, the Company had 569 theaters operating in Greater China (552 commercial multiplexes, 17 institutional) with an additional 319 theaters in backlog that are scheduled to be installed in Greater China by 2022. The Company's backlog in Greater China represents 50.2% of the Company's current backlog. The Company's largest single international partnership is in China with Wanda Film, ("Wanda"). Wanda's total, commitment to the Company is for 359 theater systems in Greater China (of which 343 theater systems are under the parties' joint revenue sharing arrangement). See Risk Factors – "The Company faces risks in connection with the continued expansion of its business in China" in Item 1A of the Company's 2017 Form 10-K.

[Table of Contents](#)

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

	2018				
	IMAX Commercial Multiplex Theater Network				
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale / Sales- type lease	Total
Domestic Total (United States & Canada)	274	5	279	127	406
International:					
Greater China	275	82	357	195	552
Asia (excluding Greater China)	29	1	30	73	103
Western Europe	36	22	58	35	93
Russia & the CIS	—	—	—	57	57
Latin America	—	—	—	44	44
Rest of the World	14	—	14	45	59
International Total	354	105	459	449	908
Worldwide Total	628	110	738	576 ⁽¹⁾	1,314
	2017				
	IMAX Commercial Multiplex Theater Network				
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale / Sales- type lease	Total
Domestic Total (United States & Canada)	267	4	271	120	391
International:					
Greater China	215	70	285	158	443
Asia (excluding Greater China)	34	20	54	41	95
Western Europe	25	21	46	31	77
Russia & the CIS	—	—	—	57	57
Latin America	—	—	—	40	40
Rest of the World	13	2	15	36	51
International Total	287	113	400	363	763
Worldwide Total	554	117	671	483	1,154

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

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

Table of Contents

Sales Backlog

The Company's current sales backlog is as follows:

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

- (1) Includes 22 hybrid sales theater systems which were previously classified under joint revenue sharing arrangements – hybrid sales arrangements.
- (2) Includes a variable consideration estimate of \$17.4 million in accordance with the new revenue standard. See “Critical Accounting Policies and Estimates” for further details of the adoption impact of ASC Topic 606 on the Company's revenues.
- (3) Includes 49 theater systems where the customer has the option to convert from a joint revenue sharing arrangement to a sales arrangement.
- (4) Reflects contractual upfront payments. Future contingent payments are not reflected as these are based on negotiated shares of box office results.
- (5) Includes 75 new laser projection system configurations and 101 upgrades of existing locations to laser projection system configurations (99 of the 101 upgrades are for the new next generation laser projection system configurations).
- (6) Includes 24 new laser projection system configurations and four upgrades of existing locations to laser projection system configurations.

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

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

[Table of Contents](#)

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

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

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

- (1) Includes 22 theater systems which were previously classified under joint revenue sharing arrangements – hybrid sales arrangements. See “Critical Accounting Policies and Estimates” for further details of the adoption impact of ASC Topic 606 on the Company’s revenues.
- (2) Includes 56 new next generation laser projection system configurations and 99 upgrades of existing locations to laser projection system configurations.

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

Table of Contents

The following reflects the Company's signings and installations:

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

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

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

The Company anticipates that it will install approximately 155 new theater systems (excluding upgrades) in 2018. The Company cautions, however, that theater system installations may slip from period to period over the course of the Company's business, usually for reasons beyond its control.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the condensed consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company's significant accounting policies are discussed in Item 7 of the Company's 2017 Form 10-K.

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

[Table of Contents](#)

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

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

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

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

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

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

[Table of Contents](#)

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

Constraints on the Recognition of Variable Consideration

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

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

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

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

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

Impact of Recently Issued Accounting Pronouncements

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

NON-GAAP FINANCIAL MEASURES

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

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

The Company presents adjusted net income and adjusted net income per diluted share, which excludes stock-based compensation and non-recurring exit costs, restructuring charges and associated impairments, legal arbitration award and the related tax impact of these adjustments, because it believes that they are important supplemental measures of the Company’s comparable controllable operating performance. Although stock-based compensation is an important aspect of the Company’s employee and executive compensation packages, it is mostly a non-cash expense and is excluded from certain internal business performance measures, and the Company wants to ensure that its investors fully understand the impact of its stock-based compensation (net of any related tax impact) and non-recurring charges on net income.

In addition, the Company presents adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share because it believes that they are important supplemental measures of its comparable financial results. Without the presentation of these adjusted presentation measures the Company believes it could potentially distort the analysis of trends in business performance and it wants to ensure that its investors fully understand the impact of net income attributable to non-controlling interests, its stock-based compensation, and non-recurring exit costs, restructuring charges and associated impairments and legal arbitration award (net of any related tax impact) in determining net income attributable to common shareholders.

Management uses these measures for internal reporting and forecasting purposes in order to review operating performance on a comparable basis from period to period. However, these non-GAAP measures may not be comparable to similarly titled amounts reported by other companies. The Company’s non-GAAP measures should be considered in addition to, and not as a substitute for, or superior to, net income and net income attributable to common shareholders and other measures of financial performance reported in accordance with U.S. GAAP.

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

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

RESULTS OF OPERATIONS

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

- the signing, installation and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements and new laser-based projection systems);
- film performance and the securing of new film projects (particularly IMAX DMR films);
- revenue and gross margins from the Company's segments;
- earnings from operations as adjusted for unusual items that the Company views as non-recurring;
- the continuing ability to invest in and improve the Company's technology to enhance its differentiation of presentation versus other cinematic experiences;
- the overall execution, reliability and consumer acceptance of *The IMAX Experience*;
- the success of new business initiatives; and
- short- and long-term cash flow projections.

Management, including the Company's CEO, who is the Company's Chief Operating Decision Maker ("CODM") (as defined in the Segment Reporting Topic of the FASB ASC), assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), write-downs net of recoveries, interest income, interest expense and tax (provision) recovery are not allocated to the segments. The Company has the following eight reportable segments: IMAX DMR; joint revenue sharing arrangements; IMAX systems; theater system maintenance; other; new business; film distribution; and film post-production. The Company is presenting the following information at a disaggregated level to provide more relevant information to readers, as permitted by the standard, and adjusted for the adoption of the new revenue recognition standard:

- **Network Business**
 - The IMAX DMR segment consists of variable revenues from studios for the conversion of films into the IMAX DMR format generated by the box office results from the exhibition of those films in the IMAX theater network.
 - Joint revenue sharing arrangements – contingent rent, consists of variable rent revenues from box office exhibited in IMAX theaters in exchange for the provision of IMAX theater projection system equipment to exhibitors. This excludes fixed hybrid revenues and upfront installation costs from the Company's hybrid joint revenue sharing arrangements, which are included in theater business. Effective January 1, 2018, the Company no longer includes hybrid joint revenue sharing arrangements which take the form of a sale under the joint revenue sharing arrangement reportable segment. These arrangements are now reflected under the IMAX systems segment of Theater Business.
 - IMAX systems – contingent rent, consists of variable payments from the Company's sales-type leases in excess of certain fixed minimum ongoing payments, under arrangements in the IMAX systems segment, which are recognized when reported by theater operators, provided collectability is reasonably assured.
- **Theater Business**
 - The IMAX systems segment consists of the design, manufacture and installation of IMAX theater projection system equipment under sales or sales-type lease arrangements for fixed upfront and ongoing consideration (including ongoing fees and finance income) and contingent rent on sales arrangements.
 - Joint revenue sharing arrangements – fixed fee, consists of fixed hybrid revenues and upfront installation costs from the joint revenue sharing arrangements segment for all arrangements which take the form of a lease.
 - The theater system maintenance segment consists of the provision of IMAX theater projection system equipment maintenance services to the IMAX theater network and the associated costs of those services.
 - Other theater includes after-market sales of IMAX theater projection system parts and 3D glasses from the other segment.
- **New Business**
 - The new business segment consists of content licensing and distribution fees associated with the Company's original content investments, VR initiatives, IMAX Home Entertainment, and other new business initiatives that are in the development and/or start-up phase.

[Table of Contents](#)

- **Other**

- The film distribution segment consists of revenues and costs associated with the distribution of documentary films for which the Company has distribution rights.
- The film post-production segment consists of the provision of film post-production, and their associated costs.
- The other segment consists of certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items.

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

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

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

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

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

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

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

A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

[Table of Contents](#)

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

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

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

<i>(In thousands of U.S. dollars)</i>	Revenue		Gross Margin	
	2018	2017	2018	2017
Network business				
IMAX DMR	\$36,161	\$27,757	\$24,280	\$16,998
Joint revenue sharing arrangements – contingent rent	24,730	18,896	18,621	13,668
IMAX systems – contingent rent	—	790	—	790
	<u>60,891</u>	<u>47,443</u>	<u>42,901</u>	<u>31,456</u>
Theater business				
IMAX systems				
Sales and sales-type leases ⁽¹⁾	11,981	16,125	6,899	9,724
Ongoing fees and finance income ⁽²⁾	3,282	2,613	3,234	2,539
Joint revenue sharing arrangements – fixed fees	1,022	1,408	246	176
Theater system maintenance	12,335	10,904	5,088	4,434
Other theater	2,255	1,699	563	405
	<u>30,875</u>	<u>32,749</u>	<u>16,030</u>	<u>17,278</u>
New business	<u>3,116</u>	<u>1,311</u>	<u>1,906</u>	<u>(1,183)</u>
Other				
Film distribution and post-production	2,360	5,087	(387)	1,998
Other	1,103	1,168	(46)	(90)
	<u>3,463</u>	<u>6,255</u>	<u>(433)</u>	<u>1,908</u>
	<u>\$98,345</u>	<u>\$87,758</u>	<u>\$60,404</u>	<u>\$49,459</u>

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

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

[Table of Contents](#)

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

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

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

	Three Months Ended June 30, 2018		
	Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Network business			
IMAX DMR	\$ 36,161	\$ —	\$36,161
Joint revenue sharing arrangements – contingent rent(1)	25,850	(1,120)	24,730
IMAX systems – contingent rent(1)	475	(475)	—
	<u>62,486</u>	<u>(1,595)</u>	<u>60,891</u>
Theater business			
IMAX systems			
Sales and sales-type leases(2)	8,588	3,393	11,981
Ongoing fees and finance income(3)	2,828	454	3,282
Joint revenue sharing arrangements – fixed fees(4)	2,762	(1,740)	1,022
Theater system maintenance	12,335	—	12,335
Other theater	2,255	—	2,255
	<u>28,768</u>	<u>2,107</u>	<u>30,875</u>
New business	<u>3,116</u>	<u>—</u>	<u>3,116</u>
Other			
Film post-production	1,087	—	1,087
Film distribution	1,273	—	1,273
Other	1,103	—	1,103
	<u>3,463</u>	<u>—</u>	<u>3,463</u>
Total	<u>\$ 97,833</u>	<u>\$ 512</u>	<u>\$98,345</u>

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

Table of Contents

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

Revenues and Gross Margin

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

Network Business

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

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

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

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

The gross margin from joint revenue sharing arrangements increased to \$18.6 million in the second quarter of 2018 from \$13.7 million in the second quarter of 2017. Included in the calculation of gross margin for the second quarter of 2018 were certain advertising, marketing and commission costs primarily associated with new theater launches of \$1.1 million, as compared to \$0.8 million during the second quarter of 2017.

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

Table of Contents

Theater Business

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

- 3 fewer installations of system under sales and sales-type lease arrangements;
- 1 fewer system contracted as a hybrid joint revenue sharing lease arrangement; and
- a decrease in system upgrade revenue; partially offset by
- 1 geographic relocation of a theater system under a sales arrangement.

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

The installation of theater systems in newly-built theaters or multiplexes, which make up a large portion of the Company's theater system backlog, depends primarily on the timing of the construction of those projects, which is not under the Company's control. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system configuration for June 30 is outlined in the table below:

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

- (1) Upon adoption of the new revenue recognition standard, the arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. As a result of including an estimate of variable consideration upon recognition of a theater system under a sales arrangement, the revenues presented for the quarter ended June 30, 2018, are \$1.7 million higher than under the prior revenue recognition standard.
- (2) Upon adoption of the new revenue recognition standard, the Company has reclassified hybrid sales arrangements to sales arrangements since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements. On a go forward basis, this arrangement type will only reflect hybrid lease arrangements.

The average revenue per full, new theater system under a sales and sales-type lease arrangement varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors. Average revenue per full, new theater system under a sales and sales-type lease arrangement was \$1.2 million for the second quarter of 2018, which was consistent with the second quarter of 2017.

[Table of Contents](#)

Theater system maintenance revenue increased 13.1% to \$12.3 million in the second quarter of 2018 from \$10.9 million in the second quarter of 2017. Theater system maintenance gross margin was \$5.1 million in the second quarter of 2018 versus \$4.4 million in the second quarter of 2017. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

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

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

New Business

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

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

Other

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

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

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

Selling, General and Administrative Expenses

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

[Table of Contents](#)

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

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

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

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

Research and Development Expenses

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

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

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

Asset impairments

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

Receivable Provisions, Net of Recoveries

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

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

Interest Income and Expense

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

[Table of Contents](#)

Interest expense was \$0.9 million in the second quarter of 2018 as compared to \$0.4 million in the second quarter of 2017. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.4 million in the second quarter of 2018 as compared to \$0.2 million in the second quarter of 2017. Included in this amount is \$0.3 million of deferred finance costs relating to the prior Credit Facility written off as a result of the new Credit Facility. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Legal arbitration award

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

Exit costs, restructuring charges and associated impairments

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

Income Taxes

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

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

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

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. As at June 30, 2018, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2017 — \$nil). The Company's accumulated losses in excess of its equity investment were \$2.2 million as at June 30, 2018. For the three months ended June 30, 2018, gross revenues, cost of revenue and net loss for these investments were \$1.0 million, \$0.8 million and \$0.4 million, respectively (2017 — \$0.2 million, \$0.9 million and \$0.7 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.1 million second quarter of 2018, compared to a net loss of \$0.3 million experienced in the second quarter of 2017.

Non-Controlling Interests

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

[Table of Contents](#)

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

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

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

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

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

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

A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

<i>(In thousands of U.S. dollars, except per share amounts)</i>	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 22,322	\$ 0.35	\$ 922	\$ 0.01
Adjustments:				
Stock-based compensation	11,603	0.18	12,057	0.18
Exit costs, restructuring charges and associated impairments	1,158	0.02	10,258	0.15
Legal arbitration award	7,500	0.12	—	—
Tax impact on items listed above	(3,787)	(0.06)	(6,723)	(0.10)
Adjusted net income	38,796	0.61	16,514	0.24
Net income attributable to non-controlling interests ⁽¹⁾	(6,192)	(0.10)	(2,559)	(0.04)
Stock-based compensation (net of tax of \$0.1 million and \$0.1 million, respectively) ⁽¹⁾	(204)	—	(281)	—
Exit costs, restructuring charges and associated impairments (net of tax of less than \$0.1 million) ⁽¹⁾	—	—	(168)	—
Adjusted net income attributable to common shareholders	\$ 32,400	\$ 0.51	\$ 13,506	\$ 0.20
Weighted average diluted shares outstanding		64,006		66,548

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

Table of Contents

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

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

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

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

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

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

[Table of Contents](#)

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

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

- (1) Contingent rent of \$1.8 million related to theater systems under hybrid sales arrangements and \$1.3 million related to theater systems under sales arrangements was recognized in the Company's transition adjustment.
- (2) Variable consideration of \$3.3 million relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the quarter and the fixed consideration recognized for theater systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement – fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.
- (3) Finance income of \$0.6 million was recognized on the future consideration related to contracts.
- (4) Fixed consideration of \$2.9 million related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and Sales-type leases.

Revenues and Gross Margin

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

Network Business

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

[Table of Contents](#)

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

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

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

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

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

Theater Business

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

- 5 more installations systems under sales and sales-type lease arrangements; and
- 1 geographic relocation of a theater system under a sales arrangement; partially offset by
- 2 fewer theater systems contracted as a hybrid joint revenue sharing lease arrangement; and
- 2 fewer installations of a system upgrade.

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

Table of Contents

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

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

- Upon adoption of the new revenue recognition standard, the arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. As a result of including an estimate of variable consideration upon recognition of a theater system under a sales arrangement, the revenues presented for the six months ended June 30, 2018, are \$3.3 million higher than under the prior revenue recognition standard.
- Upon adoption of the new revenue recognition standard, the Company has reclassified hybrid sales arrangements to sales arrangements since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements. On a go forward basis, this arrangement type will only reflect hybrid lease arrangements.

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

Theater system maintenance revenue increased 14.1% to \$25.0 million in the six months ended June 30, 2018 from \$21.9 million in the six months ended June 30, 2017. Theater system maintenance gross margin was \$11.3 million in the six months ended June 30, 2018 versus \$8.7 million in the six months ended June 30, 2017. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

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

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

[Table of Contents](#)

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

New Business

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

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

Other

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

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

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

Selling, General and Administrative Expenses

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

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

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

[Table of Contents](#)

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

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

Research and Development

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

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

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

Asset impairments

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

Receivable Provisions, Net of Recoveries

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

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

Interest Income and Expense

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

Interest expense was \$1.3 million in the six months ended June 30, 2018, as compared to \$0.9 million in the six months ended June 30, 2017. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.6 million in the six months ended June 30, 2018 as compared to \$0.3 million in the six months ended June 30, 2017. Included in this amount is \$0.3 million of deferred finance costs relating to the prior Credit Facility written off as a result of the new Credit Facility. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

[Table of Contents](#)

Legal arbitration award

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

Exit costs, restructuring charges and associated impairments

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

Income Taxes

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

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

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

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. As at June 30, 2018, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2017 — \$nil). The Company's accumulated losses in excess of its equity investment were \$2.2 million as at June 30, 2018. For the six months ended June 30, 2018, gross revenues, cost of revenue and net loss for the Company's investments were \$1.5 million, \$1.7 million and \$1.0 million, respectively (2017 — \$0.5 million, \$1.8 million and \$1.4 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.3 million six months ended June 30, 2018, compared to \$0.5 million experienced in the six months ended June 30, 2017.

Non-Controlling Interests

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

Adjusted EBITDA per Credit Facility: (In thousands of U.S. Dollars)	For the Three Months Ended June 30, 2018	For the Twelve Months Ended June 30, 2018 ⁽¹⁾
Net income	\$ 10,255	\$ 33,918
Add (subtract):		
Provision for income taxes	3,635	25,002
Interest expense, net of interest income	608	1,388
Depreciation and amortization, including film asset amortization	14,513	69,488
EBITDA	\$ 29,011	\$ 129,796
Stock and other non-cash compensation	6,779	23,141
Write-downs, net of recoveries including asset impairments and receivable provisions	650	18,099
Exit costs, restructuring charges and associated impairments	456	7,074
Legal arbitration award	7,500	7,500
Loss from equity accounted investments	100	489
Adjusted EBITDA before non-controlling interests	\$ 44,496	\$ 186,099
Adjusted EBITDA attributable to non-controlling interests ⁽²⁾	(5,014)	(24,404)
Adjusted EBITDA per Credit Facility	\$ 39,482*	\$ 161,695*
Adjusted EBITDA per Credit Facility, excluding impact from “ <i>Marvel’s Inhumans</i> ”	\$ 39,489*	\$ 148,930*

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

[Table of Contents](#)

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

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

Playa Vista Financing

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

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

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

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

Working Capital Loan

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

Letters of Credit and Other Commitments

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

The Company also has a \$10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by Export Development Canada (the "Bank of Montreal Facility"). The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews. As at June 30, 2018, the Company has letters of credit outstanding and advance payment guarantees outstanding of \$0.1 million (December 31, 2017 — \$nil), under the Bank of Montreal Facility.

Cash and Cash Equivalents

As at June 30, 2018, the Company's principal sources of liquidity included cash and cash equivalents of \$133.0 million, the Credit Facility, anticipated collection from trade accounts receivable of \$113.5 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of \$27.1 million and payments expected in the next 12 months on existing backlog deals. As at June 30, 2018, the Company did not have any amount drawn on the Credit Facility (remaining availability of \$300.0 million), and the Company had \$24.7 million drawn on the Playa Vista Loan. There were no letters of credit and advance payment guarantees outstanding under the Credit Facility and \$0.1 million under the Bank of Montreal Facility. Cash held outside of North America as at June 30, 2018 was \$121.3 million (December 31, 2017 — \$119.4 million), of which \$44.7 million was held in the PRC (December 31, 2017 — \$32.6 million). The Company's intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be \$8.2 million.

During the six months ended June 30, 2018, the Company used cash of \$25.7 million. The Company used cash of \$18.8 million to fund capital expenditures, to build equipment for use in joint revenue sharing arrangements, to purchase other intangible assets and to purchase property, plant and equipment. Based on management's current operating plan for 2018, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements, to fund DMR agreements with studios, and to potentially make share repurchases. Cash flows from joint revenue sharing arrangements are derived from the theater box-office and concession revenues and the Company invested directly in the roll out of 22 new theater systems under joint revenue sharing arrangements during the six months ended June 30, 2018, which were capitalized by the Company.

In 2017, the Company's Board of Directors of a new share repurchase program which authorizes the repurchase of up to \$200.0 million of its common shares by June 30, 2020. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time. During the six months ended June 30, 2018, the Company repurchased 2,154,689 common shares at an average price of \$21.54 per share. The retired shares were repurchased for \$46.5 million.

The Company's operating cash flow will be adversely affected if management's projections of future signings for theater systems and film performance, theater installations and film productions are not realized. The Company forecasts its short-term liquidity requirements on a quarterly and annual basis. Since the Company's future cash flows are based on estimates and there may be factors that are outside of the Company's control (see "Risk Factors" in Item 1A in the Company's 2017 Form 10-K), there is no guarantee that the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company's typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures. Based on the Company's cash flow from operations and facilities, it expects to have sufficient capital and liquidity to fund its operations in the normal course for the next 12 months.

[Table of Contents](#)

Operating Activities

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

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

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

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

Investing Activities

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, other intangible assets and investments in film assets were \$37.0 million for the six months ended June 30, 2018 as compared to \$49.5 million for the six months ended June 30, 2017. The Company expects its investment in capital expenditures to remain fairly consistent as the nature of these cash outlays in particular, joint revenue sharing arrangements and film assets, exist to strengthen operational performances.

Net cash used in investing activities amounted to \$18.8 million in six months ended June 30, 2018, which includes purchases of \$8.6 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$8.6 million and an investment in other intangible assets of \$1.7 million, primarily related to expanding the functionality of the Company's enterprise resource planning system.

Financing Activities

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

CONTRACTUAL OBLIGATIONS

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

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

- (1) The Company's total payments to be made under binding commitments with suppliers and outstanding payments to be made for supplies ordered but yet to be invoiced.
- (2) The SERP assumptions are that Mr. Gelfond will receive a lump sum payment six months after retirement at the end of the current term of his employment agreement (December 31, 2019), although Mr. Gelfond has not informed the Company that he intends to retire at that time.
- (3) The Company's total minimum annual rental payments to be made under operating leases, mostly consisting of rent at the Company's property in New York and at the various owned and operated theaters.
- (4) The Playa Vista Loan was fully due and payable on October 19, 2025. Subsequent to June 30, 2018, the Company has subsequently extinguished the Playa Vista Loan using borrowings from its new Credit Facility.

Pension and Postretirement Obligations

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

Pursuant to an employment agreement dated November 8, 2016, the term of Mr. Gelfond's employment was extended through December 31, 2019, although Mr. Gelfond has not informed the Company that he intends to retire at that time. Under the terms of the arrangement, no compensation earned beginning in 2011 is to be included in calculating his entitlement under the SERP.

The Company has a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. As at June 30, 2018, the Company had an unfunded benefit obligation of \$1.6 million (December 31, 2017 — \$1.7 million).

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 3. *Quantitative and Qualitative Factors about Market Risk*

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

Foreign Exchange Rate Risk

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In addition, IMAX films generate box office in 79 different countries, and therefore unfavorable exchange rates between applicable local currencies and the U.S. dollar could have an impact on the Company's reported gross box office and revenues. The Company has incoming cash flows from its revenue generating theaters and ongoing operating expenses in China through its majority-owned subsidiary IMAX (Shanghai) Multimedia Technology Co., Ltd. In Japan, the Company has ongoing Yen-denominated operating expenses related to its Japanese operations. Net Renminbi and Japanese Yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Renminbi, Japanese Yen, Euros and Canadian dollars.

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

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

For the three and six months ended June 30, 2018, the Company recorded a foreign exchange net loss of \$1.0 million and a net loss \$1.1 million, respectively as compared to a foreign exchange net gain of \$0.2 million and net gain of \$0.2 million, respectively for the three and six months ended June 30, 2017, associated with the translation of foreign currency denominated monetary assets and liabilities.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 2018 and 2019. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statements of operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. All foreign currency forward contracts held by the Company as at June 30, 2018, are designated and qualify as foreign currency cash flow hedging instruments. For foreign currency cash flow hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statements of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The notional value of foreign currency cash flow hedging instruments at June 30, 2018 was \$43.4 million (December 31, 2017 — \$35.2 million). A loss of \$0.7 million and a loss of \$1.7 million was recorded to Other Comprehensive Income with respect to the change in fair value of these contracts for the three and six months ended June 30, 2018, respectively (2017 — gain of \$0.8 million and gain of \$1.1 million, respectively). A gain of \$0.1 million and a gain of \$0.3 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses for the three and six months ended June 30, 2018, respectively (2017 — gain of \$0.1 million and loss of \$0.2 million, respectively). The Company's estimated net amount of the existing losses as at June 30, 2018 is \$0.2 million, which is expected to be reclassified to earnings within the next twelve months.

[Table of Contents](#)

Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses.

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

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

Interest Rate Risk Management

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

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

As at June 30, 2018, the Company had drawn down \$24.7 million on its Playa Vista Loan (December 31, 2017 — \$25.7 million).

The Company's largest exposure with respect to variable rate debt comes from changes in the LIBOR. The Company had variable rate debt instruments representing 9.6% and 9.8% of its total liabilities at June 30, 2018 and December 31, 2017, respectively. If the interest rates available to the Company increased by 10%, the Company's interest expense would increase by approximately \$0.1 million and interest income from cash would increase by approximately less than \$0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable rate debt and cash balances at June 30, 2018.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

The Company's management, with the participation of its CEO and its CFO, has evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as at June 30, 2018 and has concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. The Company will continue to periodically evaluate its disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Item 1A. Risk Factors

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

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

The Company's common stock repurchase program activity for the three months ended June 30, 2018 was as follows:

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

- (1) In 2017, the Company's Board of Directors approved a new \$200.0 million share repurchase program for shares of the Company's common stock. The share repurchase program expires on June 30, 2020. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time.

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

Item 6. Exhibits

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

IMAX CORPORATION
Exhibit 10.38

Published CUSIP Number: C4548VAF6
Revolving Loan CUSIP Number: C4548VAG4

FIFTH AMENDED AND RESTATED CREDIT AGREEMENT

by and between

IMAX CORPORATION
as Borrower

- and -

THE GUARANTORS REFERRED TO HEREIN
as Guarantors

- and -

THE LENDERS REFERRED TO HEREIN
as Lenders

- and -

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Agent, Issuing Lender and Swingline Lender

- and -

WELLS FARGO SECURITIES, LLC
as Sole Lead Arranger

- and -

**WELLS FARGO SECURITIES, LLC and
CITIBANK, N.A.**
as Joint Bookrunners

- and -

CITIBANK, N.A.
as Syndication Agent

- and -

**EXPORT DEVELOPMENT CANADA,
HSBC BANK CANADA and
NATIONAL BANK OF CANADA**

as Co-Documentation Agents

Dated: June 28, 2018

TABLE OF CONTENTS

ARTICLE 1 DEFINITIONS	2
ARTICLE 2 CREDIT FACILITIES	34
2.1 Revolving Loans	34
2.2 Letter of Credit Accommodations	38
2.3 Maturity Date	39
2.4 Optional Cancellation of Unused Revolving Loan Commitments	39
2.5 Hedge Transactions	40
2.6 Incremental Term Loans and Revolving Loans	40
ARTICLE 3 INTEREST, REQUESTS FOR REVOLVING LOANS, INCREASED COSTS AND FEES	44
3.1 Interest	44
3.2 Changed Circumstances	47
3.3 Compensation for Breakage or Non-Commencement of Interest Periods	50
3.4 Increased Costs	50
3.5 Taxes	52
3.6 Mitigation Obligations; Replacement of Lenders	55
3.7 Commitment Fee	56
ARTICLE 4 CONDITIONS PRECEDENT	57
4.1 Conditions Precedent to the Availability of Revolving Loans and Letter of Credit Accommodations	57
4.2 Conditions Precedent to the Availability of All Loans and Letter of Credit Accommodations	58
ARTICLE 5 COLLECTION AND ADMINISTRATION	59
5.1 Borrower's Loan Account	59
5.2 Statements	59
5.3 Payments	60
5.4 Authorization to Make Loans and Letter of Credit Accommodations	61
5.5 Use of Proceeds	61
5.6 <i>Pro Rata</i> Treatment	61
5.7 Obligations Several; Independent Nature of Lenders' Rights	62
ARTICLE 6 REPRESENTATIONS AND WARRANTIES	62
6.1 Existence, Power and Authority; Subsidiaries; Solvency	62
6.2 Financial Statements; No Material Adverse Change	62
6.3 Chief Executive Office; Collateral Locations	63
6.4 Priority of Liens; Title to Properties; Intellectual Property Matters	63
6.5 Tax Returns	64
6.6 Litigation	64
6.7 Compliance with Applicable Laws; Approvals	64
6.8 [Reserved]	65
6.9 Accuracy of Information	65

6.10	Status of Pension Plans and ERISA	65
6.11	Environmental Compliance	66
6.12	U.S. Legislation	67
6.13	Material Subsidiaries	68
6.14	Employee Relations	68
6.15	[Reserved]	68
6.16	Absence of Defaults	68
6.17	Senior Indebtedness Status	68
6.18	Flood Hazard Insurance	68
6.19	Survival of Warranties; Cumulative	69
ARTICLE 7 AFFIRMATIVE COVENANTS		69
7.1	Maintenance of Existence	69
7.2	New Collateral Locations	69
7.3	Compliance with Laws	69
7.4	Payment of Taxes	70
7.5	Insurance	70
7.6	Financial Statements and Other Information	71
7.7	Intellectual Property	72
7.8	Operation of Pension Plans	72
7.9	ERISA	73
7.10	IP Collateral	73
7.11	Visits and Inspections	75
7.12	Material Subsidiaries and Real Property Collateral	76
7.13	Grant of Equitable Mortgage by IMAX Barbados	77
ARTICLE 8 NEGATIVE COVENANTS		78
8.1	Merger, Sale of Assets, Dissolution, Etc.	78
8.2	Liens	80
8.3	Debt	83
8.4	Investments	87
8.5	Restricted Payments	89
8.6	Transactions with Affiliates	91
8.7	[Reserved]	91
8.8	[Reserved]	91
8.9	No Material Changes	91
8.10	No Further Negative Pledges; Restrictive Agreements	91
ARTICLE 9 FINANCIAL COVENANT		93
9.1	Maximum Senior Secured Net Leverage Ratio	93
ARTICLE 10 EVENTS OF DEFAULT AND REMEDIES		93
10.1	Events of Default	93
10.2	Remedies	96
ARTICLE 11 ASSIGNMENT AND PARTICIPATIONS: APPOINTMENT OF AGENT		100

11.1	Assignment and Participations	100
11.2	Appointment of Agent	102
11.3	Agent's Reliance, Etc.	103
11.4	Agent as Lender	104
11.5	Lender Credit Decision	104
11.6	Indemnification	104
11.7	Failure to Act	105
11.8	Concerning the Collateral and the Related Financing Agreements	105
11.9	Reports and other Information; Disclaimer by Lenders	105
11.10	Collateral Matters	105
11.11	Successor Agent	107
11.12	Setoff and Sharing of Payments	108
11.13	Advances; Payments; Non-Funding Lenders; Information; Actions in Concert	108
11.14	Approval of Lenders and Agent	112
ARTICLE 12 GOVERNING LAW; JURISDICTION, ETC.		114
12.1	Governing Law; Jurisdiction, Etc.	114
12.2	Waiver of Notices	116
12.3	Amendments and Waivers	116
12.4	Waiver of Counterclaim	116
12.5	Indemnification	116
12.6	Costs and Expenses	117
12.7	Further Assurances	118
ARTICLE 13 MISCELLANEOUS		118
13.1	Notice	118
13.2	Partial Invalidity	119
13.3	Successors	119
13.4	Entire Agreement	119
13.5	Headings	119
13.6	Judgment Currency	119
13.7	Counterparts and Facsimile	120
13.8	Patriot Act Notice	120
13.9	Acknowledgement and Consent to Bail-In of EEA Financial Institutions.	120
ARTICLE 14 ACKNOWLEDGMENT AND RESTATEMENT		121
14.1	[Reserved]	121
14.2	Acknowledgment of Security Interests	121
14.3	[Reserved]	121
14.4	Restatement	121

**INDEX TO
EXHIBITS AND SCHEDULES**

Exhibit A	Form of Assignment and Assumption Agreement
Exhibit B	Form of Compliance Certificate
Exhibit C	Form of Omnibus Information Certificate
Exhibit D	Form of Notice of Borrowing
Exhibit E	Form of Notice of Conversion/Continuation
Exhibit F	Form of Notice of Prepayment
Exhibit G	Revolving Loan Commitments
Schedule 6.1	Corporate Structure Chart
Schedule 8.2	Existing Liens
Schedule 8.3(d)	Existing Debt
Schedule 8.4	Existing Loans and Advances

FIFTH AMENDED AND RESTATED CREDIT AGREEMENT

This Fifth Amended and Restated Credit Agreement dated June 28, 2018 is entered into by and between IMAX Corporation, a corporation incorporated pursuant to the laws of Canada, as Borrower, the guarantors who are a party to this Agreement and who may become a party hereto pursuant to the terms hereof, as Guarantors, the lenders who are a party to this Agreement and who may become a party hereto pursuant to the terms hereof, as Lenders, and Wells Fargo Bank, National Association, a national banking association, as Agent (as defined below) for the Secured Parties.

WITNESSETH:

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

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

(collectively, the “**Original Loan Agreement**”);

WHEREAS Wachovia Capital Finance Corporation (Canada) (formerly known as Congress Financial Corporation (Canada)) as agent (the “**Original Agent**”) and lender, Borrower and Export Development Canada (“**EDC**”), as lender, amended and restated the Original Loan Agreement pursuant to an amended and restated credit agreement dated November 16, 2009 as amended by a first amendment to the amended and restated credit agreement dated January 21, 2011 (as amended, modified, supplemented, extended, renewed, restated or replaced from time to time, the “**First Amended and Restated Credit Agreement**”);

WHEREAS Wells Fargo Capital Finance Corporation Canada (formerly known as Wachovia Capital Finance Corporation (Canada)), as Original Agent and lender, Borrower and EDC, as lender, amended and restated the First Amended and Restated Credit Agreement pursuant to a second amended and restated credit agreement dated June 2, 2011 (as amended, modified, supplemented, extended, renewed, restated or replaced from time to time, the “**Second Amended and Restated Credit Agreement**”);

WHEREAS Agent (as successor agent to the Original Agent), Borrower and the lenders party thereto amended and restated the Second Amended and Restated Credit Agreement pursuant to a

third amended and restated credit agreement dated February 7, 2013 (as amended, modified, supplemented, extended, renewed, restated or replaced from time to time, the “**Third Amended and Restated Credit Agreement**”);

WHEREAS Agent, Borrower and the lenders party thereto amended and restated the Third Amended and Restated Credit Agreement pursuant to a fourth amended and restated credit agreement dated March 3, 2015 (as amended February 22, 2016 and as further amended, modified, supplemented, extended, renewed, restated or replaced from time to time, the “**Fourth Amended and Restated Credit Agreement**”);

WHEREAS Agent, Borrower and Lenders desire to amend and restate the Fourth Amended and Restated Credit Agreement as set forth herein; and

WHEREAS each Lender is willing to (severally and not jointly) make loans and provide such financial accommodations to Borrower according to its Pro Rata Share on the terms and conditions set forth herein and Agent is willing to act as agent for Secured Parties on the terms and conditions set forth herein and the other Financing Agreements;

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

ARTICLE 1 **DEFINITIONS**

All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to Borrower, Credit Parties, Guarantors, Lenders, Issuing Lender and Agent pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and permitted assigns. The words “**hereof**”, “**herein**”, “**hereunder**”, “**this Agreement**” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word “**including**” when used in this Agreement shall mean “**including, without limitation**”. References herein to any statute or any provision thereof include such statute or provision as amended, revised, re-enacted, and/or consolidated from time to time and any successor statute thereto. An Event of Default shall continue or be continuing until such Event of Default is waived in accordance with Section 12.3 or, without derogating from the cure rights, if any, provided to Credit Parties in Article 10 hereof, is cured, if such Event of Default is capable of being cured. Any accounting term used herein unless otherwise defined in this Agreement shall have the meanings customarily given to such term in accordance with GAAP. If, after the Closing Date, there shall be any change in the application of the accounting principles used in preparation of Borrower’s financial statements as a result of any changes in GAAP including International Financial Reporting Standards becoming applicable to Borrower, which changes (a) result in a change in the method of calculation of, or (b) impact on, the financial covenant or other covenants applicable to Borrower found in this Agreement or the other Financing Agreements, and either the Borrower or the Required Lenders shall so request, Borrower and Agent shall promptly enter into negotiations in good faith in order

to amend the financial covenant or other covenants so as to reflect equitably such changes with the desired result that the evaluations of Borrower's financial condition shall be the same after such changes as if such changes had not been made. Canadian Dollars and the sign "**CDN\$**" mean lawful money of Canada. "**U.S. Dollars**" and the sign "**\$**" mean lawful money of the United States of America. All monetary amounts referred to in this Agreement are in U.S. Dollars unless otherwise stated. The words "**asset**" and "**property**" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties (both real and personal property), including cash, securities, accounts and contract rights. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

"**Accounts**" as defined in the UCC as in effect in the State of New York.

"**Adjusted Euro Dollar Rate**" means, with respect to each Interest Period for any Euro Dollar Rate Loan, the rate *per annum* (rounded upwards, if necessary, to the next 1/16th of 1%) determined by dividing:

- (a) the Euro Dollar Rate for such Interest Period by:
- (b) a percentage equal to:
 - (i) one (1) minus
 - (ii) the Reserve Percentage.

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

"**Affiliate**" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"**Agent**" means Wells Fargo, in its capacity as administrative and collateral agent hereunder, and any successor thereto appointed pursuant to [Section 11.11](#).

"**Agreed Currency**" is defined in [Section 13.6](#) hereof.

"**Alternate Currency**" means each Currency other than U.S. Dollars.

"**Alternate Currency Loan**" means each Revolving Loan denominated in an Alternate Currency.

"**Alternate Currency Revolving Loan Sublimit**" means an amount equal to the lesser of (i) \$100,000,000 and (ii) the aggregate amount of the Revolving Loan Commitment as then in effect.

The Alternate Currency Revolving Loan Sublimit is part of, and not in addition to, the Revolving Loan Commitment.

“**Applicable Law**” means all applicable provisions of constitutions, laws, statutes, ordinances, rules, treaties, regulations and orders of Governmental Authorities and all orders and decrees of all courts and arbitrators.

“**Applicable Margin**” means the corresponding percentages *per annum* as set forth below based on the Total Leverage Ratio:

Pricing Level	Total Leverage Ratio	Applicable Margin for Euro Rate Loans, CDOR Rate Loans and Letter of Credit Accommodations	Applicable Margin for U.S. Base Rate Loans and Canadian Prime Rate Loans	Applicable Margin for Commitment Fees
I	Less than 1.00:1.00	1.00%	0.25%	0.25%
II	Greater than or equal to 1.00:1.00 but less than 1.50:1.00	1.25%	0.50%	0.30%
III	Greater than or equal to 1.50:1.00 but less than 2.00:1.00	1.50%	0.75%	0.35%
IV	Greater than or equal to 2.00:1.00	1.75%	1.00%	0.375%

The Applicable Margin shall be determined and adjusted quarterly on the date (each an “**AM Calculation Date**”) ten (10) Business Days after the day by which Borrower is required to provide a Compliance Certificate pursuant to Section 7.6(a) for the most recently ended Fiscal Quarter; provided that (a) the Applicable Margin shall be based on Pricing Level I until the first AM Calculation Date occurring after the Closing Date and, thereafter the Pricing Level shall be determined by reference to the Total Leverage Ratio as of the last day of the most recently ended Fiscal Quarter preceding the applicable AM Calculation Date, and (b) if Borrower fails to provide the Compliance Certificate as required by Section 7.6(a) for the most recently ended Fiscal Quarter preceding the applicable AM Calculation Date, the Applicable Margin from such AM Calculation Date shall be based on Pricing Level IV until such time as a Compliance Certificate is provided, at which time the Pricing Level shall be determined by reference to the Total Leverage Ratio as of the last day of the most recently ended Fiscal Quarter. The Applicable Margin shall be effective from one AM Calculation Date until the next AM Calculation Date. Any adjustment in the Applicable Margin shall be applicable to all Revolving Loans or Letter of Credit Accommodations then existing or subsequently made or issued.

Notwithstanding the foregoing, in the event that any financial statement or Compliance Certificate delivered pursuant to Section 7.6(a) is shown to be inaccurate (regardless of whether (i) this Agreement is in effect, (ii) the Revolving Loan Commitment is in effect, or (iii) any Loan or Letter of Credit Accommodation is outstanding when such inaccuracy is discovered or such financial statement or Compliance Certificate was delivered), and such inaccuracy, if corrected, would have led to the application of a higher Applicable Margin for any period (an “**Applicable Period**”) than the Applicable Margin applied for such Applicable Period, then (A) Borrower shall immediately deliver to Agent a corrected Compliance Certificate for such Applicable Period, (B) the Applicable Margin for such Applicable Period shall be determined as if the Total Leverage Ratio in the corrected Compliance Certificate were applicable for such Applicable Period, and (C) Borrower shall immediately and retroactively be obligated to pay to Agent the accrued additional interest and fees owing as a result of such increased Applicable Margin for such Applicable Period, which payment shall be promptly applied by Agent in accordance with Section 5.3. Borrower’s obligations under this paragraph shall survive the termination of the Revolving Loan Commitments and the repayment of all other Obligations hereunder.

“**AM Calculation Date**” has the meaning set forth in the definition of “Applicable Margin.”

“**Approved Fund**” means any Fund that is administered or managed by (a) an existing Lender, (b) an Affiliate of an existing Lender or (c) an entity or an Affiliate of an entity that administers or manages an existing Lender.

“**Arranger**” means Wells Fargo Securities, LLC, in its role hereunder as sole lead arranger and joint bookrunner.

“**Assignment and Assumption Agreement**” means an assignment and assumption agreement entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 11.1), and accepted by Agent, in substantially the form attached hereto as Exhibit A or any other form approved by Agent.

“**Attributable Debt**” means, on any date of determination, (a) in respect of any Capital Lease Obligation of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease, the capitalized amount or principal amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a Capital Lease Obligation.

“**Bail-In Action**” means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“**Bail-In Legislation**” means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“**Bankruptcy Code**” means title 11 of the United States Code, as in effect from time to time.

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

“**BMO**” means Bank of Montreal.

“**BMO Facilities**” means the debt facilities originally described in the term sheet dated July 10, 2014 between Borrower and BMO with respect to the issuance of:

- (a) a \$10,000,000 Demand, Revolving Letter of Credit Facility by BMO in favor of Borrower (the “**BMO LC Facility**”);
- (b) a CDN\$175,000 Mastercard Businesscard Facility by BMO in favor of Borrower (the “**Mastercard Facility**”); and
- (c) a \$3,000,000 Directline for Business – Foreign Exchange Settlement Facility by BMO in favor of Borrower (the “**F/X Facility**”).

“**Borrower**” means IMAX Corporation, a corporation incorporated pursuant to the laws of Canada.

“**Business Day**” means (a) for all purposes other than as set forth in clause (b) below, any day (other than a Saturday, Sunday or legal holiday) on which banks in Toronto, Ontario and New York, New York, are open for the conduct of their commercial banking business and (b) with respect to all notices and determinations in connection with, and payments of principal and interest on, any Euro Rate Loans or any U.S. Base Rate Loan as to which the interest rate is determined by reference to the Adjusted Euro Dollar Rate or the Euro Dollar Rate, as applicable, any day that is a Business Day described in clause (a) and that is also a London Banking Day.

“**Canadian Revolving Loans**” means Revolving Loans denominated in Canadian Dollars.

“**Canadian Prime Rate**” means the greater of (a) the rate of interest publicly announced from time to time by the Canadian Reference Bank as its prime rate in effect for determining interest rates on Canadian Dollar denominated commercial loans in Canada (which such rate is not necessarily the most favored rate of such reference bank and such reference bank may lend to its customers at rates that are at, above or below such rate) and (b) the annual rate of interest equal to the sum of (i) the CDOR Rate for a one (1) month interest period at such time plus (ii) 0.75% *per annum*.

“**Canadian Prime Rate Loans**” means any Loans or portion thereof on which interest is payable based on the Canadian Prime Rate in accordance with the terms hereof.

“**Canadian Reference Bank**” means a bank listed in Schedule I to the *Bank Act* (Canada) as Agent may from time to time designate, in its discretion.

“**Capital Lease Obligations**” means all monetary obligations of Borrower and its consolidated Subsidiaries under a capital lease and, for the purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP; provided that obligations or liabilities of any Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations would be required to be classified and accounted for as an operating

lease under GAAP as existing on the Closing Date that are recharacterized as Capital Lease Obligations due to a change in GAAP after the Closing Date shall not be treated as Capital Lease Obligations for any purpose under this Agreement, but instead shall be accounted for as if they were operating leases for all purposes under this Agreement as determined under GAAP as in effect on the Closing Date..

“**Cash Equivalents**” means (a) marketable direct obligations issued or unconditionally guaranteed by the government of Canada, the United States, the United Kingdom or any country that is a member of the European Union (as it is constituted on the Closing Date) or any agency or instrumentality of any of the foregoing; (b) domestic and euro dollar certificates of deposit and time deposits, bankers’ acceptances and floating rate certificates of deposit issued by any commercial bank organized under the laws of Canada or the United States, any province or state thereof, any foreign bank, or its branches or agencies, the long-term indebtedness of which institution at the time of acquisition is rated A- (or better) by Standard & Poor’s Rating Services (“**S&P**”) or A3 (or better) by Moody’s Investors Service, Inc. (“**Moody’s**”), and which deposits are fully protected against currency fluctuations for any such deposits with a term of more than 90 days; (c) shares of money market, mutual or similar funds having assets in excess of \$100,000,000 and the investments of which are limited to (i) investment grade securities (i.e., securities rated at least BBB by S&P or rated at least Baa by Moody’s) and (ii) commercial paper of Canadian, U.S. and foreign banks and bank holding companies and their subsidiaries and Canadian, U.S. and foreign finance, commercial industrial or utility companies which, at the time of acquisition, are rated A-1 (or better) by S&P or P-1 (or better) by Moody’s (all such institutions being, “**Qualified Institutions**”); (d) commercial paper of Qualified Institutions; (e) auction rate securities (long-term, variable rate bonds tied to short-term interest rates) that are rated AAA by S&P and Aaa by Moody’s; and (f) in the case of any non-U.S. Subsidiary, investments of comparable tenor and credit quality to those described in the foregoing clauses customarily used in any country where such non-U.S. Subsidiary is located or in which the investment is made; provided that the maturities of such Cash Equivalents shall not exceed 365 days from the date of acquisition.

“**Cash Management Agreement**” means any agreement to provide cash management services, including treasury, depository, overdraft, credit or debit card, electronic funds transfer and other cash management arrangements.

“**Cash Management Bank**” means any Person that (i) at the time it enters into a Cash Management Agreement, is a Lender, an Affiliate of a Lender, Agent or an Affiliate of Agent, in its capacity as a party to such Cash Management Agreement or (ii) within thirty days after the time such Person enters into the applicable Cash Management Agreement, becomes a Lender, an Affiliate of a Lender, Agent or an Affiliate of Agent.

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

“**CDOR Rate**” means, for the applicable Interest Period and as determined on the day of the applicable borrowing, conversion or continuation, a rate of interest *per annum* equal to the stated average appearing on the “Reuters Screen CDOR Page” (as defined in the International Swap Dealer Association, Inc.’s definitions, as amended, restated, supplemented or otherwise modified from time to time), or any successor page, as of 10:00 a.m. (Toronto time) on such day (or if such day is not a Business Day, then on the immediately preceding Business Day), of the rates per

annum applicable to Canadian Dollar bankers' acceptances having a term equal to such Interest Period, rounded to the nearest 1/100th of 1% (with 0.005% being rounded up); provided, however, that if, for any reason, such rate does not appear on the Reuters Screen CDOR Page on such day as contemplated, then the "CDOR Rate" on such day shall be calculated as the arithmetic average of the rates *per annum* applicable to Canadian Dollar bankers' acceptances having a term equal to such Interest Period quoted by the banks listed in Schedule I of the *Bank Act* (Canada) as of 10:00 a.m. (Toronto time) on such day (or if such day is not a Business Day, then on the immediately preceding Business Day). Each calculation by Agent of the CDOR Rate shall be conclusive and binding for all purposes, absent manifest error. Notwithstanding the foregoing, if the CDOR Rate shall be less than 0%, such rate shall be deemed to be 0% for purposes of this Agreement.

"**CDOR Rate Loans**" means any Loans or portion thereof on which interest is payable by reference to the CDOR Rate in accordance with the terms hereof.

"**Change in Law**" means the occurrence, after the Closing Date, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) compliance by Agent, any Lender or the Issuing Lender with any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (i) the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (ii) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted, implemented or issued.

"**Closing Date**" means June 28, 2018.

"**Code**" means the United States Internal Revenue Code of 1986, as amended.

"**Collateral**" means, collectively, all of the property and assets, real or personal, tangible or intangible, now existing or hereafter acquired by any Credit Party that may at any time be or become subject to a Lien in favor of Agent to secure any or all of the Obligations; provided that, for greater certainty, any and all assets of IMAX China Multimedia and IMAX China Theatre, the Mississauga Property, the Playa Vista Property and any other property and assets expressly excluded from the "Collateral" pursuant to the terms of the applicable Financing Agreements shall be excluded from, and not form part of, the Collateral.

"**Commitments**" means, collectively, the Revolving Loan Commitments and the Term Loan Commitments.

"**Compliance Certificate**" means the compliance certificate substantially in the form attached hereto as Exhibit B.

"**Connection Income Taxes**" means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profits Taxes.

“**Consolidated Total Assets**” means, with respect to Borrower and its consolidated Subsidiaries as of any date, the amount which, in accordance with GAAP, would be set forth under the heading “Total Assets” (or any like heading) on a consolidated balance sheet of Borrower and its Subsidiaries, as of the end of the most recent consolidated balance sheet of Borrower and its Subsidiaries, determined on a *pro forma* basis.

“**Control**” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise and “**Controlling**” and “**Controlled**” have meanings correlative thereto.

“**Credit Parties**” means, collectively, Borrower and Guarantors.

“**Currency**” means Canadian Dollars, Euros and U.S. Dollars and any other freely transferable currency to the extent that such currency is approved by Agent and each Revolving Lender providing the Revolving Loan in such currency.

“**Debt**” means, with respect to any Person at any time and without duplication:

- (a) all obligations for the deferred purchase price of property or services (other than (x) current trade payables incurred in the ordinary course of business, (y) any earn-out obligations until such obligation becomes a liability on the balance sheet of such Person in accordance with GAAP and (z) expenses accrued in the ordinary course of business);
- (b) all obligations, liabilities and indebtedness evidenced by notes, bonds, debentures or similar instruments;
- (c) the Attributable Debt of such Person with respect to such Person’s Capital Lease Obligations and Synthetic Leases;
- (d) the drawn and unreimbursed amount of all issued letters of credit (including Letter of Credit Accommodations and letters of credit issued under the BMO LC Facility);
- (e) Capital Lease Obligations;
- (f) all obligations, liabilities and indebtedness for borrowed money;
- (g) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person to the extent of the value of such property (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business);
- (h) all indebtedness of any other Person secured by a Lien on any asset owned or being purchased by such Person, whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;
- (i) all obligations of any such Person in respect of Disqualified Equity Interests;

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- (j) all net obligations of such Person under any Hedge Agreements; and
 - (k) guarantees of items referenced in subsections (a) through to (j) of this definition.

For all purposes hereof, the Debt of any Person shall include the Debt of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, (i) unless such Debt is expressly made non-recourse to such Person or (ii) except to the extent such Person's liability for such Debt is otherwise limited in recourse or amount, but only up to the amount of the value of the assets to which recourse is limited or the amount of such limit. In respect of Debt of another Person secured by a Lien on the assets of the specified Person, the amount of such Debt as of any date of determination will be the lesser of (x) the fair market value of such assets as of such date and (y) the amount of such Debt as of such date. The amount of any net obligation under any Hedge Agreement on any date shall be deemed to be the Hedge Termination Value thereof as of such date. Debt shall not include, in the case of Borrower and its Subsidiaries, intercompany loans, intercompany advances, or intercompany Debt having a term not exceeding 364 days (inclusive of any roll-over or extensions of terms) and made in the ordinary course of business.

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

"Disqualified Equity Interests" means any Equity Interests that, by their terms (or by the terms of any security or other Equity Interest into which they are convertible or for which they are exchangeable) or upon the happening of any event or condition, (a) mature or are mandatorily redeemable (other than solely for Qualified Equity Interests), pursuant to a sinking fund obligation or otherwise (except as a result of a change of control or asset sale so long as any rights of the holders thereof upon the occurrence of a change of control or asset sale event shall be subject to the prior repayment in full of the Loans and all other Obligations that are accrued and payable and the termination of the Commitments), (b) are redeemable at the option of the holder thereof (other than solely for Qualified Equity Interests) (except as a result of a change of control or asset sale so long as any rights of the holders thereof upon the occurrence of a change of control or asset sale event shall be subject to the prior repayment in full of the Loans and all other Obligations that are accrued and payable and the termination of the Commitments), in whole or in part, (c) provide for the scheduled payment of dividends in cash or (d) are or become convertible into or exchangeable for Debt or any other Equity Interests that would constitute Disqualified Equity Interests, in each case, prior to the date that is 91 days after the Maturity Date.

"Dollar Equivalent" means, at any time for the determination thereof, with respect to an amount of an Alternate Currency, the amount of U.S. Dollars which could be purchased with such amount of such Alternate Currency at the spot exchange rate therefor as quoted by Agent as of 11:00 a.m. (New York time) on the date two (2) Business Days prior to the date of any determination thereof for purchase on such date.

"EBITDA" means, for any period with respect to Borrower and its consolidated Subsidiaries, an amount equal to:

- (a) the *sum*, without duplication, of the amounts for such period of:

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- (i) consolidated net income or net loss;
 - (ii) loss from equity accounted investments and cash fees and expenses incurred in connection with Permitted Investments, recapitalization, the issuance of Equity Interests and the incurrence, repayment or exchange of Debt permitted to be incurred hereunder (including a refinancing thereof), in each case, whether or not successful;
 - (iii) provisions for Taxes based on income, profits or capital, including state, franchise and similar Taxes;
 - (iv) total interest expense;
 - (v) total depreciation expense;
 - (vi) total amortization expense (including amortization or write-off of deferred financing fees);
 - (vii) write-downs relating to inventories, financing receivables, accounts receivable, property, plant and equipment, joint revenue sharing arrangements, other intangible assets, other assets or investments and film assets, as approved by Agent, acting consistent with past practice or as otherwise agreed by Agent;
 - (viii) stock option based compensation expenses and other non-cash equity-based compensation expenses;
 - (ix) the amount of any restructuring charges or reserves (which, for the avoidance of doubt, shall include retention, severance, systems establishment cost, excess pension charges, contract termination costs, including future lease commitments, costs related to the start up, closure, relocation or consolidation of facilities and costs to relocate employees), as approved by Agent, acting consistent with past practice or as otherwise agreed by Agent;
 - (x) curtailment of post-retirement benefits;
 - (xi) expenses during such period relating to pension payments;
 - (xii) the amount of any extraordinary, unusual or non-recurring charges, expenses or losses, as approved by Agent, acting consistent with past practice or as otherwise agreed by Agent;
 - (xiii) other non-cash charges, expenses and losses as approved by Agent, acting consistent with past practice or as otherwise agreed by Agent;
 - (xiv) transaction costs in connection with the Financing Agreements;

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- (xv) charges, expenses or losses in connection with the termination or write-down of the Hong Kong JV Investment; and
 - (xvi) write-downs relating to the virtual reality business of the Borrower and its Subsidiaries as of the Closing Date;
- minus*
- (b) the *sum*, without duplication, of the amounts for such period of:
 - (i) interest income; and
 - (ii) any credit for income tax.

For purposes of calculating compliance with the financial covenant in Section 9.1 hereof and the Fixed Incremental Amount, EBITDA shall be calculated (a) without taking into account any contribution to consolidated net income or net loss with respect to (i) any Future Permitted Transaction and (ii) non-cash equity income or loss from joint ventures and (b) to reflect the reduction in EBITDA allocable to minority interests owned in any Subsidiary by arm's length third Persons.

“EDC Indemnity Agreement” means the indemnity agreement dated May 3, 2010 given by Borrower in favor of EDC, as amended, modified, supplemented, extended, renewed, restated or replaced from time to time.

“EEA Financial Institution” means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any Person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“Eligible Transferee” means

- (a) any Lender;
- (b) any Affiliate of such Lender;
- (c) any Approved Fund; and

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- (d) any other commercial bank, financial institution or “**accredited investor**” (as defined under Ontario Securities Commission Rule 45-106) approved by Agent and, unless an Event of Default has occurred and is continuing, Borrower (each such approval not to be unreasonably withheld or delayed),

provided, however, that,

- (i) neither Borrower nor any Affiliate of Borrower;
- (ii) nor any natural person;
- (iii) nor any Person that is a competitor of Borrower (if such Person is included on a written list provided by Borrower to Agent prior to or after the Closing Date, which written list Borrower may update from time to time by providing it to Agent),

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

“**EMU Legislation**” means the legislative measures of the European Council for the introduction of, changeover to or operation of a single or unified European currency.

“**Environment**” means ambient air, indoor air, surface water, groundwater, drinking water, land surface and subsurface strata and natural resources such as wetlands, flora and fauna.

“**Environmental Claim**” means any investigation, notice, notice of violation or of potential responsibility, claim, action, suit, proceeding, demand, abatement order or other order or directive (conditional or otherwise), by any Governmental Authority or any other Person, arising (i) pursuant to or in connection with any actual or alleged violation of any Environmental Law; (ii) in connection with any Hazardous Material; or (iii) in connection with any actual or alleged damage, injury, threat or harm to health, natural resources or the environment.

“**Environmental Laws**” means with respect to any Person, all Applicable Laws, permits, licenses and consent decrees imposed by a Governmental Authority relating to pollution or protection of the Environment or protection of human health (to the extent relating to exposure to Hazardous Materials), including laws relating to emissions, discharges, releases or threatened releases of Hazardous Materials into the Environment or otherwise relating to the generation, use, treatment, storage, transport or handling of Hazardous Materials.

“**Environmental Liability**” means any liability, contingent or otherwise (including any liability for damages, costs of remediation, fines, penalties or indemnities), of any Credit Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage or treatment of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials or (e) any contract, agreement or other binding consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“**Equity Interests**” means (a) in the case of a corporation, capital stock or shares, (b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (c) in the case of a partnership, partnership interests (whether general or limited), (d) in the case of a limited liability company, membership interests, (e) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person and (f) any and all warrants, rights or options to purchase any of the foregoing.

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

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

“**ERISA Event**” means

- (a) any “**reportable event**” as defined in Section 4043(c) of ERISA or the regulations issued thereunder, with respect to a U.S. Pension Plan, other than events as to which the requirement of notice has been waived in regulations by the Pension Benefit Guaranty Corporation;
- (b) the adoption of any amendment to a U.S. Pension Plan or Multiemployer Plan that would require the provision of security pursuant to the Code or ERISA;
- (c) a complete or partial withdrawal by any Credit Party or any ERISA Affiliate from a Multiemployer Plan or a cessation of operations which is treated as such a withdrawal;
- (d) the filing of a notice of intent to terminate a U.S. Pension Plan or Multiemployer Plan under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the Pension Benefit Guaranty Corporation to terminate a U.S. Pension Plan or Multiemployer Plan;
- (e) an event or condition which would reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan;
- (f) the imposition of any liability under Title IV of ERISA, other than the Pension Benefit Guaranty Corporation premiums due but not delinquent under Section 4007 of ERISA, upon any Credit Party or any ERISA Affiliate in excess of \$1,000,000; and
- (g) any other event or condition with respect to any U.S. Pension Plan or Multiemployer Plan subject to Title IV of ERISA maintained, or contributed to, by any ERISA Affiliate in excess of \$1,000,000.

“**Euribor**” means the rate *per annum* determined on the basis of the rate for deposits in Euros for a period equal to the applicable Interest Period as published by the ICE Benchmark Administration

Limited, a United Kingdom company, or a comparable or successor quoting service approved by Agent, at approximately 11:00 a.m. (London time) four (4) Business Days prior to the commencement of such Interest Period, provided that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions, the rate above instead shall be the offered quotation to first-class banks in the London interbank Eurodollar market by Agent for deposits in Euros of amounts in immediately available funds comparable to the principal amount of the Euro Rate Loan of Agent (in its capacity as a Lender (or, if Agent is not a Lender with respect thereto, taking the average principal amount of the Euro Rate Loan then being made by the various Lenders pursuant thereto)) with maturities comparable to the Interest Period applicable to such Euro Rate Loan at approximately 11:00 a.m. (London time) four (4) Business Days prior to the commencement of such Interest Period. Notwithstanding the foregoing, if Euribor shall be less than 0%, such rate shall be deemed to be 0% for purposes of this Agreement.

“**Euro**” means the single currency of the participating member states as described in any EMU Legislation.

“**Euro Dollar Rate**” means, subject to the implementation of a Replacement Rate in accordance with Section 3.2(c), the rate of interest, based on a 360 day year, published by the ICE Benchmark Administration Limited, a United Kingdom company, or a comparable or successor quoting service approved by Agent, as the London interbank offered rate for deposits in U.S. Dollars for a term comparable to the applicable Interest Period as selected by Borrower (but if more than one rate is specified on such page, the rate will be an arithmetic average of all such rates rounded upwards, in Agent’s discretion, to the nearest 1/100th of one 1%) at approximately 9:00 a.m. (New York time) three (3) Business Days prior to the commencement of such Interest Period. If, for any reason, such rate is not so published then “Euro Dollar Rate” shall be determined by Agent to be the arithmetic average of the rate *per annum* at which deposits in U.S. Dollars would be offered by first class banks in the London interbank market to Agent at approximately 9:00 a.m. (New York time) three (3) Business Days prior to the commencement of such Interest Period. Each calculation by Agent of the Euro Dollar Rate shall be conclusive and binding for all purposes, absent manifest error. Notwithstanding the foregoing, if the Euro Dollar Rate shall be less than 0%, such rate shall be deemed to be 0% for purposes of this Agreement.

“**Euro Dollar Rate Loans**” means any Loans or portion thereof denominated in U.S. Dollars and on which interest is payable based on the Adjusted Euro Dollar Rate in accordance with the terms hereof.

“**Euro Loans**” means any Loans or portion thereof denominated in Euros and on which interest is payable based on the Euro Rate in accordance with the terms hereof.

“**Euro Rate**” means, subject to the implementation of a Replacement Rate in accordance with Section 3.2(c):

- (a) for any Revolving Loans denominated in U.S. Dollars, the Adjusted Euro Dollar Rate;
- (b) for any Revolving Loans denominated in Euros, Euribor; and

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- (c) for any Revolving Loans denominated in an Alternate Currency (other than Canadian Dollars and Euros), such rate *per annum* as shall be agreed upon by Agent, Borrower and the Revolving Lenders.

“**Euro Rate Loans**” means any Revolving Loans or portion thereof denominated in U.S. Dollars or an Alternate Currency (other than Canadian Dollars) and on which interest is payable based on the Euro Rate in accordance with the terms hereof.

“**Event of Default**” is defined in Section 10.1.

“**Excluded Taxes**” means any of the following Taxes imposed on or with respect to a Recipient or required to be withheld or deducted from a payment to a Recipient, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of such Recipient being organized under the laws of, or having its principal office or, in the case of any Lender, its applicable Lending Office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) in the case of a Lender, United States federal withholding Taxes imposed on amounts payable to or for the account of such Lender with respect to an applicable interest in a Loan or Commitment pursuant to a law in effect on the date on which (i) such Lender acquires such interest in the Loan or Commitment (other than pursuant to an assignment request by Borrower under Section 3.6(b)) or (ii) such Lender changes its Lending Office, except in each case to the extent that, pursuant to Section 3.5, amounts with respect to such Taxes were payable either to such Lender’s assignor immediately before such Lender became a party hereto or to such Lender immediately before it changed its Lending Office, (c) Taxes attributable to such Recipient’s failure to comply with Section 3.5(g), (d) any Taxes imposed under FATCA and (e) any Taxes that are required to be deducted or withheld under the ITA or in respect of any payment or deemed payment under the ITA, to or for the benefit of any Recipient (i) with which the payor does not deal at arm’s length for purposes of the ITA at the time of the making of the payment or deemed payment or (ii) that is a “specified shareholder” (as defined in subsection 18(5) of the ITA) of the applicable Credit Party at any relevant time or does not deal at arm’s length for purposes of the ITA with a “specified shareholder” (as defined in subsection 18(5) of the ITA) of the applicable Credit Party at any relevant time.

“**FATCA**” means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, and any agreements entered into pursuant to Section 1471(b)(1) of the Code and any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement, treaty or convention among Governmental Authorities and implementing such Sections of the Code.

“**Federal Funds Rate**” means, for any day, the rate *per annum* equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that if such rate is not so published for any day which is a Business Day, the Federal Funds Rate for such day shall be the average of the quotation for such day on such transactions received by Agent from three (3) federal funds brokers of recognized standing selected by Agent.

Notwithstanding the foregoing, if the Federal Funds Rate shall be less than 0%, such rate shall be deemed to be 0% for purposes of this Agreement.

“**Fee Letter**” means the separate fee letter agreement dated June 6, 2018 among Borrower, Agent and Arranger.

“**Financing Agreements**” means, collectively, this Agreement, the Fee Letter and all notes, guarantees, security agreements and other agreements, documents and instruments previously, now or at any time hereafter executed and/or delivered by any Credit Party in connection with this Agreement, in each case, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, but excluding any Secured Hedge Agreement and Secured Cash Management Agreement.

“**Fiscal Quarter**” means each of the following 3 month periods in any Fiscal Year of Borrower: January 1 to March 31, April 1 to June 30, July 1 to September 30 and October 1 to December 31.

“**Fiscal Year**” means the fiscal year of Borrower being the twelve (12) month period of January 1 to December 31.

“**Fixed Incremental Amount**” means, at any time, the greater of (a) \$140,000,000 and (b) the EBITDA of Borrower and its consolidated Subsidiaries for the four (4) fiscal quarter period most recently ended for which a Compliance Certificate has been executed and delivered by Borrower to Agent less the aggregate principal amount of all Incremental Loans, Incremental Loan Commitments and Incremental Equivalent Debt incurred under the Fixed Incremental Amount prior to such time.

“**Fund**” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course of its activities.

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

“**GAAP**” means generally accepted accounting principles in the United States of America and as in effect from time to time (for all other purposes of the Agreement), including those forth in the opinions and pronouncements of the relevant U.S. public and private accounting boards and institutes which are applicable to the circumstances as of the date of determination consistently applied. If at any time any change in GAAP or the application thereof would affect the computation or interpretation of any financial ratio, basket, requirement or other provision set forth in any Financing Agreement, and either the Borrower or the Required Lenders shall so request, the Agent and the Borrower shall negotiate in good faith to amend such ratio, basket, requirement or other provision to preserve the original intent thereof in light of such change in GAAP or the application thereof (subject to the approval of the Required Lenders not to be unreasonably withheld, conditioned or delayed).

“General Security Agreement” means the amended and restated general security agreement dated November 16, 2009 entered into by Borrower in favor of Agent, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

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

“Guarantors” means, other than Borrower, any guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, including:

- (a) IMAX U.S.A. Inc., a Delaware corporation;
- (b) 1329507 Ontario Inc., an Ontario corporation;
- (c) IMAX II U.S.A. Inc., a Delaware corporation;
- (d) IMAX Post/DKP Inc., a Delaware corporation;
- (e) IMAX Barbados; and
- (f) IMAX Ireland.

“Hazardous Materials” means any chemical, material, substance, waste, pollutant or contaminant, or compound in any form of any nature, including petroleum and petroleum products, asbestos and asbestos-containing materials, regulated pursuant to any Environmental Law.

“Hedge Agreement” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement, all as amended, modified, supplemented, extended, renewed, restated or replaced from time to time.

“**Hedge Bank**” means any Person that at the time it enters into a Hedge Agreement is a Lender, an Affiliate of a Lender, Agent or an Affiliate of Agent, in its capacity as a party to such Hedge Agreement.

“**Hedge Termination Value**” means, in respect of any one or more Hedge Agreements, after taking into account the effect of any legally enforceable netting agreement relating to such Hedge Agreements, (a) for any date on or after the date such Hedge Agreements have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Hedge Agreements, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Hedge Agreements (which may include Agent, a Lender or any Affiliate thereof).

“**Hong Kong JV Guarantee**” means the unsecured guarantee dated January 6, 2014 issued by Borrower to Sino Leader (Hong Kong) Limited.

“**Hong Kong JV Investment**” means the \$12,500,000 investment by IMAX (Hong Kong) Holding, Limited in TCL-IMAX Entertainment Co., Limited for 50% of the issued and outstanding share capital of TCL-IMAX Entertainment Co., Limited.

“**IMAX Barbados**” means IMAX (Barbados) Holding, Inc., a Barbados corporation.

“**IMAX Cayman**” means IMAX China Holding, Inc., a Cayman Islands exempted company.

“**IMAX China Credit Facility**” means a secured credit facility provided by third party lenders to IMAX Cayman, IMAX China HK and/or IMAX China Multimedia.

“**IMAX China Guarantee**” means an unsecured guarantee issued by Borrower of the obligations, liabilities and indebtedness of any borrower that is a Subsidiary of Borrower under the IMAX China Credit Facility in an amount not to exceed \$5,000,000.

“**IMAX China HK**” means IMAX China (Hong Kong), Limited.

“**IMAX China Multimedia**” means IMAX (Shanghai) Multimedia Technology Co., Ltd., a People’s Republic of China corporation.

“**IMAX China Theatre**” means IMAX (Shanghai) Theatre Technology Services Co., Ltd., a People’s Republic of China corporation.

“**IMAX Film Fund**” means IMAX Documentary Films Capital, LLC.

“**IMAX Film Fund Put**” means the Production, Financing and Distribution Agreement dated as of May 12, 2014, by and between IMAX Film Holding Co. and IMAX Film Fund.

“**IMAX HK**” means IMAX (Hong Kong) Holding, Limited, a Subsidiary of Borrower and a Hong Kong corporation.

“**IMAX Ireland**” means IMAX Theatres International Limited, an Irish corporation.

“**Increased Amount Date**” is defined in [Section 2.6\(b\)](#).

“**Increased-Cost Lender**” is defined in [Section 3.6\(a\)](#).

“**Incremental Equivalent Debt**” is defined in [Section 8.3\(y\)](#).

“**Incremental Lender**” is defined in [Section 2.6\(c\)](#).

“**Incremental Loan Commitments**” is defined in [Section 2.6\(a\)\(ii\)](#).

“**Incremental Loans**” is defined in [Section 2.6\(a\)\(ii\)](#).

“**Incremental Revolving Loan Commitment**” is defined in [Section 2.6\(a\)\(ii\)](#).

“**Incremental Revolving Loan Increase**” is defined in [Section 2.6\(a\)\(ii\)](#).

“**Incremental Term Loan**” is defined in [Section 2.6\(a\)\(i\)](#).

“**Incremental Term Loan Commitment**” is defined in [Section 2.6\(a\)\(i\)](#).

“**Indemnified Taxes**” means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of Borrower under this Agreement and any other documents entered into in connection herewith and (b) to the extent not otherwise described in [clause \(a\)](#), Other Taxes.

“**Indemnitee**” is defined in [Section 12.5](#).

“**Information Certificate**” means the Information Certificate substantially in the form of [Exhibit C](#) hereto provided by or on behalf of each Credit Party to Agent in connection with the Financing Agreements.

“**Insolvency Laws**” means any of the Bankruptcy Code, BIA, the CCAA (Canada), the *Winding-Up and Restructuring Act* (Canada), and any similar debtor relief laws of any applicable jurisdiction (including common law or equity and any law permitting a debtor to obtain a stay or a compromise of the claims of its creditors against it) now or hereafter in effect relating to bankruptcy, insolvency, receivership, liquidation, dissolution, winding-up, restructuring or reorganization of debtors (including provisions of any applicable corporations legislation dealing with the restructuring or rearrangement of debts), compromise, arrangement, adjustment, protection, moratorium, relief, stay of proceedings of creditors generally (or any class of creditors), or composition of any debtor or its indebtedness.

“**Insolvency Proceeding**” means any proceeding commenced by or against any Person under any provision of Insolvency Law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

“**Intercreditor Agreement**” means an intercreditor agreement that is reasonably satisfactory to Agent and entered into by Agent pursuant to Section 11.10(d), as amended, modified, extended, renewed, restated or replaced from time to time.

“**Interest Period**” means, with respect to each CDOR Rate Loan and Euro Rate Loan, a period of one (1), two (2), three (3) or six (6) months (or, if agreed to by all relevant Lenders, twelve (12) months) duration as Borrower may elect, the exact duration to be determined in accordance with customary practice in the applicable CDOR Rate or Euro Rate market; provided that (a) if an Interest Period would otherwise expire on a day that is not a Business Day, such Interest Period shall expire on the next succeeding Business Day unless no further Business Day occurs in such month, in which case such Interest Period shall expire on the immediately preceding Business Day; (b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (c) of this definition, end on the last Business Day of a calendar month; and (c) Borrower may not elect an Interest Period which will end after the Maturity Date.

“**Interest Rate**” means:

- (a) as to Euro Dollar Rate Loans, the Adjusted Euro Dollar Rate plus the Applicable Margin *per annum*; or
- (b) as to U.S. Base Rate Loans, the U.S. Base Rate plus the Applicable Margin *per annum*; or
- (c) as to CDOR Rate Loans, the CDOR Rate plus the Applicable Margin *per annum*;
- (d) as to Canadian Prime Rate Loans, the Canadian Prime Rate plus the Applicable Margin *per annum*;
- (e) as to Euro Rate Loans (other than US Revolving Loans), the Euro Rate plus the Applicable Margin *per annum*;
- (f) notwithstanding the rates described in clause (a) and (e) above, the rate of 2% *per annum* in excess of the applicable Interest Rate described above and all fees payable in connection herewith shall apply (and shall be payable on demand by Agent):
 - (i) automatically upon the occurrence and continuation of a Payment/Insolvency Event of Default; and
 - (ii) at the election of Required Lenders (or Agent at the direction of Required Lenders) upon the occurrence and continuation of any other Event of Default.

“**Investment**” is defined in Section 8.4.

“**IP Collateral**” means all of the Intellectual Property as such term is defined in the General Security Agreement.

“**IP Collateral License Agreement**” means the amended and restated intellectual property license agreement dated November 16, 2009 granting Agent and its successors, transferees and assignees, a non-exclusive, royalty free perpetual license to the IP Collateral, but effective only upon the occurrence and continuance of an IP Grace Period, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

“**IP Grace Period**” means the period commencing on the date upon which Agent exercises its remedies pursuant to Section 10.2(a) and/or Section 10.2(b) hereof and ending 120 days thereafter.

“**Issuing Lender**” means with respect to Letter of Credit Accommodations issued hereunder on or after the Closing Date, Wells Fargo, in its capacity as issuer thereof, or any successor thereto.

“**ITA**” means the *Income Tax Act*, R.S.C. 1985, c. (5th Supplement).

“**Lenders**” means each Person executing this Agreement as a Lender on the Closing Date (including the Swingline Lender) and any other Person that becomes a party hereto as a Lender pursuant to an Assignment and Assumption Agreement or the relevant Lender Joinder Agreement, other than any Person that ceases to be a party hereto as a Lender pursuant to an Assignment and Assumption Agreement.

“**Lender Joinder Agreement**” means a joinder agreement in form and substance reasonably satisfactory to Agent and executed and delivered in connection with Section 2.6.

“**Lending Office**” means, with respect to any Lender, the office of such Lender maintaining such Lender’s Loans.

“**Letter of Credit Accommodations**” means the letters of credit, merchandise purchase or other guarantees denominated in U.S. Dollars which are from time to time either (a) issued or opened by Issuing Lender for the account of Borrower or any Credit Party or (b) with respect to which Issuing Lender has agreed to indemnify the issuer or guaranteed to the issuer the performance by any Credit Party of its obligations to such issuer, and shall include the existing letters of credit, merchandise purchase and other guarantees issued and currently outstanding under the Fourth Amended and Restated Credit Agreement.

“**Letter of Credit Accommodations Sublimit**” is defined in Section 2.2(c).

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

“**Lien**” means any security interest, mortgage, pledge, hypothec, lien, charge or other lien of any nature whatsoever (including those created by statute); provided that in no event shall an operating lease or an agreement to sell be deemed to constitute a Lien.

“**Loans**” means, collectively, the Revolving Loans, the Swingline Loans and the Term Loans.

“**London Banking Day**” means any day on which dealings in U.S. Dollar or Euro deposits are conducted by and between banks in the London interbank Eurodollar market.

“Material Acquisition” means any transaction, or any series of related transactions, which is a Permitted Investment consummated on or after the Closing Date, by which any Credit Party or any of its Subsidiaries:

- (a) (i) acquires any business or all or substantially all of the assets of any Person, or division thereof, whether through purchase of assets, merger or otherwise or (ii) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of members of the board of directors or the equivalent governing body (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding ownership interests of a partnership or limited liability company; and
- (b) the consideration is payable in an amount equal to or greater than the lesser of (i) \$100,000,000 and (ii) twenty-five percent (25%) of TTM Revenue (other than any consideration paid for by the issuance of Equity Interests and/or using the proceeds received from the sale of Equity Interests).

“Material Adverse Effect” means, with respect to Borrower and its Subsidiaries, (a) a material adverse effect on the properties, business, operations, liabilities (actual or contingent) or financial condition of any such Persons, taken as a whole, (b) a material adverse effect on the ability of any such Persons, taken as a whole, to perform their respective obligations under the Financing Agreements to which any of the Credit Parties is a party, (c) a material adverse effect on the rights and remedies of Agent or the Lenders under any Financing Agreements or (d) a material adverse effect on the legality, validity, binding effect or enforceability against any Credit Party of any Financing Agreement to which it is a party.

“Material Real Property” means any real property owned in fee simple (or local law equivalent) and acquired by a Credit Party after the Closing Date with a market value or purchase price in excess of \$5,000,000; provided that, for the avoidance of doubt, neither the Mississauga Property nor the Playa Vista Property shall constitute “Material Real Property.”

“Material Subsidiary” means any Subsidiary of any Credit Party that accounts for greater than 10% of the revenues of Borrower on a consolidated basis other than (a) IMAX China Multimedia, IMAX China Theatre, IMAX China HK, Playa Vista Borrower and IMAX Cayman and its Subsidiaries; (b) not wholly owned directly by a Credit Party or one or more of its wholly owned Subsidiaries; (c) a charitable or not-for-profit Subsidiary reasonably designated as such by Borrower; (d) any Subsidiary that is prohibited by Applicable Law, or by any contractual obligation from guaranteeing the applicable Obligations or which would require governmental and/or regulatory consent, approval, license or authorization to provide such guarantee, unless such consent, approval, license or authorization has been received (provided Borrower agrees to use commercially reasonable efforts to obtain such contractual or governmental consent and/or regulatory consent, approval, license or authorization if reasonably requested by Agent), or which would result in material adverse tax consequences to any Credit Party and/or any of its Subsidiaries as reasonably determined by Borrower and Agent; (e) any Subsidiary that is created solely for the purpose of consummating a transaction pursuant to an acquisition permitted hereunder but only

until such transaction is consummated, if such new Subsidiary at no time holds any assets or liabilities other than any merger or amalgamation consideration contributed to it contemporaneously with the closing of such transactions; (f) acquired pursuant to a Permitted Investment and financed with secured Debt permitted to be incurred hereunder as assumed Debt (and not incurred in contemplation of such acquisition), and each Subsidiary acquired in such Permitted Investments that guarantees such Debt, in each case to the extent that, and for so long as, the documentation relating to such Debt to which such Subsidiary is a party prohibits such Subsidiary from guaranteeing the Obligations and such prohibition was not created in contemplation of such Permitted Investment; and (g) any other Subsidiary with respect to which, in the reasonable judgment of Borrower (as agreed to in writing by Agent), the cost or other consequences of guaranteeing the Obligations would be excessive in view of the benefits to be obtained by the Lenders therefrom.

“**Maturity Date**” means the earlier of:

- (a) demand for payment under Section 10.2; and
- (b) the 5th anniversary of the Closing Date.

“**Maximum Incremental Amount**” means, collectively, the Fixed Incremental Amount, the Ratio Incremental Amount and the Voluntary Prepayment Amount; provided that the order and combination of the utilization of any component of the Maximum Incremental Amount shall be directed by Borrower in writing in its sole discretion subject to the terms of this Agreement on or prior to the date any commitment therefor is entered into and if not so directed shall be deemed to have been incurred in reliance first on the Ratio Incremental Amount, second on the Voluntary Prepayment Amount and third on the Fixed Incremental Amount.

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

“**Mortgages**” means the collective reference to each mortgage, deed of trust or other real property security document, encumbering any real property now or hereafter owned by any Credit Party, in each case, in form and substance reasonably satisfactory to Agent and executed by such Credit Party in favor of Agent, for the ratable benefit of the Secured Parties, as any such document now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

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

“**Non-Consenting Lender**” means any Lender that does not approve any consent, waiver or amendment that (a) requires the approval of all Lenders or all affected Lenders in accordance with the terms of Section 11.14 and (b) has been approved by the Required Lenders.

“**Non-Funding Lender**” is defined in Section 11.13(a)(iii).

“**Notice of Borrowing**” means a notice of borrowing substantially in the form attached as Exhibit D hereto.

“**Notice of Conversion/Continuation**” means a notice of conversion/continuation substantially in the form attached as Exhibit E hereto.

“**Notice of Prepayment**” means a notice of prepayment substantially in the form attached as Exhibit F hereto.

“**Obligations**” means any and all Revolving Loans, Swingline Loans, Letter of Credit Accommodations, Term Loans and all other obligations, liabilities and indebtedness of every kind, nature and description owing by any Credit Party to Agent, Lenders and their respective Affiliates including principal, interest, charges, indemnifications for Letter of Credit Accommodations or otherwise, fees, costs and expenses, however evidenced, whether as principal or otherwise, arising under or in connection with the Financing Agreements, Secured Hedge Agreements and Secured Cash Management Agreements, as amended, modified, supplemented, extended, renewed, restated, replaced or superseded, in whole or in part, from time to time and/or Applicable Laws, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of this Agreement or after the commencement of any proceeding with respect to any Credit Party under Insolvency Laws (including the payment of interest and other amounts which would accrue and become due but for the commencement of such proceeding, whether or not such amounts are allowed or allowable in whole or in part in such proceeding), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured. For greater certainty, the obligations, liabilities and indebtedness owing under or in connection with the BMO Facilities are not included in “**Obligations**”.

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

“**Operating Lease**” means, as to any Person as determined in accordance with GAAP, any lease of property (whether real, personal or mixed) by such Person as lessee which is not a capital lease.

“**Other Connection Taxes**” means, with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Tax (other than connections arising from such Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced this Agreement and any other documents entered into in connection herewith, or sold or assigned an interest in any Loan or this Agreement and any other documents entered into in connection herewith).

“**Other Currency**” is defined in Section 13.6.

“**Other Lender**” is defined in Section 11.13(d).

“**Other Taxes**” means all present or future stamp, court, documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any this Agreement and any other documents entered into in

connection herewith, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment (other than an assignment made pursuant to Section 3.5).

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

“**Payment/Insolvency Event of Default**” means the occurrence and continuation of any Event of Default pursuant to Section 10.1(a)(i) and (ii), 10.1(i) or 10.1(j).

“**Pension Plans**” means each of the pension plans, if any, that are registered in accordance with the ITA which any Credit Party sponsors or administers or into which any Credit Party makes contributions.

“**Permitted Debt**” means, collectively, the Debt of Borrower and its Subsidiaries permitted pursuant to Section 8.3.

“**Permitted Investments**” means, collectively, the Investments permitted pursuant to Section 8.4.

“**Permitted Liens**” means, collectively, the Liens permitted pursuant to Section 8.2.

“**Permitted Refinancing**” means any renewals, exchanges, extensions, refinancings and refunding of such Debt; provided that:

- (a) any such renewal, exchange, extension, refinancing or refunding is in an aggregate principal amount not greater than the principal amount (or accreted value, if applicable) of the aggregate principal amount of such Debt outstanding at such time (*plus* accrued interest, any reasonable premium and reasonable commission, fees and expenses);
- (b) such Debt has a stated maturity date that is at least 91 days after the Maturity Date and the Weighted Average Life to Maturity of such Debt is not shorter than the Weighted Average Life to Maturity of the Debt being renewed exchanged, extended or refinanced or refunded;
- (c) with respect to which any Liens securing such Debt are limited to the assets or property that secured or would have secured the Debt being renewed, exchanged, extended, refinanced or refunded and without any change in the Lien priority with respect to such assets or property subject to such Liens; provided that any such Lien may be subordinated on terms satisfactory to Agent;
- (e) no obligor that was not obligated with respect to the Debt that is renewed, extended, refinanced or refunded shall become obligated with respect to the renewal, exchange, extension, refinancing or refund of such Debt;
- (f) if the Debt that is renewed, exchanged, extended, refinanced or refunded was subordinated in right of payment to the Obligations, then the terms and conditions of the renewal, exchange, extension, refinancing, refunding must include

subordination terms and conditions that are at least as favorable to the Lenders as those that were applicable to the renewed, exchanged, extended, refinanced or refunded Debt; and

- (g) such Debt shall be on terms no more materially restrictive on such obligors than the Debt being renewed, exchanged, extended, refinanced or refunded.

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

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

“**Playa Vista Agent**” means Wells Fargo Bank, National Association, as administrative agent for itself and the lenders under the Playa Vista Credit Facility.

“**Playa Vista Borrower**” means IMAX PV Development Inc., a wholly-owned subsidiary of Borrower.

“**Playa Vista Credit Facility**” means the credit facilities established in favor of Playa Vista Borrower pursuant to the construction loan agreement dated October 6, 2014 among Playa Vista Borrower, Playa Vista Agent and the other Persons party thereto, as amended, modified, supplemented, extended, renewed, restated or replaced from time to time.

“**Playa Vista Guarantee**” means the payment and performance guaranty dated October 6, 2014 issued by Borrower in favor of Playa Vista Agent with respect to the Playa Vista Credit Facility.

“**Playa Vista Property**” means the property located at 12582 West Millennium, Playa Vista, California 90094 owned by Playa Vista Borrower.

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

“**Pro Rata Share**” means with respect to a Lender:

- (a) with respect to all Revolving Loans, the percentage obtained by dividing (i) the aggregate Revolving Loan Commitments of such Lender by (ii) the aggregate Revolving Loan Commitments of all Lenders;
- (b) with respect to all Revolving Loans on and after the Maturity Date, the percentage obtained by dividing (i) the aggregate outstanding principal balance of the

Revolving Loans held by such Lender by (ii) the outstanding principal balance of the Revolving Loans held by all Lenders;

- (c) with respect to all Term Loans, the percentage obtained by dividing (i) the aggregate Term Loan Commitments of such Lender by (ii) the aggregate Term Loan Commitments of all Lenders;
- (d) with respect to all Term Loans on and after the Maturity Date, the percentage obtained by dividing (i) the aggregate outstanding principal balance of the Term Loans held by such Lender by (ii) the outstanding principal balance of the Term Loans held by all Lenders; and
- (e) with respect to all Loans on and after the Maturity Date, the percentage obtained by dividing (i) the aggregate outstanding principal balance of the Loans held by such Lender by (ii) the outstanding principal balance of the Loans held by all Lenders.

“**Prohibited Transferee**” is defined in the definition of Eligible Transferee.

“**Qualified Equity Interests**” means any Equity Interests that are not Disqualified Equity Interests.

“**Ratio Debt**” is defined in [Section 8.3\(m\)](#).

“**Ratio Debt Test**” is defined in [Section 8.3\(m\)](#).

“**Ratio Incremental Amount**” means, at any time, the maximum amount of Debt that could be incurred at such time by Borrower so long as on a *pro forma* basis, after giving effect to the incurrence of any applicable Incremental Term Loan Commitment, the Senior Secured Net Leverage Ratio does not exceed 2.50:1.00 (as calculated by Borrower in a Compliance Certificate executed and delivered by Borrower to Agent).

“**Receiver**” is defined in [Section 10.2\(f\)](#).

“**Recipient**” means (a) Agent, (b) any Lender and (c) any Issuing Lender, as applicable.

“**Records**” means all of each Credit Party’s present and future books of account of every kind or nature, purchase and sale agreements, invoices, ledger cards, bills of lading and other shipping evidence, statements, correspondence, memoranda, credit files and other data relating to the Collateral or any account debtor, together with the tapes, disks, diskettes and other data and software storage media and devices, file cabinets or containers in or on which the foregoing are stored (including any rights of a Credit Party with respect to the foregoing maintained with or by any other person).

“**Replacement Rate**” is defined in [Section 3.2\(c\)](#).

“**Report**” is defined in [Section 11.9\(a\)](#).

“Required Lenders” means, on any date of determination, (a) Lenders holding more than 50% of the Commitments or (b) on and after the Maturity Date, Lenders holding more than 50% of the outstanding Loans. The Commitments and outstanding Loans of Non-Funding Lenders shall be excluded from the calculation of Required Lenders. For purposes of this definition, the calculation of the outstanding principal amount of all Alternate Currency Loans shall be determined by taking the Dollar Equivalent thereof at the time of any such calculation.

“Restricted Payment” is defined in [Section 8.5](#).

“Revolving Lenders” means, at any time, collectively, all Lenders with a Revolving Loan Commitment at such time (and after the termination of all Revolving Loan Commitments, any Lender that holds any outstanding amount in respect of Revolving Loans). Unless the context otherwise requires, the term “Lenders” includes Swingline Lender.

“Revolving Loan Commitment” means (a) as to any Revolving Lender with respect to Revolving Loans, the aggregate of such Revolving Lender’s Revolving Loan Commitment as set forth beside such Revolving Lender’s name on [Exhibit G](#) hereto or, if such Revolving Lender’s name does not appear on [Exhibit G](#) hereto, in the most recent Assignment and Assumption Agreement or Lender Joinder Agreement executed by such Revolving Lender, and (b) as to all Revolving Lenders, the aggregate of all Revolving Lenders’ Revolving Loan Commitments to Borrower, which aggregate commitment is \$300,000,000 as of the Closing Date. For greater certainty, the Swingline Commitment of \$5,000,000 as of the Closing Date is a sub-limit of the Revolving Loan Commitment and not in addition thereto.

“Revolving Loans” means Canadian Prime Rate Loans, CDOR Rate Loans, U.S. Base Rate Loans and/or Euro Rate Loans, as the case may be, now or hereafter made by Revolving Lenders to or for the benefit of Borrower on a revolving basis (involving advances, repayments and re-advances) as set forth in [Section 2.1](#) hereof.

“Revolving Loan Exposure” means, as to any Revolving Lender at any time, the aggregate principal amount at such time of its outstanding Revolving Loans and such Revolving Lender’s participation in the Letter of Credit Accommodations and Swingline Loans at such time. For purposes of this definition, the calculation of the outstanding principal amount of all Alternate Currency Loans shall be determined by taking the Dollar Equivalent thereof at the time of any such calculation.

“Revolving Loan Facility” means the revolving loan facility established pursuant to [Article 2](#) (including any increase in such revolving loan facility established pursuant to [Section 2.6](#)).

“Revolving Loan Outstandings” means the sum of on any date (a) the aggregate outstanding principal amount of Revolving Loans and Swingline Loans (without duplication) after giving effect to any borrowings and prepayments or repayments of Revolving Loans and Swingline Loans (without duplication) occurring on such date; plus (b) the aggregate outstanding amount of all Letter of Credit Accommodations after giving effect to any changes in the aggregate amount of the Letter of Credit Accommodations as of such date. For purposes of this definition, the

calculation of the outstanding principal amount of all Alternate Currency Loans shall be determined by taking the Dollar Equivalent thereof at the time of any such calculation.

“**Sanctioned Entity**” means (a) an agency of the government of, (b) an organization directly or indirectly controlled by, or (c) a person resident in, in each case, a country or territory that is the target of territory-wide or country-wide OFAC sanctions.

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

“**Secured Cash Management Agreement**” means any Cash Management Agreement that is entered into by and between any Credit Party and any Cash Management Bank.

“**Secured Hedge Agreement**” means any Hedge Agreement that is entered into by and between any Credit Party and any Hedge Bank.

“**Secured Parties**” means, collectively, Agent, Lenders, and their respective Affiliates (including Hedge Banks under any Secured Hedge Agreements and Cash Management Banks under Secured Cash Management Agreements) and any other person holding any Obligations (and, for greater certainty, if such person ceases to be an Agent or a Lender then for any transaction entered into under a Secured Hedge Agreement or Secured Cash Management Agreement with that Agent or Lender or any of its Affiliates prior to the date that person ceases to be an Agent or Lender, that Person or any of its Affiliates shall continue to be a Secured Party hereunder with respect to Borrower’s obligations relating to any such transaction).

“**Senior Secured Net Leverage Ratio**” means, as of any date, the ratio of (i) Total Debt secured by a Lien on any assets of Borrower or any of its Subsidiaries as of such date (net of unrestricted cash and Cash Equivalents of Borrower and its consolidated Subsidiaries on the consolidated balance sheet of Borrower and its Subsidiaries as of the last day of such period less such amounts domiciled in the People’s Republic of China, and such net amount not to exceed in aggregate \$75,000,000) to (ii) EBITDA for the period of four (4) Fiscal Quarter period ending on or immediately prior to such date.

“**Settlement Date**” is defined in [Section 11.13\(a\)\(iii\)](#).

“**Solvent**” means, with respect to any Person on any date of determination, that on such date (a) the fair value of the assets (including contingent assets) of such Person is greater than the total amount of liabilities (including contingent liabilities) of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person’s ability to pay such debts and liabilities as they mature, (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person’s property would constitute an unreasonably small capital, and (e) such Person is able to pay its debts and liabilities, contingent obligations and other commitments as they mature in the ordinary course of business. The amount of contingent assets or liabilities at any time shall be computed as the amount that, in the light of all of the facts and circumstances existing at such time, represents

the amount that can reasonably be expected to become an actual or matured assets or liability, as the case may be.

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

“**Sweep Arrangement**” is defined in Section 2.1(c).

“**Swingline Commitment**” means the lesser of (a) \$5,000,000 and (b) the Revolving Loan Commitment. For greater certainty, the Swingline Commitment of \$5,000,000 as of the Closing Date is a sub-limit of the Revolving Loan Commitment and not in addition thereto.

“**Swingline Facility**” means the swingline facility established pursuant to Section 2.1(c).

“**Swingline Lender**” means Wells Fargo in its capacity as swingline lender hereunder or any successor thereto.

“**Swingline Loan**” means any swingline loan made by Swingline Lender to Borrower pursuant to Section 2.1(c), and all such swingline loans collectively as the context requires.

“**Swingline Participation Amount**” is defined in Section 2.1(c)(iv).

“**Synthetic Lease**” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an Operating Lease in accordance with GAAP.

“**Taxes**” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, fines, additions to tax or penalties applicable thereto.

“**Term Lender**” means any Lender with a Term Loan Commitment.

“**Term Loan Commitment**” means (a) as to any Lender with respect to Term Loans, the aggregate of such Lender’s Term Loan Commitment as set forth beside such Lender’s name in the most recent Assignment and Assumption Agreement or Lender Joinder Agreement executed by such Lender, and (b) as to all Lenders, the aggregate of all Lenders’ Term Loan Commitments to Borrower, which aggregate commitment is \$0 as of the Closing Date.

“**Term Loan Exposure**” means, as to any Lender at any time, the aggregate principal amount at such time of its outstanding Term Loans.

“**Term Loan Facility**” means the term loan facility, if any, established pursuant to Section 2.6.

“**Term Loan Outstandings**” means, on any date, the aggregate outstanding principal amount of Term Loans after giving effect to any borrowings and prepayments or repayments of Term Loans occurring on such date.

“**Term Loans**” means, collectively, if applicable, each Incremental Term Loans and “**Term Loan**” means any of such Incremental Terms Loans.

“**Total Debt**” means, at any time with respect to Borrower and its consolidated Subsidiaries in accordance with GAAP and to the extent listed on the consolidated balance sheet (without duplication), the sum of all (i) Debt of the type specified in clauses (b), (c), (d), (e), (f) and (h) of the definition of “Debt” and (ii) non-contingent obligations of the type specified in clause (k) of such definition (to the extent such obligations under clause (k) relate to Debt of the type specified in clauses (b), (c), (d), (e), (f) and (h) of such definition (but (1) excluding surety bonds not in connection with debt for borrowed money, performance bonds or other similar instruments, (2) excluding the effects of any discounting of Debt resulting from the application of purchase accounting in connection with the transactions contemplated by this Agreement or any acquisition and (3) any Debt that is issued at a discount to its initial principal amount shall be calculated based on the entire stated principal amount thereof, without giving effect to any discounts or upfront payments), excluding obligations in respect of letters of credit, bankers acceptances, bank guarantees, and guarantees on first demand, in each case, except to the extent of unreimbursed amounts thereunder). For the avoidance of doubt, it is understood that obligations under Hedge Agreements and Cash Management Agreements do not constitute Total Debt.

“**Total Leverage Ratio**” means, as of any date of determination, the ratio of (a) Total Debt on such date to (b) EBITDA for the period of four (4) consecutive Fiscal Quarters ending on or immediately prior to such date.

“**Total Net Leverage Ratio**” means, as of any date of determination, the ratio of (a) Total Debt on such date (net of unrestricted cash and Cash Equivalents of Borrower and its consolidated Subsidiaries on the consolidated balance sheet of Borrower and its Subsidiaries as of the last day of such period less such amounts domiciled in the People’s Republic of China, and such net amount not to exceed in aggregate \$75,000,000) to (b) EBITDA for the period of four (4) consecutive Fiscal Quarters ending on or immediately prior to such date.

“**Trade-mark**” means any Trade-mark as such term is defined in the General Security Agreement.

“**TTM Revenue**” means, as of any date of determination, with respect to Borrower and its consolidated Subsidiaries the amount which is set forth under the heading “Revenues” on the consolidated statement of operations of Borrower and its Subsidiaries for the most recent four (4) consecutive Fiscal Quarter period ending on or immediately prior to such date as determined in accordance with GAAP.

“**Type**” means (i) for any US Revolving Loan, the type of such US Revolving Loan determined with regard to the interest option available thereto, i.e., whether a U.S. Base Rate Loan or a Euro Dollar Rate Loan, (ii) for a Euro Rate Loan (other than a US Revolving Loan), the Currency of such Euro Rate Loan and (iii) for any Canadian Revolving Loan, the type of such Canadian

Revolving Loan determined with regard to the interest option available thereto, i.e., whether a Canadian Prime Rate Loan or a CDOR Rate Loan.

“**UCC**” means the Uniform Commercial Code (or any similar or equivalent legislation) as in effect in any applicable jurisdiction.

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

“**U.S. Base Rate**” means, at any time, the highest of (a) the U.S. Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) the Euro Dollar Rate for an Interest Period of one month plus the difference between the Applicable Margin for U.S. Base Rate Loans and Euro Dollar Rate Loans; each change in the U.S. Base Rate shall take effect simultaneously with the corresponding change or changes in the U.S. Prime Rate, the Federal Funds Rate or the Euro Dollar Rate.

“**U.S. Base Rate Loans**” means any Loans (including Swingline Loans) or portions thereof denominated in U.S. Dollars and on which interest is payable based on the U.S. Base Rate in accordance with the terms hereof.

“**U.S. First Rate**” is defined in Section 3.1(c).

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

“**U.S. Person**” means any Person that is a “**United States person**” as defined in Section 7701(a)(30) of the Code.

“**U.S. Prime Rate**” means, at any time, the rate of interest *per annum* publicly announced from time to time by Agent as its prime rate. Each change in the U.S. Prime Rate shall be effective as of the opening of business on the day such change in such prime rate occurs. The parties hereto acknowledge that the rate announced publicly by Agent as its prime rate is an index or base rate and shall not necessarily be its lowest or best rate charged to its customers or other banks.

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

“**US Revolving Loans**” means Revolving Loans denominated in U.S. Dollars.

“**Voluntary Prepayment Amount**” means, at any time, the amount equal to all voluntary prepayments by Borrower of the Loans to the extent accompanied by a corresponding permanent reduction in the Revolving Loan Commitment, if applicable, less the aggregate principal amount of all Incremental Loans, Incremental Loan Commitments and Incremental Equivalent Debt incurred under the Voluntary Prepayment Amount prior to such time, as applicable.

“**Weighted Average Life to Maturity**” means, when applied to any indebtedness at any date, the number of years (and/or portion thereof) obtained by dividing: (a) the sum of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (ii) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by (b) the then outstanding principal amount of such indebtedness, in each case of clauses (a) and (b), without giving effect to the application of any prior prepayment to such installment, sinking fund, serial maturity or other required payment of principal.

“**Wells Fargo**” means Wells Fargo Bank, National Association, a national banking association, and its successors.

“**Withholding Agent**” means any Credit Party and Agent.

“**Write-Down and Conversion Powers**” means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-in Legislation Schedule.

ARTICLE 2

CREDIT FACILITIES

2.1 Revolving Loans

- (a) Availability and Repayment. Subject to, and upon the terms and conditions contained herein, each Revolving Lender severally (and not jointly) agrees to make its Pro Rata Share of Revolving Loans by way of Canadian Prime Rate Loans, CDOR Rate Loans, Euro Rate Loans and U.S. Base Rate Loans to Borrower from time to time from the Closing Date through, but not including, the Maturity Date in amounts requested by Borrower in accordance with Section 3.1(h); provided, that (i) after the Closing Date, the Revolving Loan Outstandings shall not exceed the Revolving Loan Commitment, (ii) the Revolving Loan Exposure of any Lender shall not at any time exceed such Lender’s Revolving Loan Commitment and (iii) the aggregate principal amount (using the Dollar Equivalent thereof) of all Alternate Currency Loans then outstanding shall not exceed the Alternate Currency Revolving Loan Sublimit. Subject to the terms and conditions hereof, Borrower at any time may borrow, repay and reborrow Revolving Loans hereunder until the Maturity Date. On the Maturity Date, the outstanding balance of the Revolving Loans (including principal, accrued and unpaid interest and other amounts due and payable with respect thereto) shall be due and be payable and the Revolving Loan Commitment shall terminate.
- (b) Maximum Amounts. In the event that (i) the Revolving Loan Outstandings exceed the Revolving Loan Commitment, (ii) the Revolving Loan Exposure of any Lender exceeds such Lender’s Revolving Loan Commitment, (iii) the aggregate outstanding amount of the Letter of Credit Accommodations exceeds the Letter of

Credit Accommodations Sublimit, (iv) the aggregate principal amount (using the Dollar Equivalent thereof) of all Alternate Currency Loans then outstanding exceeds the Alternate Currency Revolving Loan Sublimit or (v) the aggregate principal amount of all Swingline Loans then outstanding exceeds the Swingline Commitment, such event shall not limit, waive or otherwise affect any rights of Agent or Lenders in that circumstance or on any future occasions and Borrower shall, upon demand by Agent, which may be made at any time or from time to time, immediately repay to Agent the entire amount of any such excess(es) for which payment is demanded.

(c) Swingline Loans.

- (i) Subject to, and upon the terms and conditions contained herein, Swingline Lender may, in its sole discretion, make Swingline Loans in U.S. Dollars by way of U.S. Base Rate Loans to Borrower from time to time from the Closing Date to, but not including, the Maturity Date; provided, that (i) after giving effect to any amount requested, the Revolving Loan Outstandings shall not exceed the Revolving Loan Commitment and (ii) the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested) shall not exceed the Swingline Commitment. Notwithstanding any provision herein to the contrary, Swingline Lender and Borrower may agree that the Swingline Facility may be used to automatically draw and repay Swingline Loans (subject to the limitations set forth herein) pursuant to cash management arrangements between Borrower and Swingline Lender (the “**Sweep Arrangement**”). Principal and interest on Swingline Loans deemed requested pursuant to the Sweep Arrangement shall be paid pursuant to the terms and conditions agreed to between Borrower and Swingline Lender (without any deduction, setoff or counterclaim whatsoever). The borrowing and disbursement provisions set forth in Section 3.1(h) and any other provision hereof with respect to the timing or amount of payments on the Swingline Loans (other than the requirement that the Swingline Loans be repaid in full on the Maturity Date set forth herein) shall not be applicable to Swingline Loans made and prepaid pursuant to the Sweep Arrangement. Unless sooner paid pursuant to the provisions hereof or the provisions of the Sweep Arrangement, on the Maturity Date, the outstanding balance of the Swingline Loans (including principal, accrued and unpaid interest and other amounts due and payable with respect thereto) shall be due and be payable and the Swingline Commitment shall terminate. Swingline Loans may be made automatically through the Credit Sweep Option under Swingline Lender’s Stagecoach Sweep® Service subject to the additional terms and conditions set forth in Swingline Lender’s standard documentation for such service as agreed to by Borrower.
- (ii) Swingline Lender, at any time and from time to time in its sole and absolute discretion may, on behalf of Borrower (which hereby irrevocably directs Swingline Lender to act on its behalf), by written notice given no later than

11:00 a.m. (New York time) on any Business Day request each Revolving Lender to make, and each Revolving Lender hereby agrees to make, a Revolving Loan as a U.S. Base Rate Loan in an amount equal to such Revolving Credit Lender's Pro Rata Share of the Revolving Loan Commitment of the aggregate amount of the Swingline Loans outstanding on the date of such notice, to repay Swingline Lender. Each Revolving Lender shall make the amount of such Revolving Loan available to Agent in immediately available funds at Agent's Office not later than 1:00 p.m. (New York time) on the day specified in such notice. The proceeds of such Revolving Loans shall be immediately made available by Agent to Swingline Lender for application by Swingline Lender to the repayment of the Swingline Loans. No Revolving Lender's obligation to fund its respective Pro Rata Share of the Revolving Loan Commitment of a Swingline Loan shall be affected by any other Revolving Lender's failure to fund its Pro Rata Share of the Revolving Loan Commitment of a Swingline Loan, nor shall any Revolving Lender's Pro Rata Share of the Revolving Loan Commitment be increased as a result of any such failure of any other Revolving Lender to fund its Pro Rata Share of the Revolving Loan Commitment of a Swingline Loan.

- (iii) Borrower shall pay to Swingline Lender on demand, and in any event on the Maturity Date, in immediately available funds the amount of such Swingline Loans to the extent amounts received from Revolving Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, Borrower irrevocably authorizes Agent to charge any account (other than fiduciary accounts as to which a Credit Party is acting as fiduciary for another Person who is not a Credit Party and payroll or trust fund accounts) maintained by Borrower with Swingline Lender (up to the amount available therein) in order to immediately pay Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Revolving Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to Swingline Lender shall be recovered by or on behalf of Borrower from Swingline Lender in an Insolvency Proceeding or otherwise, the loss of the amount so recovered shall be ratably shared among all Revolving Lenders in accordance with their respective Pro Rata Share of the Revolving Loan Commitment.
- (iv) If for any reason any Swingline Loan cannot be refinanced with a Revolving Loan pursuant to Section 2.1(c)(ii), each Revolving Lender shall, on the date such Revolving Loan was to have been made pursuant to the notice referred to in Section 2.1(c)(ii), purchase for cash an undivided participating interest in the then outstanding Swingline Loans by paying to Swingline Lender an amount (the "**Swingline Participation Amount**") equal to such Revolving Lender's Pro Rata Share of the Revolving Loan Commitment of the aggregate principal amount of Swingline Loans then outstanding. Each Revolving Lender will immediately transfer to Swingline Lender, in

immediately available funds, the amount of its Swingline Participation Amount. Whenever, at any time after Swingline Lender has received from any Revolving Lender such Revolving Lender's Swingline Participation Amount, Swingline Lender receives any payment on account of the Swingline Loans, Swingline Lender will distribute to such Revolving Lender its Swingline Participation Amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Revolving Lender's participating interest was outstanding and funded and, in the case of principal and interest payments, to reflect such Revolving Lender's Pro Rata Share of such payment if such payment is not sufficient to pay the principal of and interest on all Swingline Loans then due); provided that in the event that such payment received by Swingline Lender is required to be returned, such Revolving Lender will return to Swingline Lender any portion thereof previously distributed to it by Swingline Lender.

- (v) Each Revolving Lender's obligation to make the Revolving Loans referred to in Section 2.1(c)(ii) and to purchase participating interests pursuant to Section 2.1(c)(iv) shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right that such Revolving Lender or Borrower may have against Swingline Lender, Borrower or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default or an Event of Default or the failure to satisfy any of the other conditions specified in Article 4, (C) any adverse change in the condition (financial or otherwise) of any Loan Party, (D) any breach of this Agreement or any other Financing Agreement by any Loan Party or any other Lender or (E) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.
- (vi) If any Revolving Lender fails to make available to Agent, for the account of Swingline Lender, any amount required to be paid by such Revolving Lender pursuant to the foregoing provisions of this Section 2.1(c) by the time specified in Section 2.1(c)(ii) or 2.1(c)(iv), as applicable, Swingline Lender shall be entitled to recover from such Revolving Lender (acting through Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to Swingline Lender at a rate *per annum* equal to the applicable Federal Funds Rate, plus any administrative, processing or similar fees customarily charged by Swingline Lender in connection with the foregoing. If such Revolving Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Revolving Lender's Revolving Loan or Swingline Participation Amount, as the case may be. A certificate of Swingline Lender submitted to any Revolving Lender (through Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

2.2 Letter of Credit Accommodations

- (a) Letter of Credit Accommodations. Subject to, and upon the terms and conditions contained herein, at the irrevocable request of Borrower pursuant to a Notice of Borrowing given by Borrower to Agent no later than 12:00 noon (New York time) at least three (3) Business Days prior to the requested issuance date, Issuing Lender agrees to provide or arrange for Letter of Credit Accommodations for the account of Borrower or any Credit Party in U.S. Dollars containing terms and conditions reasonably acceptable to Issuing Lender. Any payments made by Issuing Lender in connection with the Letter of Credit Accommodations shall constitute additional Revolving Loans to Borrower pursuant to this Article 2. Each Lender agrees to purchase an irrevocable and unconditional participation in each Letter of Credit Accommodation issued hereunder based on its Pro Rata Share. Each Letter of Credit Accommodation shall expire on a date no more than twelve (12) months after the date of issuance or last renewal of such Letter of Credit Accommodations (subject to (i) such longer periods agreed to by Issuing Lender and (ii) automatic renewal for additional one (1) year periods pursuant to the terms of the letter of credit application or other documentation acceptable to Issuing Lender), which date shall be no later than the fifth (5th) Business Day prior to the Maturity Date unless Issuing Lender is satisfied that Borrower will cash collateralize the Letter of Credit Accommodations that extend beyond the fifth (5th) Business Day prior to the Maturity Date on terms acceptable to Issuing Lender.
- (b) Fees and Expenses. In addition to any charges, fees or expenses charged by Issuing Lender in connection with the Letter of Credit Accommodations, Borrower shall pay to Agent a letter of credit fee at a rate equal to the Applicable Margin *per annum* for Euro Dollar Rate Loans on the daily outstanding balance of the Letter of Credit Accommodations for the immediately preceding Fiscal Quarter (or part thereof), payable in arrears as of the last Business Day of each Fiscal Quarter. Such letter of credit fee shall be calculated on the basis of a 360 day year and actual days elapsed and the obligation of Borrower to pay such fee shall survive the maturity or termination of this Agreement. This letter of credit fee shall not be payable to a Lender during the period it is a Non-Funding Lender.
- (c) Maximum Amount. The amount of all outstanding Letter of Credit Accommodations and all other commitments and obligations made or incurred by Issuing Lender in connection therewith (including charges, fees and expenses with respect thereto) shall not at any time exceed \$25,000,000 (the "**Letter of Credit Accommodations Sublimit**"). At any time an Event of Default has occurred and is continuing, upon Agent's request, Borrower will furnish Agent with cash collateral to secure the reimbursement obligations of the Issuing Lender in connection with any Letter of Credit Accommodations.
- (d) [Reserved].
- (e) Rights of Issuing Lender. Nothing contained herein shall be deemed or construed to grant Borrower any right or authority to pledge the credit of Agent, Issuing

Lender or a Lender in any manner. Except as a result of Issuing Lender's own gross negligence or willful misconduct as determined by a final and non-appealable judgment or court order binding on Issuing Lender, Borrower shall be bound by any interpretation made by Issuing Lender under or in connection with any Letter of Credit Accommodation or any documents, drafts or acceptances thereunder, notwithstanding that such interpretation may be inconsistent with any instructions of Borrower. At all times other than when an Event of Default has occurred and is continuing, Borrower shall be permitted, with the prior written consent of Issuing Lender to: (i) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents, and (ii) agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letter of Credit Accommodations, or documents, drafts or acceptances thereunder or any letters of credit included in the Collateral.

2.3 Maturity Date

- (a) This Agreement shall continue in full force and effect for a term ending on the Maturity Date. Upon the Maturity Date, Borrower shall pay to Agent, in full, all outstanding and unpaid non-contingent Obligations (except under or in connection with any Secured Hedge Agreement) and shall furnish cash collateral (or backstop letters of credit) to Agent in such amounts as Agent determines are reasonably necessary to secure Agent, Lenders and Secured Parties from loss, cost, damage or expense, including legal fees and expenses, with respect to issued and outstanding Letter of Credit Accommodations, outstanding Secured Hedge Agreements and cheques or other payments provisionally credited to the Obligations and/or as to which Agent and Lenders have not yet received payment. Such payments in respect of the Obligations and cash collateral shall be remitted by wire transfer in U.S. Dollars to such bank account of Agent, as Agent may, in its discretion, designate in writing to Borrower for such purpose. Interest shall be due until and including the next Business Day, if the amounts so paid by Borrower to the bank account designated by Agent are received in such bank account later than 12:00 noon (New York time).
- (b) No termination of this Agreement shall relieve or discharge any Credit Party of its respective duties, obligations and covenants under the Financing Agreements until all Obligations have been fully paid, and Agent's continuing security interest in the Collateral and the rights and remedies of Agent and Lenders, under the Financing Agreements and Applicable Law, shall remain in effect until all such Obligations have been fully paid.

2.4 Optional Cancellation of Unused Revolving Loan Commitments

Borrower shall have the right at any time and from time to time, without premium or penalty, to cancel the unused Revolving Loan Commitments, in whole or in part, with irrevocable prior written notice to Agent pursuant to a Notice of Prepayment given not later than 12:00 noon (New York time) on a Business Day specifying the date and amount of cancellation. Each optional

partial cancellation hereunder shall be in an aggregate principal amount of at least \$5,000,000 or any whole multiple of \$1,000,000 in excess thereof. A Notice of Prepayment received after 12:00 noon (New York time) shall be deemed received on the next Business Day. Agent shall promptly notify Revolving Lenders of each Notice of Prepayment.

2.5 Hedge Transactions

Agent or a Lender (or their respective Affiliates) may offer to make available Hedge Agreements to Borrower from time to time (it being understood that nothing contained herein shall be construed to commit any person to enter into any Hedge Agreement) upon terms mutually acceptable to Agent or such Lender or such Affiliate and Borrower.

2.6 Incremental Term Loans and Revolving Loans

- (a) At any time, Borrower may by written notice to Agent elect to request the establishment of:
- (i) one or more new or incremental term loan commitments (any such new or incremental term loan commitment, an “**Incremental Term Loan Commitment**”) to make one or more new or additional term loans, including a borrowing of a new or additional term loan under this Agreement (any such new or additional term loan, an “**Incremental Term Loan**”); or
 - (ii) one or more increases in the Revolving Loan Commitments (any such increase, an “**Incremental Revolving Loan Commitment**” and, together with the Incremental Term Loan Commitments, the “**Incremental Loan Commitments**”) to make additional revolving loans under this Agreement (any such increase, an “**Incremental Revolving Loan Increase**” and, together with the Incremental Term Loans, the “**Incremental Loans**”);

provided that (1) the total aggregate principal amount (as of the date of incurrence thereof) of such Incremental Revolving Loan Commitments and Incremental Revolving Loan Increases shall not exceed the Fixed Incremental Amount, (2) the total aggregate principal amount (as of the date of incurrence thereof) of such Incremental Loans shall not exceed the Maximum Incremental Amount, (3) the amount for each Incremental Term Loan Commitment (and the Incremental Term Loans made thereunder) shall not be less than a minimum principal amount of \$10,000,000 or, if less, the remaining amount permitted pursuant to the foregoing clause (2) and (4) the amount for each Incremental Revolving Loan Commitment shall not be less than a minimum principal amount of \$25,000,000.

- (b) Each such notice shall specify the date (each, an “**Increased Amount Date**”) on which Borrower proposes that any Incremental Loan Commitment shall be effective, which shall be a date not less than ten (10) Business Days after the date on which such notice is delivered to Agent (or such earlier date as may be approved by Agent).

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- (c) Borrower may invite any Lender, any Affiliate of any Lender and/or any Approved Fund, and/or any other Person reasonably satisfactory to Agent, to provide an Incremental Loan Commitment (any such Person, an “**Incremental Lender**”). Any proposed Incremental Lender offered or approached to provide all or a portion of any Incremental Loan Commitment may elect or decline, in its sole discretion, to provide such Incremental Loan Commitment or any portion thereof.
- (d) Any Incremental Loan Commitment shall become effective as of such Increased Amount Date; provided that each of the following conditions has been satisfied or waived as of such Increased Amount Date:
- (i) no Default or Event of Default shall exist on such Increased Amount Date immediately prior to or after giving effect to (1) any Incremental Loan Commitment, and (2) the making of any Incremental Loans pursuant thereto (determined upon the earlier to occur of (x) the execution of definitive documentation with respect to any investment in connection with the incurrence of such Incremental Loan Commitment and (y) such investment);
 - (ii) Agent and Lenders shall have received from Borrower a Compliance Certificate demonstrating, in form and substance reasonably satisfactory to Agent, that Borrower is in compliance with (1) the provisos in Section 2.6(a) and (2) the Senior Secured Net Leverage Ratio pursuant to Section 9.1 based on the financial statements most recently delivered pursuant to Section 7.6(a) both before and after giving effect (on a *pro forma* basis) to (x) any Incremental Loan Commitment, (y) the making of any Incremental Loans pursuant thereto (with any Incremental Loan Commitment being deemed to be fully funded) and (z) any Permitted Investment consummated in connection therewith, in each case, without duplication;
 - (iii) [reserved];
 - (iv) the proceeds of any Incremental Loans shall be used in accordance with Section 5.5;
 - (v) each Incremental Term Loan Commitment (and the Incremental Term Loans made thereunder) shall constitute Obligations of Borrower and shall be secured and guaranteed with the other Obligations on a *pari passu* or junior basis;
 - (vi) each Incremental Revolving Loan Commitment (and the Incremental Revolving Loan Increase made thereunder) shall constitute Obligations of Borrower and shall be secured and guaranteed with the other Revolving Loans and applicable Term Loans on a *pari passu* basis;
 - (vii) in the case of each Incremental Term Loan (the terms of which shall be set forth in the relevant Lender Joinder Agreement):

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- (A) such Incremental Term Loan will not have a shorter Weighted Average Life to Maturity than the remaining Weighted Average Life to Maturity of the other Term Loans or a maturity date earlier than the Maturity Date;
 - (B) the applicable margin and pricing grid, if applicable, for such Incremental Term Loan shall be determined by Agent, the applicable Incremental Lenders and Borrower on the applicable Increased Amount Date; and
 - (C) except as provided above, all other terms and conditions applicable to any Incremental Term Loan shall be substantially identical to those applicable to the other Term Loans or not more restrictive than those applicable to the other Term Loans;
- (viii) in the case of each Incremental Revolving Loan Increase (the terms of which shall be set forth in the relevant Lender Joinder Agreement):
- (A) such Incremental Revolving Loan Increase shall mature on the Maturity Date, shall bear interest and be entitled to fees at the rate applicable to the Revolving Loans and shall be subject to the same terms and conditions as the Revolving Loans; and
 - (B) the outstanding Revolving Loans, Swingline Loans and Letter of Credit Accommodations will be reallocated by Agent on the applicable Increased Amount Date among the Revolving Lenders (including the Incremental Lenders providing such Incremental Revolving Loan Increase) in accordance with their revised Pro Rata Share and the Revolving Lenders (including the Incremental Lenders providing such Incremental Revolving Loan Increase) agree to make all payments and adjustments necessary to effect such reallocation and Borrower shall pay any and all costs required pursuant to Section 3.2(f) in connection with such reallocation as if such reallocation were a repayment;
- (ix) any Incremental Lender making any Incremental Term Loan shall be entitled to the same voting rights as the existing Term Lenders under the Term Loan Facility and (unless otherwise agreed by the applicable Incremental Lenders) each Incremental Term Loan shall receive proceeds of payments on the same basis as the existing Term Loans made hereunder;
- (x) any Incremental Lender with an Incremental Revolving Loan Increase shall be entitled to the same voting rights as the existing Revolving Lenders under the Revolving Loan Facility and any Revolving Loan made in connection with each Incremental Revolving Loan Increase shall receive proceeds of payments on the same basis as the other Revolving Loans made hereunder;

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- (xi) such Incremental Loan Commitments shall be effected pursuant to one or more Lender Joinder Agreements executed and delivered by Borrower, Agent and the applicable Incremental Lenders (which Lender Joinder Agreement may, without the consent of any other Lenders, effect such amendments to this Agreement and the other Financing Agreements as may be necessary or appropriate, in the opinion of Agent, to effect the provisions of this Section 2.6); and
 - (xii) Borrower shall deliver or cause to be delivered any customary legal opinions or other documents (including a resolution duly adopted by the board of directors (or equivalent governing body) of Borrower authorizing such Incremental Loan and/or Incremental Loan Commitment) as may be reasonably requested by Agent in connection with any such transaction.
- (e) The Incremental Term Loans shall be deemed to be Term Loans; provided that any such Incremental Term Loan that is not added to the outstanding principal balance of a pre-existing Term Loan shall be designated as a separate tranche of Term Loans for all purposes of this Agreement.
 - (f) The Incremental Lenders shall be included in any determination of the Required Lenders and, unless otherwise agreed by the applicable Incremental Lenders that their respective Incremental Term Loan Commitment (and the Incremental Term Loans made thereunder) shall be secured and guaranteed with the other Obligations on a junior basis, the Incremental Lenders will not constitute a separate voting class for any purposes under this Agreement.
 - (g) On any Increased Amount Date on which any Incremental Term Loan Commitment becomes effective, subject to the foregoing terms and conditions, each Incremental Lender with an Incremental Term Loan Commitment shall make, or be obligated to make, an Incremental Term Loan to Borrower in an amount equal to its Incremental Term Loan Commitment and shall become a Term Lender hereunder with respect to such Incremental Term Loan Commitment and the Incremental Term Loan made pursuant thereto.
 - (h) On any Increased Amount Date on which any Incremental Revolving Loan Increase becomes effective, subject to the foregoing terms and conditions, each Incremental Lender with an Incremental Revolving Loan Commitment shall become a Revolving Lender hereunder with respect to such Incremental Revolving Loan Commitment.
 - (i) The incurrence of Incremental Equivalent Debt pursuant to Section 8.3(y) shall reduce, on a dollar-for-dollar basis, the aggregate amount of Incremental Loans permitted to be incurred under Section 2.6(a).

ARTICLE 3
INTEREST, REQUESTS FOR REVOLVING LOANS, INCREASED COSTS AND FEES

3.1 Interest

- (a) Interest Rate. Borrower shall pay to Agent interest on the outstanding principal amount of the Revolving Loans and Swingline Loans at the applicable Interest Rate.
- (b) Payment and Calculation. Interest shall be payable by Borrower to Agent (i) in the case of Canadian Prime Rate Loans and U.S. Base Rate Loans, quarterly in arrears on the last Business Day of each Fiscal Quarter and (ii) in the case of CDOR Rate Loans and Euro Rate Loans, on the last day of each Interest Period (and in the case of an Interest Period of greater than three (3) months, on the last day of each three (3) month period during such Interest Period and on the last day of such Interest Period). All computations of interest for U.S. Base Rate Loans (when the U.S. Base Rate is determined by reference to the U.S. Prime Rate), Canadian Prime Rate Loans and CDOR Rate Loans shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest provided hereunder shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365/366-day year). The interest rate applicable to Canadian Prime Rate Loans and U.S. Base Rate Loans shall increase or decrease by an amount equal to each increase or decrease in the Canadian Prime Rate or U.S. Base Rate after any change in such rate is announced. All interest accruing hereunder on and after an Event of Default that is continuing or maturity or termination hereof shall be payable on demand. In no event shall charges constituting interest payable by Borrower to Agent or Lenders exceed the maximum amount or the rate permitted under any Applicable Law, and if any part or provision of this Agreement is in contravention of any such Applicable Law, such part or provision shall be deemed amended to conform thereto.
- (c) Interest Act (Canada). For purposes of disclosure under the *Interest Act* (Canada), where interest is calculated pursuant hereto at a rate based upon a 360 day year (the “**U.S. First Rate**”), it is hereby agreed that the rate or percentage of interest on a yearly basis is equivalent to such U.S. First Rate multiplied by the actual number of days in the year divided by 360. Each Credit Party confirms that it fully understands and is able to calculate the rate of interest based on the methodology for calculating *per annum* rates provided for in this Agreement. Agent agrees that if requested in writing by Borrower it shall calculate the nominal and effective *per annum* rate of interest on any Loan outstanding at any time and provide such information to Borrower promptly following such request; provided that any error in any such calculation, or any failure to provide such information on request, shall not relieve Borrower or any other Credit Party of any of its obligations under this Agreement or any other Financing Agreement, nor result in any liability of Agent or any Lender. Each Credit Party hereby irrevocably agrees not to plead or assert, whether by way of defence or otherwise, in any proceeding relating to the Financing Agreements, that the interest payable under the Financing Agreements and the

calculation thereof has not been adequately disclosed to Credit Parties, whether pursuant to Section 4 of the *Interest Act* (Canada) or any other Applicable Law or legal principle.

- (d) Criminal Code (Canada). Notwithstanding the provisions of this Article 3 or any other provision of this Agreement, in no event shall the aggregate “**interest**” (as that term is defined in Section 347 of the *Criminal Code* (Canada)) exceed the effective annual rate of interest on the “**credit advanced**” (as defined therein) lawfully permitted under Section 347 of the *Criminal Code* (Canada).
- (e) Agent Certificate. A certificate of an authorized signing officer of Agent as to each amount and/or each rate of interest payable hereunder from time to time shall be conclusive evidence of such amount and of such rate, absent manifest error.
- (f) No deemed reinvestment principle/effective yield method. For greater certainty, whenever any amount is payable under any Financing Agreement by Borrower as interest or as a fee which requires the calculation of an amount using a percentage *per annum*, each party to this Agreement acknowledges and agrees that such amount shall be calculated as of the date payment is due without application of the “**deemed reinvestment principle**” or the “**effective yield method**”. As an example, when interest is calculated and payable monthly, the rate of interest payable per month is 1/12 of the stated rate of interest *per annum*.
- (g) Conversion/Continuation of CDOR Rate Loans and Euro Rate Loans. Each CDOR Rate Loan or Euro Rate Loan shall automatically, at Agent’s option, either (i) convert to Canadian Prime Rate Loans or U.S. Base Rate Loans, respectively, upon the last day of the applicable Interest Period or (ii) be rolled over for a further one (1) month Interest Period, unless Agent has received and approved a Notice of Conversion/Continuation to continue such CDOR Rate Loan or Euro Rate Loan for an Interest Period chosen by Borrower at least five (5) Business Days prior to such last day with respect to CDOR Rate Loans and Euro Rate Loans (other than Euro Dollar Rate Loans) and three (3) Business Days prior to such last day with respect to Euro Dollar Rate Loans, each in accordance with the terms hereof. Each CDOR Rate Loan and Euro Rate Loan shall, at Agent’s option, upon notice by Agent to Borrower, be subsequently converted to Canadian Prime Rate Loans and U.S. Base Rate Loans, respectively, upon the occurrence of any Event of Default which is continuing and otherwise upon the Maturity Date.
- (h) Requests for Revolving Loans and Swingline Loans.
 - (i) Borrower may from time to time request in writing Revolving Loans and Swingline Loans pursuant to a Notice of Borrowing or may request in writing that Canadian Prime Rate Loans and U.S. Base Rate Loans (other than Swingline Loans) be converted to CDOR Rate Loans or Euro Rate Loans pursuant to a Notice of Conversion/Continuation or that any existing CDOR Rate Loan or Euro Rate Loan continue for an additional Interest Period pursuant to a Notice of Conversion/Continuation. Notices of

Borrowing and Notices of Conversion/Continuation received after 12:00 noon (New York time) on any day shall be deemed to have been made as of the opening of business on the immediately following Business Day. Notwithstanding anything to the contrary herein, a Swingline Loan may not be converted to a CDOR Rate Loan or Euro Rate Loan.

- (ii) Each Notice of Borrowing or Notice of Continuation/Conversion, as applicable, from Borrower shall specify:
- (A) whether such Loan is to be a Revolving Loan or Swingline Loan and the amount of the Revolving Loan or Swingline Loan, as applicable;
 - (B) the date (which day shall be a Business Day) of borrowing, conversion or continuation, as the case may be;
 - (C) the Alternate Currency of the Revolving Loan (if applicable) provided that the consent of all Revolving Lenders shall be required for a Revolving Loan in an Alternate Currency other than Canadian Dollars and Euros;
 - (D) the Type of Revolving Loan;
 - (E) the amount of the Canadian Prime Rate Loan or U.S. Base Rate Loan to be converted to CDOR Rate Loans or Euro Rate Loans (if applicable);
 - (F) the amount of the CDOR Rate Loan or Euro Rate Loan to be continued (if applicable); and
 - (G) the Interest Period to be applicable to such Revolving Loan (if applicable).
- (iii) Subject to the terms and conditions contained herein, after receipt by Agent of such a Notice of Borrowing or Notice of Continuation/Conversion from Borrower, such Revolving Loans shall be made, converted or continued, as applicable provided, that:
- (A) a Notice of Borrowing or Notice of Continuation/Conversion with respect to Euro Dollar Rate Loans shall be submitted by Borrower to Agent at least three (3) Business Days prior to the date of such borrowing, conversion or continuation;
 - (B) a Notice of Borrowing or Notice of Continuation/Conversion with respect to Alternate Currency Loans shall be submitted by Borrower to Agent at least five (5) Business Days prior to the date of such borrowing, conversion or continuation;

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- (C) a Notice of Borrowing with respect to Canadian Prime Rate Loans and U.S. Base Rate Loans shall be submitted by Borrower to Agent no later than 12:00 noon (New York time) on the Business Day upon which Borrower requires such Canadian Prime Rate Loan or U.S. Base Rate Loan to be advanced to Borrower and if such request is provided after 12:00 noon (New York time) on a Business Day then such Canadian Prime Rate Loan or U.S. Base Rate Loan shall be advanced on the next following Business Day;
 - (D) any request by Borrower to Agent pursuant to a Notice of Borrowing or Notice of Continuation/Conversion shall be irrevocable;
 - (E) no more than ten (10) Interest Periods (for all outstanding CDOR Rate Loans and Euro Rate Loans) may be in effect at any one time;
 - (F) the aggregate amount of Euro Dollar Rate Loans shall be in an amount not less than \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof;
 - (G) the aggregate amount of CDOR Rate Loans shall be in an amount not less than CDN\$5,000,000 or an integral multiple of CDN\$1,000,000 in excess thereof;
 - (H) the aggregate amount of Euro Rate Loans in an Alternate Currency (other than Canadian Dollars) shall be in an amount agreed between Agent, Borrower, and the Revolving Lenders; and
 - (I) the aggregate amount of Canadian Prime Rate Loans and U.S. Base Rate Loans (other than Swingline Loans) shall be in an amount not less than CDN\$1,000,000 or an integral multiple of CDN\$500,000 in excess thereof and \$1,000,000 or an integral multiple of \$500,00 in excess thereof, respectively; and
 - (J) the aggregate amount of Swingline Loans shall be in an amount not less than \$500,000 or an integral multiple of \$100,000 in excess thereof.
- (iv) Notwithstanding anything to the contrary contained herein, Agent and Lenders shall not be required to purchase Canadian Dollar, Euro or U.S. Dollar deposits in the Canadian bankers' acceptance or London interbank market to fund any Revolving Loans, but the provisions hereof shall be deemed to apply as if Agent or Lenders had purchased such deposits to fund such Revolving Loans.

3.2 Changed Circumstances

- (a) Circumstances Affecting CDOR Rate and Euro Rate Availability. Unless and until a Replacement Rate is implemented in accordance with clause (c) below, in

connection with any request for a CDOR Rate Loan or Euro Rate Loan or a conversion to or continuation thereof or otherwise, if (i) in the case of Euro Rate Loans, Agent shall determine (which determination shall be conclusive and binding absent manifest error) that the applicable Currency deposits are not being offered to banks by reason of circumstances affecting the London interbank market for the applicable amount and Interest Period of such Loan, (ii) Agent shall determine (which determination shall be conclusive and binding absent manifest error) that reasonable and adequate means do not exist for ascertaining the CDOR Rate or Euro Rate for such Interest Period with respect to a proposed CDOR Rate Loan or Euro Rate Loan or (iii) the Required Lenders shall determine in good faith that the CDOR Rate or Euro Rate does not adequately and fairly reflect the cost to such Lenders of making or maintaining such Loans during such Interest Period, then Agent shall promptly give notice thereof to Borrower. Thereafter, until Agent notifies Borrower that such circumstances no longer exist, the obligation of the Lenders to make CDOR Rate Loans or Euro Rate Loans and the right of Borrower to convert any Loan to or continue any Loan as a CDOR Rate Loan or Euro Rate Loan shall be suspended, and Borrower shall either (A) repay in full (or cause to be repaid in full) the then outstanding principal amount of each such CDOR Rate Loan or Euro Rate Loan together with accrued interest thereon (subject to Section 5.1), on the last day of the then current Interest Period applicable to such CDOR Rate Loan or Euro Rate Loan; or (B) convert the then outstanding principal amount of each such CDOR Rate Loan or Euro Rate Loan to a Canadian Prime Rate Loan or U.S. Base Rate Loan (or another applicable rate as reasonably determined by Agent in the case of Loans denominated in a currency other than U.S. Dollars or Canadian Dollars) as of the last day of such Interest Period, and any Notice of Borrowing or Notice of Conversion/Continuation given by Borrower with respect to the Loans in respect of which such determination was made shall be deemed to be rescinded by Borrower.

- (b) Laws Affecting CDOR Rate or Euro Rate Availability. If, after the date hereof, the compliance by any of the Lenders (or any of their respective Lending Offices) in good faith with any Applicable Law or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof or any request or directive (whether or not having the force of law) of any such Governmental Authority, central bank or comparable agency, shall make it unlawful or impossible for any Lender (or any of their respective Lending Offices) to honor its obligations hereunder to make or maintain any CDOR Rate Loan or Euro Rate Loan, such Lender shall promptly give notice thereof to Agent and Agent shall promptly give notice to Borrower and the other Lenders. Thereafter, until Agent notifies Borrower that such circumstances no longer exist, (i) the obligations of the Lenders to make CDOR Rate Loans or Euro Rate Loans, and the right of Borrower to convert any Loan to a CDOR Rate Loan or Euro Rate Loan or continue any Loan as a CDOR Rate Loan or Euro Rate Loan shall be suspended and thereafter Borrower may select only Canadian Prime Rate Loans or U.S. Base Rate Loans and (ii) if any of the Lenders may not lawfully continue to maintain a CDOR Rate Loan or Euro Rate Loan to the end of the then current Interest Period applicable thereto,

the applicable Loan shall automatically be converted to a Canadian Prime Rate Loan or U.S. Base Rate Loan for the remainder of such Interest Period. Notwithstanding the foregoing, to the extent a determination by a Lender as described above relates to CDOR Rate Loans or Euro Rate Loans then being requested by Borrower, Borrower shall have the option, subject to the provisions of Section 3.3, to rescind such Notice of Borrowing or Notice of Conversion/Continuation as to all Lenders by giving notice to Agent of such rescission on the date on which such Lender gives notice of its determination as described above (which notice of rescission Agent shall promptly transmit to each other Lender).

- (c) **Replacement Rate.** Notwithstanding anything to the contrary in Section 3.2 above, if Agent has made the determination (such determination to be conclusive absent manifest error) that (i) the circumstances described in Section 3.2(a) or (b) have arisen and that such circumstances are unlikely to be temporary, (ii) any applicable interest rate specified herein is no longer a widely recognized benchmark rate for newly originated loans in the U.S. or Canadian (as applicable) syndicated loan market in the applicable currency or (iii) the applicable supervisor or administrator (if any) of any applicable interest rate specified herein or any Governmental Authority having, or purporting to have, jurisdiction over Agent has made a public statement identifying a specific date after which any applicable interest rate specified herein shall no longer be used for determining interest rates for loans in the U.S. or Canadian (as applicable) syndicated loan market in the applicable currency, then Agent may, to the extent practicable (with the consent of Borrower and as determined by Agent to be generally in accordance with similar situations in other transactions in which it is serving as administrative or collateral agent or otherwise consistent with market practice generally), establish a replacement interest rate (the "**Replacement Rate**"), in which case, the Replacement Rate shall, subject to the next two sentences, replace such applicable interest rate for all purposes under the Financing Agreements unless and until (A) an event described in Section 3.2(a), (b), (c)(i), (ii) or (c)(iii) occurs with respect to the Replacement Rate or (B) Agent (or Required Lenders through Agent) notifies Borrower that the Replacement Rate does not adequately and fairly reflect the cost to Lenders of funding the Loans bearing interest at the Replacement Rate. In connection with the establishment and application of the Replacement Rate, this Agreement and the other Financing Agreements shall be amended solely with the consent of Agent, as may be necessary or appropriate, in the opinion of Agent, to effect the provisions of this Section 3.2(c). Notwithstanding anything to the contrary in this Agreement or the other Financing Agreements (including, without limitation, Section 11.14), such amendment shall become effective without any further action or consent of any other party to this Agreement so long as Agent shall not have received, within five (5) Business Days of the delivery of such amendment to Lenders, written notices from such Lenders that in the aggregate constitute Required Lenders, with each such notice stating that such Lender objects to such amendment (which such notice shall note with specificity the particular provisions of the amendment to which such Lender objects). To the extent the Replacement Rate is approved by Agent in connection with this clause (c), the Replacement Rate shall be applied in

a manner consistent with market practice; provided that, in each case, to the extent such market practice is not administratively feasible for Agent, such Replacement Rate shall be applied as otherwise reasonably determined by Agent (it being understood that any such modification by Agent shall not require the consent of, or consultation with, any Lenders).

- (d) Circumstances Affecting Alternate Currencies. In the event that Agent shall have determined (which determination shall, absent manifest error, be final and conclusive and binding upon all parties hereto) at any time that any Alternate Currency (other than Canadian Dollars and Euros) is not available in sufficient amounts, as determined in good faith by Agent, then Agent shall promptly give written notice thereof to Borrower and Lenders. Thereafter, until Agent notifies in writing Borrower and Lenders that such circumstances no longer exist, the new Alternate Currency Loans denominated in the affected Alternate Currency (other than any such Alternate Currency Loans which have theretofore been funded) shall no longer be available and any Notice of Borrowing given by with respect to such Alternate Currency Loans which have not yet been incurred shall be deemed rescinded by Borrower.

3.3 Compensation for Breakage or Non-Commencement of Interest Periods

Borrower shall compensate each applicable Lender, within ten (10) days of a written request by such Lender, for any loss or expense (including any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain a CDOR Rate Loan or Euro Rate Loan or from fees payable to terminate the deposits from which such funds were obtained) which may arise or be attributable to each Lender's obtaining, liquidating or employing deposits or other funds acquired to effect, fund or maintain any Loan (a) as a consequence of any failure by Borrower to make any payment when due of any amount due hereunder in connection with a CDOR Rate Loan or Euro Rate Loan (b) due to any failure of Borrower to borrow or continue a CDOR Rate Loan or Euro Rate Loan or convert to a CDOR Rate Loan or Euro Rate Loan on a date specified therefor in a Notice of Borrowing or Notice of Conversion/Continuation or (c) due to any payment, prepayment or conversion of any CDOR Rate Loan or Euro Rate Loan on a date other than the last day of the Interest Period therefor. The amount of such loss or expense shall be determined, in the applicable Lender's sole discretion, based upon the assumption that such Lender funded its Commitment of the CDOR Rate Loans or Euro Rate Loans in the London or Canadian interbank market and using any reasonable attribution or averaging methods which such Lender deems appropriate and practical. A certificate of such Lender setting forth in reasonable detail the basis for determining such amount or amounts necessary to compensate such Lender shall be forwarded to Borrower through Agent and shall be conclusively presumed to be correct save for manifest error.

3.4 Increased Costs

- (a) If any Change in Law shall:
- (i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of,

deposits with or for the account of, or advances, loans or other credit extended or participated in by, any Lender (except any reserve requirement reflected in the Adjusted Euro Dollar Rate) or any Issuing Lender;

- (ii) subject any Recipient to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in clauses (b) through (e) of the definition of Excluded Taxes and (C) Connection Income Taxes) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or
- (iii) impose on any Lender or any Issuing Lender or the London or Canadian interbank market any other condition, cost or expense (other than Taxes) affecting this Agreement or CDOR Rate Loans or Euro Rate Loans made by such Lender or any Letter of Credit Accommodations or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender, the Issuing Lender or such other Recipient of making, converting to, continuing or maintaining any Loan (or of maintaining its obligation to make any such Loan), or to increase the cost to such Lender, such Issuing Lender or such other Recipient of participating in, issuing or maintaining any Letter of Credit Accommodations (or of maintaining its obligation to participate in or to issue any Letter of Credit Accommodations), or to reduce the amount of any sum received or receivable by such Lender, such Issuing Lender or such other Recipient hereunder (whether of principal, interest or any other amount) then, upon written request of such Lender, such Issuing Lender or other Recipient, Borrower shall within 30 days after receipt of the certificate referred to in clause (c) below, pay to any such Lender, such Issuing Lender or other Recipient, as the case may be, such additional amount or amounts as will compensate such Lender, such Issuing Lender or other Recipient, as the case may be, for such additional costs incurred or reduction suffered.

- (b) Capital Requirements. If any Lender or any Issuing Lender determines that any Change in Law affecting such Lender or such Issuing Lender or any Lending Office of such Lender or such Lender's or such Issuing Lender's holding company, if any, regarding capital or liquidity requirements, has or would have the effect of reducing the rate of return on such Lender's or such Issuing Lender's capital or on the capital of such Lender's or such Issuing Lender's holding company, if any, as a consequence of this Agreement, the Commitment of such Lender or the Loans made by, or participations in Letters of Credit Accommodations or Loans held by, such Lender, or the Letters of Credit Accommodations issued by such Issuing Lender, to a level below that which such Lender or such Issuing Lender or such Lender's or such Issuing Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or such Issuing Lender's policies and the policies of such Lender's or such Issuing Lender's holding company with respect to capital adequacy and liquidity), then from time to time upon written request of such Lender or such Issuing Lender Borrower shall within 30 days after receipt of the certificate referred to in clause (c) below, pay to such Lender or such

Issuing Lender, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Lender or such Lender's or such Issuing Lender's holding company for any such reduction suffered.

- (c) Certificates for Reimbursement. A certificate of a Lender, or an Issuing Lender or such other Recipient setting forth the amount or amounts necessary to compensate such Lender or such Issuing Lender, such other Recipient or any of their respective holding companies, as the case may be, as specified in clause (a) or (b) of this Section and delivered to Borrower, shall be conclusive absent manifest error.
- (d) Delay in Requests. Failure or delay on the part of any Lender or any Issuing Lender or such other Recipient to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or such Issuing Lender's or such other Recipient's right to demand such compensation; provided that Borrower shall not be required to compensate any Lender or an Issuing Lender or any other Recipient pursuant to this Section for any increased costs incurred or reductions suffered more than nine (9) months prior to the date that such Lender or such Issuing Lender or such other Recipient, as the case may be, notifies Borrower of the Change in Law giving rise to such increased costs or reductions, and of such Lender's or such Issuing Lender's or such other Recipient's intention to claim compensation therefor (except that if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

3.5 Taxes

- (a) Defined Terms. For purposes of this Section 3.5, the term "Lender" includes any Issuing Lender and the term "Applicable Law" includes FATCA.
- (b) Payments Free of Taxes. Any and all payments by or on account of any obligation of Borrower under this Agreement and any other documents entered into in connection herewith shall be made without deduction or withholding for any Taxes, except as required by Applicable Law. If any Applicable Law (as determined in the good faith discretion of an applicable Withholding Agent) requires the deduction or withholding of any Tax from any such payment by a Withholding Agent, then the applicable Withholding Agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with Applicable Law and, if such Tax is an Indemnified Tax, then the sum payable by Borrower shall be increased as necessary so that, after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section), the applicable Recipient receives an amount equal to the sum it would have received had no such deduction or withholding been made.
- (c) Payment of Other Taxes by Borrower. Borrower shall timely pay to the relevant Governmental Authority in accordance with Applicable Law, or at the option of Agent timely reimburse it for the payment of, any Other Taxes.

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- (d) Indemnification by Borrower. Borrower shall indemnify each Recipient, within ten (10) days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to Borrower by a Recipient (with a copy to Agent), or by Agent on its own behalf or on behalf of a Recipient, shall be conclusive absent manifest error.
- (e) Indemnification by the Lenders. Each Lender shall severally indemnify Agent, within ten (10) days after demand therefor, for (i) any Indemnified Taxes attributable to such Lender (but only to the extent that Borrower has not already indemnified Agent for such Indemnified Taxes and without limiting the obligation of Borrower to do so), and (ii) any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by Agent in connection with this Agreement or any other documents entered into in connection herewith, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by Agent shall be conclusive absent manifest error. Each Lender hereby authorizes Agent to setoff and apply any and all amounts at any time owing to such Lender under any Financing Agreement or otherwise payable by Agent to the Lender under this Agreement or any other documents entered into in connection herewith from any other source against any amount due to Agent under this clause (e).
- (f) Evidence of Payments. As soon as practicable after any payment of Taxes by Borrower to a Governmental Authority pursuant to this Section 3.5, Borrower shall deliver to Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to Agent.
- (g) Status of Lenders. Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under this Agreement or any other documents entered into in connection herewith shall deliver to Borrower and Agent, at the time or times reasonably requested by Borrower or Agent, such properly completed and executed documentation reasonably requested by Borrower or Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by Borrower or Agent, shall deliver such other documentation prescribed by Applicable Law or reasonably requested by Borrower or Agent as will enable Borrower or Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. If a payment made to a Lender under this Agreement or any other documents entered into in connection herewith would be subject to Tax under FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in

Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to Borrower and Agent at the time or times prescribed by law and at such time or times reasonably requested by Borrower or Agent such documentation prescribed by Applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by Borrower or Agent as may be necessary for Borrower and Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this Section 3.5(g), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender. Each Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify Borrower and Agent in writing of its legal inability to do so.

- (h) Treatment of Certain Refunds. If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section 3.5 (including by the payment of additional amounts pursuant to this Section 3.5), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this clause (h) (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this clause (h), in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this clause (h) the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This paragraph shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.
- (i) Survival. Each party's obligations under this Section 3.5 shall survive the resignation or replacement of Agent or any assignment of rights by, or the replacement of, a Lender, the termination of the Commitments and the repayment,

satisfaction or discharge of all obligations under this Agreement or any other documents entered into in connection herewith.

3.6 Mitigation Obligations; Replacement of Lenders.

- (a) Designation of a Different Lending Office. If any Lender (an “**Increased-Cost Lender**”) requests compensation under Section 3.2 or Section 3.4, or requires Borrower to pay any Indemnified Taxes or additional amounts to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.5, then such Lender shall, at the request of Borrower, use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.4 or Section 3.5, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.
- (b) Replacement of Lenders. Notwithstanding anything to the contrary contained herein, in the event that any Increased-Cost Lender has declined or is unable to designate a different Lending Office in accordance with Section 3.6(a), or if any Lender is a Non-Funding Lender or a Non-Consenting Lender, then Borrower may, at its sole expense and effort, upon notice to such Lender and Agent, require such Lender (and such Lender hereby irrevocably agrees) to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 11.1), all of its interests, rights (other than its existing rights to payments pursuant to Section 3.4 or Section 3.5) and obligations under this Agreement and the related Financing Documents to an Eligible Transferee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that:
- (i) the assignee (or failing which, Borrower) shall have paid to Agent the assignment fee (if any) specified in Section 11.1;
 - (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and funded participations in Letters of Credit Accommodations and Swingline Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Financing Agreements (including any amounts under Section 3.3) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or Borrower (in the case of all other amounts);
 - (iii) in the case of any such assignment resulting from a claim for compensation under Section 3.2 or Section 3.4 or payments required to be made pursuant to Section 3.5, such assignment will result in a reduction in such compensation or payments thereafter;

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- (iv) such assignment does not conflict with Applicable Law; and
 - (v) in the case of any assignment resulting from a Lender becoming a Non-Consenting Lender, the applicable assignee shall have consented to the applicable amendment, waiver or consent.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling Borrower to require such assignment and delegation cease to apply. Upon the prepayment of all amounts owing to any such Lender and the termination of such Lender's Revolving Loan Commitments, such Lender shall no longer constitute a "Lender" for purposes hereof; provided any rights of such Lender to indemnification and to expense reimbursement hereunder shall survive as to such Lender. Each Lender agrees that, if it becomes an Increased-Cost Lender, Non-Funding Lender or a Non-Consenting Lender and its rights and claims are assigned hereunder to an assignee pursuant to this Section 3.6(b), it shall execute and deliver to Agent an Assignment and Assumption Agreement to evidence such assignment; provided, however, that the failure of any Lender to execute an Assignment and Assumption Agreement shall not render such assignment invalid.

- (c) Selection of Lending Office. Subject to Section 3.6(a), each Lender may make any Loan to Borrower through any Lending Office, provided that the exercise of this option shall not affect the obligations of Borrower to repay the Obligations in accordance with the terms of this Agreement or otherwise alter the rights of the parties hereto.

3.7 Commitment Fee

- (a) Borrower shall pay to Agent a commitment fee (i) initially after the Closing Date at a rate equal to 0.25% *per annum* and (ii) after the first AM Calculation Date after the Closing Date at the Applicable Margin for commitment fees, in each case calculated on the basis of a 360 day year and actual days elapsed and upon the amount by which the then applicable Revolving Loan Commitment exceeds the sum of (i) the average daily principal balance of the outstanding Revolving Loans and (ii) the average daily face amount of the Letter of Credit Accommodations during the immediately preceding Fiscal Quarter (or part thereof) while this Agreement is in effect and for so long thereafter as any of the Obligations are outstanding, which commitment fee shall be payable on the last Business Day of each Fiscal Quarter in arrears. For further clarity, no Obligations will be outstanding once this Agreement has been terminated and all non-contingent Obligations have been fully satisfied and cash collateral (or a backstop letter of credit) has been provided in the full amount then outstanding of any Letter of Credit Accommodations and Secured Hedge Agreement, if any. This commitment fee shall not be payable to a Lender during the period it is a Non-Funding Lender.

ARTICLE 4
CONDITIONS PRECEDENT

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

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

- (a) Agent and Lenders shall have received the following documents, all in form and substance satisfactory to Agent and Lenders on or prior to the Closing Date:
 - (i) an omnibus information certificate from each of the Credit Parties;
 - (ii) this Agreement;
 - (iii) a confirmation of existing guarantees and security between the Credit Parties and Agent, acting as agent for and on behalf of the Secured Parties;
 - (iv) an amended statement of charge with respect to the equitable share mortgage dated April 8, 2014 by and between IMAX Barbados and Agent, acting as agent for and on behalf of the Secured Parties;
 - (v) an amended statement of charge with respect to the general security agreement dated February 7, 2013 granted by IMAX Barbados in favor of Agent, acting as agent for and on behalf of the Secured Parties;
 - (vi) an amended statement of charge with respect to the charge over shares of IMAX Barbados dated February 7, 2013 granted by Borrower in favor of Agent acting as agent for and on behalf of the Secured Parties;
 - (vii) a deed of confirmation granted by IMAX Ireland in favor of Agent, acting as agent for and on behalf of the Secured Parties;
 - (viii) an equitable share mortgage by and between IMAX Barbados and Agent acting as agent for and on behalf of the Secured Parties;
 - (ix) resolutions of the Board of Directors or similar governing body of each Credit Party approving and authorizing the execution, delivery and performance of this Agreement and the other Financing Agreements to which it is a party, certified as of the Closing Date by its officer as being executed and delivered and in full force and effect without modification or amendment or, if not applicable under the Applicable Laws of the relevant jurisdiction, in a similar form;
 - (x) customary written opinions of (i) Latham & Watkins LLP, U.S. counsel for Credit Parties, (ii) McCarthy Tétrault LLP, Canadian counsel for Credit parties, (iii) Clarke Gittens Farmer, Barbados counsel for Lenders, (iv)

Walkers (located in The Cayman Islands), Cayman counsel for Lenders, and (v) Walkers (located in Ireland), Irish counsel for Lenders;

- (xi) any and all documents and instruments required to perfect or evidence Agent's security interest in and liens on the Collateral (including, without limitation, all certificates evidencing pledged capital stock or membership or partnership interests, as applicable, with accompanying executed stock powers, all PPSA and UCC financing statements to be filed in the applicable government PPSA and UCC filing offices and all intellectual property security agreements to be filed with the intellectual property offices in Canada and the United States, as applicable);
 - (xii) any PPSA, UCC and other lien searches, intellectual property searches, insurance policies and, where applicable and customary in the relevant jurisdiction, special flood hazard determinations, evidence of flood insurance and endorsements, surveys, title reports and policies, appraisals and environmental reports, landlord waivers and access letters; and
 - (xiii) in respect of any written request made no less than two (2) Business Days prior to the Closing Date, all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-money-laundering rules and regulations, including, without limitation, the PATRIOT Act;
- (b) since December 31, 2017, there shall not have occurred any event or condition that has had or could be reasonably expected, either individually or in the aggregate, to have a Material Adverse Effect;
 - (c) all fees and reasonable out-of-pocket expenses due on the Closing Date to the Lenders, Agent and counsel to Agent for which an invoice has been presented at least two (2) Business Days prior to the Closing Date (or such shorter period as may be reasonably requested by Agent and acceptable to Borrower, acting reasonably) will be paid; and
 - (d) Arranger will have received, in form and substance reasonably satisfactory to the Arranger, projections prepared by Borrower of balance sheets, income statements and cashflow statements of Borrower and its Subsidiaries.

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

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

- (a) all steps required with respect to notice and request for the making available of the Loans and/or making available Letter of Credit Accommodations to Borrower set out or contemplated herein have been completed;

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- (b) all representations and warranties contained in the Financing Agreements shall be true and correct (i) in all material respects if not subject to materiality or Material Adverse Effect qualifications or (ii) in all respects if subject to materiality or Material Adverse Effect qualifications in each case with the same effect as though such representations and warranties had been made on and as of the date of the making of each such Loan or providing each such Letter of Credit Accommodation (except for any such representation and warranty that by its terms is made only as of an earlier date, which representation and warranty shall remain true and correct in all material respects if not subject to materiality or Material Adverse Effect qualifications as of such earlier date, except for any representation and warranty that is qualified by materiality or reference to Material Adverse Effect, which such representation and warranty shall be true and correct in all respects as of such earlier date) and after giving effect thereto;
 - (c) no Event of Default or Default shall have occurred and be continuing on and as of the date of the making of such Loan or providing, amending or extending each such Letter of Credit Accommodation and after giving effect thereto;
 - (d) after giving effect to each Revolving Loan and Letter of Credit Accommodation, (i) the Revolving Loan Outstandings shall not exceed the Revolving Loan Commitment, (ii) the Revolving Loan Exposure of any Lender shall not exceed such Lender's Revolving Loan Commitment, (iii) the aggregate outstanding amount of the Letter of Credit Accommodations shall not exceed the Letter of Credit Accommodations Sublimit and (iv) the aggregate principal amount (using the Dollar Equivalent thereof) of all Alternate Currency Loans shall not exceed the Alternate Currency Revolving Loan Sublimit; and
 - (e) after giving effect to each Term Loan, (i) the Term Loan Outstandings shall not exceed the Term Loan Commitment and (ii) the Term Loan Exposure of any Term Lender shall not exceed such Term Lender's Term Loan Commitment.

ARTICLE 5
COLLECTION AND ADMINISTRATION

5.1 Borrower's Loan Account

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

5.2 Statements

Agent shall render to Borrower, within a reasonable time following the end of each Fiscal Quarter, statements setting forth the balance in Borrower's loan account(s) maintained by Agent for Borrower pursuant to the provisions of this Agreement, including principal, interest, fees, costs

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

5.3 Payments

- (a) All Obligations (other than obligations, liabilities and indebtedness in connection with any Secured Hedge Agreement (which shall be paid in accordance with the terms thereof)) shall be payable to Agent as it may designate from time to time.
- (b) Agent shall apply payments received or collected from Credit Parties or for the account of Credit Parties (including the monetary proceeds of collections or of realization upon any Collateral) as follows:
 - (i) first, ratably, to pay any fees, indemnities or expense reimbursements then due to Agent and Lenders from Credit Parties;
 - (ii) second, to pay interest then due in respect of any Loans;
 - (iii) third, to pay principal then due in respect of the Loans and outstanding obligations due under Secured Hedge Agreements and Secured Cash Management Agreements; and
 - (iv) fourth, to pay the outstanding Loans and cash collateralize outstanding Letter of Credit Accommodations, Secured Hedge Agreements, and Secured Cash Management Agreements and after the occurrence of and during the continuance of an Event of Default, to pay or pre-pay such of the Obligations, whether or not then due, in such order and manner as Agent determines.
- (c) Notwithstanding clause (b) above, Obligations arising under Secured Hedge Agreements and Secured Cash Management Agreements shall be excluded from the application described above if Agent has not received written notice thereof, together with such supporting documentation as Agent may request, from the applicable Hedge Bank or Cash Management Bank, as the case may be. Each Hedge Bank or Cash Management Bank not a party to this Agreement that has given the notice contemplated by the preceding sentence shall, by such notice, be deemed to have acknowledged and accepted the appointment of Agent pursuant to the terms of Article 11 for itself and its Affiliates as if a "Lender" party hereto.
- (d) Payments and collections received in any currency other than Canadian Dollars, Euros and U.S. Dollars will be accepted and/or applied at the sole discretion of Agent. At Agent's option, and to the extent such amounts are overdue, all principal, interest, fees, costs, expenses and other charges provided for in the Financing

Agreements, the Secured Hedge Agreements or the Secured Cash Management Agreements may be charged directly to the loan account(s) of Borrower. Subject to Section 3.5 and except as otherwise required by Applicable Law, Borrower shall make all payments to Agent on the Obligations free and clear of, and without deduction or withholding for or on account of, any set-off, counterclaim, defence, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. If after receipt of any payment of, or proceeds of Collateral applied to the payment of, any of the Obligations, Agent or any Lender is required to surrender or return such payment or proceeds to any Person for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by Agent. Borrower shall be liable to pay to Agent and each Lender, and does hereby indemnify and hold Agent and each Lender harmless for, the amount of any payments or proceeds surrendered or returned. This Section 5.3 shall remain effective notwithstanding any contrary action which may be taken by Agent or any Lender in reliance upon such payment or proceeds. The indemnification in the second preceding sentence shall survive the payment of the Obligations and the termination of this Agreement.

5.4 Authorization to Make Loans and Letter of Credit Accommodations

Each Lender is authorized to make the Loans and provide the Letter of Credit Accommodations based upon written instructions received by Agent from the persons authorized by Borrower as notified in writing by Borrower to Agent from time to time or, at the discretion of Lenders, if such Loans are necessary to satisfy any Obligations that are overdue. All Loans and Letter of Credit Accommodations under this Agreement shall be conclusively presumed to have been made to, and at the request of and for the benefit of, Borrower when deposited to the credit of Borrower or otherwise disbursed or established in accordance with the instructions of Borrower or in accordance with the terms and conditions of this Agreement.

5.5 Use of Proceeds

Borrower shall use the proceeds of the Loans provided by Lenders to Borrower hereunder to (a) pay costs, expenses and fees in connection with the preparation, negotiation, execution and delivery of the Financing Agreements, (b) repay in full and terminate the Playa Vista Credit Facility and (c) finance ongoing working capital requirements and other general corporate purposes of Borrower and its Subsidiaries, including the financing of permitted acquisitions and other permitted investments, permitted stock buybacks and dividends.

5.6 Pro Rata Treatment

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

entitled to such payments based on their respective Pro Rata Shares and shall be distributed accordingly by Agent.

5.7 Obligations Several; Independent Nature of Lenders' Rights

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

ARTICLE 6 REPRESENTATIONS AND WARRANTIES

Each Credit Party hereby represents and warrants to Agent and each Lender the following (which shall survive the execution and delivery of this Agreement):

6.1 Existence, Power and Authority; Subsidiaries; Solvency

Each Credit Party and each Subsidiary thereof (a) is a Person duly incorporated or organized and validly existing under the laws of its jurisdiction of incorporation or organization and (b) is duly qualified or registered as a foreign or extra-provincial corporation in all provinces, states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except in each case referred to in clause (a) (other than with respect to each Credit Party) and (b) to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect. The execution, delivery and performance of the Financing Agreements and the transactions contemplated thereunder (a) are all within each Credit Party's and each of its Subsidiaries' corporate or other powers, (b) have been duly authorized, and (c) are not in contravention of law or the terms of its certificate of incorporation, by-laws, or other organizational documentation, or any indenture, agreement or undertaking to which it is a party or by which it or its property are bound except, in each case, with respect to any contravention of any such law, indenture, agreement or undertaking, to the extent that such contravention could not reasonably be expected to have a Material Adverse Effect. The Financing Agreements constitute legal, valid and binding obligations of each Credit Party which is a party thereto enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, examinership, receivership, moratorium or other laws affecting creditors' rights generally and by general principles of equity. As of the Closing Date, each Credit Party does not have any Subsidiaries except as set forth on the corporate structure chart attached as Schedule 6.1. Credit Parties and their Subsidiaries, taken as a whole, on a consolidated basis, are Solvent. No Credit Party is an EEA Financial Institution.

6.2 Financial Statements; No Material Adverse Change

The audited consolidated financial statements relating to Borrower most recently delivered by Borrower to Agent pursuant to Section 7.6(a)(ii) have been prepared in accordance with GAAP,

except as otherwise expressly noted therein, and fairly present in all material respects its financial condition and the results of its operation as at the dates and for the periods set forth therein, except as otherwise expressly noted therein. The unaudited consolidated financial statements relating to Borrower most recently delivered by Borrower to Agent pursuant to Section 7.6(a)(i) have been prepared in accordance with GAAP, except as expressly noted therein, and fairly present in all material respects its financial condition and the results of its operation as at the dates and for the periods set forth therein, subject in each case to the absence of footnotes and to normal year-end audit adjustments. The projections relating to Borrower most recently delivered by Borrower to Agent pursuant to Section 7.6(a)(iv) were prepared in good faith based upon assumptions believed to be reasonable at the time of preparation and delivery (it being understood that such projections may vary from actual results and that such variances may be material). Since the Closing Date, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

6.3 Chief Executive Office; Collateral Locations

As of the Closing Date, (a) the chief executive office of each Credit Party is located in the jurisdiction set forth on its Information Certificate and (b) the only locations of Collateral with a value in excess of \$1,500,000 of any of the Credit Parties (other than vehicles and assets temporarily in transit or sent for repair), if any, are the addresses set forth in its Information Certificate.

6.4 Priority of Liens; Title to Properties; Intellectual Property Matters

The Liens granted to Agent under the applicable Financing Agreements constitute valid Liens in favor of Agent for the benefit of the Secured Parties in and upon the Collateral and when (a) financing statements and other filings in appropriate form are filed in the applicable offices of each Credit Party's jurisdiction of organization or formation and in each jurisdiction in which it has assets located (if required by Applicable Law) and applicable documents are filed and recorded, as applicable, in the Intellectual Property Offices in Canada and the United States and (b) upon the taking of possession or control by Agent of such Collateral with respect to which a security interest may be perfected only by possession or control (which possession or control shall be given to Agent to the extent possession or control by Agent is required by the applicable Financing Agreement), the Liens created by the applicable Financing Agreements shall constitute fully perfected first priority Liens so far as possible under Applicable Law on, and security interests in (to the extent intended to be created thereby and required to be perfected under the applicable Financing Agreements), all right, title and interest of the grantors in such Collateral in each case free and clear of any Liens other than Permitted Liens. Each Credit Party and each Subsidiary thereof has good and marketable title in fee simple (or local law equivalent) to, or valid leasehold interests in, all real property necessary in the ordinary conduct of its business, free and clear of all Liens except for minor defects in title that do not materially interfere with its ability to conduct its business thereon or to utilize such assets for their intended purposes and Permitted Liens. Each Credit Party and each Subsidiary thereof owns or possesses rights to use all material franchises, licenses, copyrights, copyright applications, patents, patent rights or licenses, patent applications, trademarks, trademark rights, service mark, service mark rights, trade names, trade name rights, copyrights and other intellectual property rights (collectively, "**IP Rights**") with respect to the foregoing which are necessary to conduct its business, as currently conducted, except to the extent

such failure to own or possess, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect. The conduct of the business of any Credit Party or any Subsidiary as currently conducted or as contemplated to be conducted does not infringe upon or violate any IP Rights held by any other Person except for such infringements and violations which, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

6.5 Tax Returns

Borrower and its Subsidiaries have filed, or caused to be filed, in a timely manner (with extensions) all Tax returns, reports and declarations which are required to be filed by it (except those in respect of Taxes the calculation or payment of which are being contested in good faith by appropriate proceedings diligently pursued and available to it and except for those returns for those jurisdictions in which failure to do so would not have a Material Adverse Effect). All information in such Tax returns, reports and declarations is complete and accurate in all material respects. Borrower and its Subsidiaries have paid or caused to be paid all Taxes due and payable or claimed due and payable in any assessment received by it, except Taxes (a) the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to it and with respect to which adequate reserves have been set aside on its books or (b) for which the failure to pay would not have a Material Adverse Effect. Adequate provision has been made by Borrower and its Subsidiaries for the payment of all accrued and unpaid Taxes whether or not yet due and payable and whether or not disputed.

6.6 Litigation

Except as disclosed in Borrower's Form 10-K, to its knowledge, there is no action, suit, proceeding or claim by any Person pending or threatened in writing against any Credit Party and each Subsidiary thereof or its assets or business, which in each of the foregoing cases, could reasonably be expected to result in a Material Adverse Effect.

6.7 Compliance with Applicable Laws; Approvals

Each Credit Party and each Subsidiary thereof is in compliance in all respects with all Applicable Laws, licenses, permits, approvals and orders of any Governmental Authority except in such instances in which (a) such Applicable Law or license, permit, approval or order is being contested in good faith by appropriate proceedings diligently conducted or (b) the lack of compliance could not reasonably be expected to have a Material Adverse Effect. The execution, delivery and performance by each Credit Party of the Financing Agreements to which it is a party do not and will not (a) require any governmental approval where the failure to obtain such approval could reasonably be expected to have a Material Adverse Effect or (b) require any consent or authorization of, filing with, or other act in respect of, a Governmental Authority and no consent of any other Person is required in connection with such execution, delivery and performance other than (x) consents, authorizations, filings or other acts or consents for which the failure to obtain or make could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (y) consents, authorizations, filings or other acts or consents which have been duly obtained, taken, given or made and are in full force and effect and (z) notices and filings made in connection with the security interests granted under the Financing Agreements.

6.8 [Reserved]

6.9 Accuracy of Information

As of the Closing Date, no information, taken as a whole, furnished by or on behalf of each Credit Party (other than projected financial information, pro forma financial information and information of a general economic or industry nature) in writing to Agent or a Lender in connection with any of the Financing Agreements or any transaction contemplated hereby or thereby (as modified or supplemented by other written information so furnished), when taken as a whole, contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein (when taken as a whole), in the light of the circumstances under which they were made, not materially misleading; provided that, with respect to projected and pro forma financial information, Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time of preparation and delivery, it being understood that such projections may vary from actual results and that such variances may be material.

6.10 Status of Pension Plans and ERISA

Except as would not reasonably be expected to result in material liability to the Borrower and its Subsidiaries or except as disclosed in the Borrower's Form 10-K:

- (a) The Pension Plans are duly registered under all applicable provincial pension benefits legislation and there are no other Canadian pension plans of any Credit Party or any Subsidiary thereof other than the Pension Plans.
- (b) All obligations of each Credit Party and each Subsidiary thereof (including fiduciary, funding, investment and administration obligations) required to be performed in connection with the Pension Plans or the funding agreements therefor have been performed in a timely fashion. There are no outstanding disputes concerning the assets held pursuant to any such funding agreement.
- (c) All contributions or premiums required to be made by any Credit Party and any Subsidiary thereof to the Pension Plans have been made in a timely fashion in accordance with the terms of the Pension Plans and Applicable Laws.
- (d) All employee contributions to the Pension Plans required to be made by way of authorized payroll deduction have been properly withheld by each Credit Party and each Subsidiary thereof and fully paid into the Pension Plans in a timely fashion.
- (e) All reports and disclosures relating to the Pension Plans required by any Applicable Laws have been filed or distributed in a timely fashion.
- (f) There have been no improper withdrawals, or applications of, the assets of any of the Pension Plans.
- (g) No amount is owing by any of the Pension Plans under the ITA or any provincial taxation statute.

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- (h) None of the Pension Plans is a defined benefit registered or unregistered pension plan or contains any defined benefit provision.
 - (i) None of the Pension Plans is the subject of an investigation or any other proceeding, action or claim and there exists no state of facts which after notice or lapse of time or both could reasonably be expected to give rise to any such proceeding, action or claim.
 - (j) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other U.S. federal or state law. Each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service and, to the best of each Credit Party's knowledge, nothing has occurred which would cause the loss of such qualification where such loss, when combined with other such occurrences or failures to comply, has or could reasonably be expected to have a Material Adverse Effect. Each Credit Party and its ERISA Affiliates have made all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver has been made with respect to any Plan.
 - (k) There are no pending, or to the best of each Credit Party's knowledge, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan and there has been no prohibited transaction or violation of the fiduciary responsibility rules that would reasonably be expected to result in a material liability to the Plan.
 - (l) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) each Credit Party and its ERISA Affiliates have not incurred and do not reasonably expect to incur, any liability under Title IV of ERISA with respect to any Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iii) each Credit Party and its ERISA Affiliates have not incurred and do not reasonably expect to incur any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 of ERISA with respect to a Multiemployer Plan; and (iv) each Credit Party and its ERISA Affiliates have not engaged in a transaction that would be subject to Section 4069 or 4212(c) of ERISA.

6.11 Environmental Compliance

- (a) Except as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, all Hazardous Materials generated, used, treated, handled, or stored at, or transported or arranged for transport to or from, any property or facility currently or, to the knowledge of Borrower, formerly owned or operated by any Credit Party or any of its Subsidiaries have been disposed of in a manner that would not reasonably be expected to result in any Environmental Liability.

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- (b) Except as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, there are no Environmental Claims against any Credit Party or any of its Subsidiaries relating to their respective businesses, operations and properties, and their respective businesses, operations and properties are in compliance with applicable Environmental Laws.
 - (c) Except as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, the properties currently or, to the knowledge of the Credit Parties, formerly owned or operated by any Credit Party or any of its Subsidiaries do not contain any Hazardous Materials in amounts or concentrations which (i) constitute a violation of, (ii) require response or other corrective action under, or (iii) could be reasonably expected to give rise to liability under, Environmental Laws.
 - (d) Except as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, each Credit Party and each Subsidiary thereof has all licenses, permits, certificates, approvals or similar authorizations required to be obtained or filed in connection with its operations under any Environmental Law.

6.12 U.S. Legislation

Without limiting Section 6.7:

- (a) Each Credit Party and each Subsidiary or Affiliate is compliance in material respect with sanctions administered and enforced by OFAC. No Credit Party or any Subsidiary or Affiliate thereof (i) is a Sanctioned Person or a Sanctioned Entity, (ii) has any of its assets in Sanctioned Entities, or (iii) derives any of its operating income from investments in, or transactions with, Sanctioned Persons or Sanctioned Entities. The proceeds of the Loans and other financial accommodation hereunder will (i) not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity and (ii) comply with sanctions administered and enforced by OFAC.
- (b) No part of the proceeds of the Loans will be used for any purpose that violates the provisions of any of Regulation T, U, or X of the Board of Governors of the Federal Reserve System of the United States of America or to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock and Borrower is not engaged, principally or as one of its important activities, in the business of purchasing or carrying margin stock or extending credit for the purpose of purchasing or carrying margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System.
- (c) Each Credit Party, their Subsidiaries, and their respective directors, officers and employees, and, to the knowledge of each Credit Party, the Affiliates of each Credit Party, are in compliance with the *Foreign Corrupt Practices Act of 1977* and any other applicable anti-corruption law in all material respects. The Credit Parties

have instituted and maintain policies and procedures designed to ensure compliance therewith.

- (d) No part of the proceeds of the Loans or other financial accommodations made or provided hereunder will be used by any Credit Party or any Subsidiary or Affiliate thereof, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the *United States Foreign Corrupt Practices Act of 1977*, as amended.
- (e) No Credit Party is an “investment company” (as defined in the *Investment Company Act of 1940*, as amended).

6.13 Material Subsidiaries

As of the Closing Date, Guarantors are the only Material Subsidiaries of Borrower.

6.14 Employee Relations

As of the Closing Date, no Credit Party or Subsidiary thereof is party to any collective bargaining agreement and no labor union has been recognized as the representative of any material portion of its employees. Each Credit Party knows of no pending, threatened or contemplated strikes, work stoppage or other collective labor disputes involving its employees or those of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

6.15 [Reserved]

6.16 Absence of Defaults

No event, circumstance or omission has occurred or is continuing which constitutes a Default or an Event of Default.

6.17 Senior Indebtedness Status

The Obligations rank and shall continue to rank senior in priority of payment to all subordinated Debt of each Credit Party and shall be designated as “Senior Indebtedness” under all instruments and documents, now or in the future, relating to all subordinated Debt of such Credit Party.

6.18 Flood Hazard Insurance

With respect to each parcel of real property owned by a Credit Party subject to a Mortgage and located in the United States (and no such parcel exists as of the Closing Date), all flood hazard insurance policies required hereunder have been obtained and remain in full force and effect, and the premiums thereon have been paid in accordance with the requirements hereunder.

6.19 Survival of Warranties; Cumulative

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

ARTICLE 7 AFFIRMATIVE COVENANTS

Until all of the non-contingent Obligations have been paid and satisfied in full, all Letter of Credit Accommodations have been terminated or expired (or been cash collateralized or backstopped on terms satisfactory to Agent) and the Commitment terminated, each Credit Party will, and will cause each of its Subsidiaries to:

7.1 Maintenance of Existence

Except to the extent otherwise permitted herein, preserve, renew and keep in full, force and effect (a) its legal existence and (b) its material rights and franchises, permits, licenses, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted; provided, no Subsidiary (other than a Credit Party) shall be required to preserve any such existence and no Credit Party or a Subsidiary thereof shall be required to preserve any such right or franchise, permit, license, approval, authorization, lease and contract if such Person shall determine that the preservation thereof is no longer desirable in the conduct of the business of such Person, and that the loss thereof is not disadvantageous in any material respect to such Person or to Lenders. Each Credit Party shall give Agent prompt written notice of any change in its legal name, which notice shall set forth the new name and it shall deliver to Agent a certified copy of the articles of amendment providing for the name change immediately following its filing.

7.2 New Collateral Locations

Give Agent reasonable prior written notice if a Credit Party intends to have assets (other than goods in transit) with fair market value in excess of \$1,000,000 located in a Province of Canada not set forth in the Information Certificates as of the Closing Date.

7.3 Compliance with Laws

- (a) Comply in all respects with all Applicable Law and duly observe all requirements of any Governmental Authority, including all Applicable Laws relating to environmental pollution and employee health and safety, including all of the Environmental Laws except for any matter (i) that it is contesting in good faith by appropriate proceedings diligently pursued or (ii) which is not reasonably expected to have a Material Adverse Effect.

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- (b) Take prompt action necessary to respond to any violation of any applicable Environmental Laws by such Credit Party or its Subsidiaries that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.
 - (c) [Reserved].
 - (d) [Reserved].
 - (e) [Reserved].

7.4 Payment of Taxes

(a) Duly pay and discharge all Taxes, upon or against it or its properties or assets, except for (a) Taxes, the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to it and with respect to which adequate reserves have been set aside on its books or (b) Taxes, for which the failure to pay (i) is not reasonably expected to have a Material Adverse Effect and (ii) does not, and could not, have a trust (including a statutory trust) imposed to provide for payment or Lien ranking or capable of ranking senior to or *pari passu* with the Liens securing the Obligations on any of the Collateral under Applicable Law.

7.5 Insurance

- (a) Maintain, with financially sound and reputable insurers, insurance with respect to the properties and businesses of the Credit Parties and their Subsidiaries as may customarily be insured against or carried by Persons engaged in the same or similar businesses and similarly situated, in each case in such amounts (giving effect to self-insurance), with such deductibles, covering such risks and otherwise on such terms and conditions as shall be customary for such Persons.
- (b) Furnish certificates, policies or endorsements to Agent as Agent shall reasonably require as proof of such insurance, and, if such Credit Party or Subsidiary fails to do so Agent is authorized, but not required, to obtain such insurance at the expense of such Credit Party.
- (c) Cause Agent to be named as a loss payee and/or an additional insured, as applicable (but without any liability for any premiums) under such insurance policies (other than worker's compensation, directors and officers liability or other insurance where such endorsements or additions are not customarily available) and, in the case of each casualty insurance policy and if available, obtain a loss payee clause or endorsement in form and substance satisfactory to Agent.
- (d) Without limiting the foregoing, (i) maintain, if available, fully paid flood hazard insurance on all real property that is located in the United States in a special flood hazard area, owned by a Credit Party and that is subject to a Mortgage, on such terms and in such amounts as required by the *Flood Insurance Reform Act of 2004 and of 2012*, and (ii) furnish to Agent evidence of renewal (and payment of renewal premiums therefor) of all such policies prior to the expiration or lapse thereof.

7.6 Financial Statements and Other Information

- (a) Keep proper books and records in which true and correct entries shall be made of all financial transactions of or in relation to the Collateral and its business in accordance with GAAP and Borrower shall furnish or cause to be furnished to Agent (for further distribution to the Lenders):
- (i) within 45 days after the end of each of the first 3 Fiscal Quarters of each Fiscal Year, quarterly unaudited consolidated financial statements (including in each case balance sheets, statements of income and loss, statements of cash flow and statements of shareholders' equity with comparisons to the same period in the previous Fiscal Year), all in reasonable detail, fairly presenting, in all material respects, the results of the operations and financial condition of Borrower and its Subsidiaries as of the end of and for the Fiscal Quarter then ended together with a customary management discussion of such financial position and results;
 - (ii) within 90 days after the end of each Fiscal Year, audited consolidated financial statements of Borrower and its Subsidiaries (including in each case balance sheets, statements of income and loss, statements of changes in financial position and statements of shareholders' equity), and the accompanying notes thereto, all in reasonable detail, and the opinion of independent chartered accountants, which accountants shall be an independent accounting firm selected by Borrower (which opinion shall be unqualified as to going concern and scope of audit (other than any exception or explanatory paragraph, but not a qualification, that is expressly solely with respect to, or expressly resulting solely from (x) an upcoming maturity date under this Agreement that is scheduled to occur within one year from the time such report and opinion are delivered or (y) any potential inability to satisfy a financial maintenance covenant, including the financial covenant contained in Section 9.1, on a future date or future period), and shall state that such financial statements have been prepared in accordance with GAAP, and present fairly, in all material respects, the results of operations and financial condition of Borrower and its Subsidiaries as of the end of and for the Fiscal Year then ended;
 - (iii) together with each delivery of financial statements pursuant to Sections 7.6(a)(i) and (ii), a duly executed and completed Compliance Certificate duly executed by the chief financial officer of Borrower;
 - (iv) as soon as practicable and in any event no later than 90 days after the end of each Fiscal Year, projections for the Fiscal Year following such Fiscal Year then ended; and
 - (v) as Agent may from time to time reasonably request, and provided that Borrower prepares such information in the ordinary course of business,

budgets, forecasts, cash flows and other information respecting the Collateral and the business of each Credit Party.

- (b) Promptly, after an officer of any Credit Party has obtained knowledge thereof, notify Agent in writing of the details of (i) the institution of any material litigation not previously disclosed by Credit Parties to Agent, or any material development in any material litigation that is reasonably likely to be adversely determined, and would, in either case, if adversely determined be reasonably expected to have a Material Adverse Effect; (ii) the occurrence of any Event of Default or Default; or (iii) any other event that could reasonably be expected to have a Material Adverse Effect.
- (c) Promptly after the sending or filing thereof furnish or cause to be furnished to Agent copies of all reports which it sends to all shareholders generally and copies of all reports and registration statements which it files with any national securities commission or securities exchange, and in any case not otherwise required to be delivered to Agent pursuant hereto.

Notwithstanding the foregoing, (i) in the event that Borrower delivers to Agent an Annual Report for Borrower on Form 10-K for such fiscal year within ninety (90) days after the end of such Fiscal Year, such Form 10-K shall satisfy all requirements of paragraph (a)(i) of this Section to the extent that it does not contain any “going concern” or like qualification, exception or explanatory paragraph or qualification or any exception or explanatory paragraph as to the scope of such audit (other than any such exception or explanatory paragraph, but not a qualification, expressly permitted to be contained therein under clause (a)(ii) of this Section 7.6) and (ii) in the event that Borrower delivers to Agent a Quarterly Report for Borrower on Form 10-Q for such fiscal quarter within forty five (45) days after the end of such Fiscal Quarter, such Form 10-Q shall satisfy all requirements of paragraph (a)(i) of this Section 7.6.

7.7 Intellectual Property

- (a) Together with the delivery of each Compliance Certificate pursuant to Section 7.6(a), notify Agent in the event any Credit Party obtains or applies for any material intellectual property rights or obtains any material licenses with respect thereto.
- (b) At Agent’s request, promptly execute and deliver to Agent an intellectual property security agreement granting to Agent a security interest in such intellectual property rights of a Credit Party in form and substance satisfactory to Agent.

7.8 Operation of Pension Plans

Except as would not reasonably be expected to result in material liability to the Borrower and its Subsidiaries:

- (a) administer the Pension Plans in accordance with the requirements of the applicable pension plan texts, funding agreements, the ITA and applicable provincial pension benefits legislation;

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- (b) use commercially reasonable efforts to obtain and to deliver to Agent, upon Agent's request, an undertaking of the funding agent for each of the Pension Plans stating that the funding agent will notify Agent within 30 days of such Credit Party's or its Subsidiary's failure to make any required contribution to the applicable Pension Plan;
 - (c) not accept payment of any amount from any of the Pension Plans without the prior written consent of Agent other than payments for forfeitures in connection with terminated employees to be set-off against future contribution obligations;
 - (d) not terminate, or cause to be terminated, any of the Pension Plans, if such plan would have a solvency deficiency on termination;
 - (e) promptly provide Agent with any documentation relating to any of the Pension Plans as Agent may request; and
 - (f) promptly notify Agent within 30 days of: (i) a material increase in the liabilities of any of the Pension Plans; (ii) the establishment of a new registered pension plan; (iii) commencing payment of contributions to a Pension Plan to which a Credit Party or any Subsidiary thereof had not previously been contributing; and (iv) any failure to make any required contribution to a Pension Plan when due.

7.9 ERISA

(a) Not terminate any U.S. Pension Plan so as to incur any liability to the Pension Benefit Guaranty Corporation, (b) make all required contributions to any Plan which it is obligated to pay under Section 302 of ERISA, Section 412 of the Code or the terms of such Plan, (c) not engage in a transaction that could be subject to Section 4069 or 4212(c) of ERISA, or (d) not allow or suffer to exist any occurrence of a reportable event or any other event or condition which presents a risk of termination by the Pension Benefit Guaranty Corporation of any Plan that is a single employer plan, which termination could result in any liability to the Pension Benefit Guaranty Corporation, except, in each case, as would not reasonably be expected to result in material liability to the Borrower and its Subsidiaries.

7.10 IP Collateral

With respect to the IP Collateral:

- (a) except where the failure to do so could not reasonably be expected to have a Material Adverse Effect, notify Agent forthwith in writing upon obtaining knowledge:
 - (i) of any reason any patent, patent application, patent registration, trademark, trademark application, trademark registration, copyright, copyright application, copyright registration, industrial design application or industrial design registration forming part of the material IP Collateral or any other application, registration or proceeding relating to any of the material IP Collateral may become barred, abandoned, refused, rejected,

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- forfeited, withdrawn, expired, lapsed, cancelled, expunged, opposed or dedicated or of any adverse determination or development (including the institution of any proceeding in any Intellectual Property Office or any court or tribunal) regarding Borrower's ownership of or rights in any of the material IP Collateral, its right to register or otherwise protect the same, or to keep and maintain the exclusive rights in same, or the validity of same; or
- (ii) of any action, proceeding, or allegation that the IP Collateral infringes upon, misappropriates, violates, or otherwise interferes with the rights of any Person;
- (b) except where the failure to do so could not reasonably be expected to have a Material Adverse Effect, do everything commercially necessary to preserve and maintain the material IP Collateral including (unless Borrower receives the prior written consent of Agent):
- (i) perform all obligations pursuant to the License Agreements;
 - (ii) commence and prosecute such suits, proceedings or other actions for infringement, passing off, unfair competition, dilution or other damage as are, in its reasonable business judgment, necessary to protect the IP Collateral;
 - (iii) enforce its rights under any agreements (including the License Agreements) which materially enhance the value of and/or protect the material IP Collateral; and
 - (iv) make all necessary filings and recordings in the Intellectual Property Offices and elsewhere necessary to protect its interest in the material IP Collateral or any new material IP Collateral, including making, maintaining and pursuing (including proceedings before Intellectual Property Offices) each application and registration with respect thereto;
- (c) [reserved];
- (d) perform, at Borrower's sole cost and expense, all acts and execute all documents, including grants of security interests or assignments in forms suitable for filing with the Intellectual Property Offices in Canada and the United States, as may be reasonably requested by Agent at any time and from time to time to evidence, perfect, maintain, record and enforce Agent's Liens in the IP Collateral, or otherwise in furtherance of the provisions of this Agreement;
- (e) unless Agent consents in writing otherwise, or unless such act or failure to act could not reasonably be expected to have a Material Adverse Effect, not do any act or omit to do any act, other than in the ordinary course of its business, whereby any of the IP Collateral, may lapse, become abandoned or dedicated to the public, enter

the public domain, lose its quality of confidence, become indistinct, or become unenforceable;

- (f) unless Agent consents in writing otherwise, or unless the failure to so act would not reasonably be expected to have a Material Adverse Effect, with respect to any Trade-mark forming part of the Collateral:
 - (i) continue the use of any such Trade-marks in order to maintain all of the Trade-marks in full force free from any claim of abandonment;
 - (ii) maintain as in the past the character and quality of the wares and services offered in association with such Trade-marks, and use its reasonable best efforts to require its licensees to maintain as in the past the character and quality of the wares and services offered in association with such Trade-marks; and
- (g) except where the failure to do so could not reasonably be expected to have a Material Adverse Effect, require that all use by any Person of any such Trade-marks shall be pursuant to a license that provides it with the requisite control and other provisions to maintain the distinctiveness of such Trade-marks.

7.11 Visits and Inspections

- (a) From time to time as requested by Agent, at the cost and expense of Borrower: (i) provide Agent, any Lender or its designee complete access to all of its premises during normal business hours and after reasonable notice to such Person, or at any time if an Event of Default has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of such Person's books and records, including the Records; and (ii) promptly furnish to Agent and such Lender such copies of such books and records or extracts therefrom as Agent or such Lender may reasonably request, and (iii) permit Agent, any Lender or its designee to use during normal business hours such of such Person's personnel, equipment, supplies and premises as may be reasonably necessary for the foregoing and, if an Event of Default has occurred and is continuing, for the realization of the Collateral; provided that all such visits and inspections shall be coordinated through Agent and Borrower shall pay only for costs and expenses of one such inspection or visit per calendar year in the absence of a Payment/Insolvency Event of Default.
- (b) Agent and each Lender shall keep confidential, in accordance with its customary procedures for handling confidential information and safe and sound lending practices, any non-public information made available to Agent or such Lender pursuant to this Agreement, including Section 7.6 or Section 7.11(a), and all copies thereof; provided that nothing in this Section shall limit the disclosure of any such information: (i) to the extent required by Applicable Law (and Agent and each Lender shall provide Borrower with prior notice of such required disclosure to the extent permitted by Applicable Law); (ii) to bank examiners and other regulators, auditors and/or accountants; (iii) in connection with any litigation to which Agent

or a Lender is a party; (iv) to any assignee or participant (or prospective assignee or participant), in each case, other than to a Prohibited Transferee, so long as such assignee or participant (or prospective assignee or participant), as applicable, shall have first agreed in writing to treat such information as confidential in accordance with this Section; (v) to counsel for Agent or any Lender or any participant or assignee (or prospective participant or assignee other than a Prohibited Transferee) on a confidential basis; and (vi) to any Person with the prior written consent of Borrower. In no event shall this Section, or any other provision of this Agreement or any Applicable Law be deemed to: (i) apply to or restrict disclosure of information that has been or is made public by any Credit Party or Subsidiary thereof or any third party without breach by Agent or any Lender of this Section or otherwise becomes generally available to the public other than as a result of a disclosure in violation hereof; (ii) apply to or restrict disclosure of information that was or becomes available to Agent or any Lender on a non-confidential basis from a person other than a Credit Party of a Subsidiary thereof so long as Agent or such Lender has determined in its good faith judgment that such information is not confidential; (iii) require Agent or any Lender to return any materials furnished by any Credit Party or Subsidiary thereof to Agent; or (iv) prevent Agent from responding to routine informational requests in accordance with applicable industry standards relating to the exchange of credit information.

7.12 Material Subsidiaries and Real Property Collateral

- (a) Notify Agent of the existence of a Material Subsidiary and promptly thereafter (and in any event within thirty (30) days after such notice or such longer period, as Agent may agree in its sole discretion), cause such Material Subsidiary to (i) become a Guarantor hereunder by delivering to Agent such agreements as Agent shall deem appropriate for such purpose, (ii) take, whatever action (including, without limitation, the filing of UCC or PPSA financing statements) may be necessary or advisable in the reasonable opinion of Agent to vest in Agent valid and subsisting first priority Liens similar to those provided by the existing Credit Parties on the assets of such Person, (iii) subject to [Section 7.13](#), deliver to Agent such original Equity Interests or other certificates and stock or other transfer powers evidencing the Equity Interests of such Person, (iv) deliver to Agent such updated schedules to the Financing Agreements as reasonably requested by Agent with respect to such Person, and (v) deliver to Agent such other documents as may be reasonably requested by Agent, all in form and substance reasonably satisfactory to Agent.
- (b) [Reserved].
- (c) (i) Promptly after the acquisition of any Material Real Property by any Credit Party that is not subject to a Mortgage (and, in any event, within twenty (20) days after such acquisition, as such time period may be extended by Agent in its sole discretion), notify Agent and (ii) promptly thereafter (and in any event, within ninety (90) days of such acquisition (as such time period may be extended by Agent, or such requirement is waived by Agent, in each case in its sole discretion), deliver a Mortgage, and, to the extent customary in the relevant jurisdiction, title insurance

policies, environmental reports, flood hazard determinations, flood insurance (if required), surveys and other documents reasonably requested by Agent as reasonably necessary in connection with granting and perfecting a first priority Lien, other than Permitted Liens, on such Material Real Property in favor of Agent, for the ratable benefit of the Secured Parties, all in form and substance acceptable to Agent. The parties hereto agree that Credit Parties and their respective Subsidiaries shall not be required at any time to execute and deliver a Mortgage granting Agent a Lien on the Mississauga Property or the Playa Vista Property.

- (d) If any Lender determines, acting reasonably, that any applicable law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for such Lender to hold or benefit from a Lien over real property, such Lender may notify Agent and disclaim any benefit of such Lien to the extent of such illegality; provided, that such determination or disclaimer shall not invalidate or render unenforceable such Lien for the benefit of Agent, any other Lender or Secured Party.

7.13 Grant of Equitable Mortgage by IMAX Barbados

In the case of IMAX Barbados, at all times:

- (a) IMAX Barbados shall own not less than 51% of all of the issued and outstanding Equity Interests of IMAX Cayman;
- (b) IMAX Barbados shall control IMAX Cayman (and, for purposes of this clause (b), “control” means the possession of the power to direct or cause the direction of the management or policies of IMAX Cayman and elect a majority of the board of directors of, or Persons performing similar functions in respect of, IMAX Cayman);
- (c) IMAX Barbados shall mortgage or pledge in favor of Agent (and deliver (but only to the extent such original Equity Interests are in certificated form) to Agent such original Equity Interests or other certificates and stock or other transfer powers evidencing the grant of a mortgage or pledge over) not less than 51% of all of the issued and outstanding Equity Interests of IMAX Cayman; and
- (d) IMAX Barbados shall deliver to Agent such other agreements and make such registrations and filings in connection therewith, in each case, as Agent shall deem necessary or desirable to preserve, protect or perfect such first priority Lien.

From time to time, Borrower may request that Agent release Agent’s mortgage or pledge and Lien in the Equity Interests of IMAX Cayman and Agent shall so release (without requiring any consent or approval of any Secured Party) if Agent is satisfied that its remaining mortgage or pledge and Lien in the Equity Interests of IMAX Cayman complies with Section 7.13(a) through (d) above.

ARTICLE 8
NEGATIVE COVENANTS

Until all of the non-contingent Obligations have been paid and satisfied in full, all Letters of Credit Accommodations have been terminated or expired (or been cash collateralized or backstopped on terms satisfactory to Agent) and the Commitments terminated, the Credit Parties will not, and will not permit any of their respective Subsidiaries to:

8.1 Merger, Sale of Assets, Dissolution, Etc.

- (a) Directly or indirectly, without the prior written consent of Required Lenders which is not to be unreasonably withheld or unless otherwise permitted herein: (i) merge, amalgamate or consolidate with any other Person or permit any other Person to merge, amalgamate or consolidate with it, (ii) sell, assign, lease, transfer, abandon or otherwise dispose of any Collateral, assets or property (including by way of a sale-leaseback) to any other Person, (iii) wind up, liquidate or dissolve or (iv) agree to do any of the foregoing.
- (b) Notwithstanding Section 8.1(a) hereof and provided that an Event of Default does not then exist and would not occur as a result thereof (determined upon the earlier to occur of (A) the execution of definitive documentation with respect to such transaction and (B) such transaction), each Credit Party or any Subsidiary thereof shall be permitted to:
 - (i) sell, assign, lease, transfer or otherwise dispose assets or property for fair market value (as determined in good faith by Borrower) so long as (A) such assignment, lease transfer or disposal does not comprise all or substantially all of the assets and properties of Borrower and its Subsidiaries and (B) at least 75% of the consideration for any such sale in excess of \$10,000,000 shall consist of cash and Cash Equivalents;
 - (ii) disposals of obsolete, worn out or surplus property;
 - (iii) the leasing, occupancy agreements or subleasing of property in the ordinary course of business and which do not materially interfere with the business of Borrower or its Subsidiaries;
 - (iv) transfers of property subject to condemnation, takings or casualty events;
 - (v) the transfer for fair value of property (including Equity Interests of Subsidiaries) to another Person in connection with a joint venture arrangement with respect to the transferred property; provided that such transfer is permitted under Section 8.4;
 - (vi) transfers of condemned property as a result of the exercise of “eminent domain” or other similar policies to the respective Governmental Authority or agency that has condemned the same (whether by deed in lieu of condemnation or otherwise), and transfers of properties that have been

subject to a casualty to the respective insurer of such property as part of an insurance settlement;

- (vii) the sale of cash or Cash Equivalents in the ordinary course of business;
- (viii) dispositions of Investments in joint ventures to the extent required by, or made pursuant to customary buy/sell arrangements between the joint venture parties set forth in, joint venture arrangements and similar binding arrangements;
- (ix) non-exclusive licenses, sublicenses or cross-licenses of intellectual property or other general intangibles and exclusive licenses, sublicenses or cross-licenses of intellectual property or other IP Rights or other general intangibles, in each case, in the ordinary course of business of Borrower and its Subsidiaries;
- (x) dispositions of property between or among Borrower and/or its Subsidiaries as a substantially concurrent interim disposition in connection with a disposition otherwise permitted pursuant to clauses (i) through (vii) above and (xiv) below;
- (xi) merge, amalgamate or consolidate with an Affiliate; provided that, in the case of any such transaction involving a Credit Party, the surviving, amalgamated or consolidated Person shall continue to be a Credit Party under the Financing Agreements;
- (xii) in the case of single purpose Subsidiaries formed or acquired for the purpose of entering into the joint ventures and the third party productions permitted pursuant to Section 8.4(d) and 8.4(h) hereof, any such Subsidiary which is a joint venture or third party production may issue Equity Interests in such Subsidiary to the other parties thereto in the ordinary course of business;
- (xiii) transfer all of its property to another Credit Party prior to such first Credit Party's or Subsidiary's winding-up, liquidation or dissolution; provided that such transferred property becomes subject to a first priority Lien in favor of Agent (subject to Permitted Liens);
- (xiv) sell, assign, lease, transfer, or otherwise dispose of property (including Equity Interests) to any Credit Party; provided that such sold, assigned, leased, transferred or disposed property is subject to all then existing first priority Liens of Agent (subject to Permitted Liens);
- (xv) issue Equity Interests of IMAX Cayman;
- (xvi) Permitted Investments made in accordance with Section 8.4 and Restricted Payments made in accordance with Section 8.5;
- (xvii) [reserved];

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- (xviii) in the case of any Subsidiary of Borrower (other than a Guarantor, IMAX China Multimedia, IMAX China Theatre or IMAX China HK), issue Equity Interests to employees, directors, consultants and other Persons in the ordinary course of business;
 - (xix) sell equipment at fair market value in the ordinary course of business;
 - (xx) mergers, amalgamations or consolidations among Subsidiaries that are not Credit Parties; and
 - (xxi) a sale leaseback with respect to the Playa Vista property.

8.2 Liens

Create, incur, assume or suffer to exist any Lien on any of its assets or properties, including the Collateral and the Mississauga Property (other than the Playa Vista Property), except:

- (a) Liens in favor of Agent to secure the Obligations;
- (b) Liens securing the payment of Taxes, either not yet overdue or the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to such Credit Party or Subsidiary;
- (c) non-consensual statutory Liens (other than Liens securing the payment of taxes) arising in the ordinary course of its business to the extent:
 - (i) such Liens secure indebtedness which is not overdue or
 - (ii) such Liens secure indebtedness relating to claims or liabilities which are fully insured and being defended at the sole cost and expense and at the sole risk of the insurer or being contested in good faith by appropriate proceedings diligently pursued and available to it, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books;
- (d) zoning restrictions, rights-of-way, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of its business as presently conducted thereon or materially impair the value of the real property which may be subject thereto;
- (e) purchase money security interests and mortgages (including capital leases) to secure Permitted Debt incurred pursuant to Section 8.3(c) and so long as such security interests and mortgages do not apply to any property of a Credit Party or Subsidiary thereof other than the acquired property;
- (f) Liens set forth on Schedule 8.2 hereto and any modifications, replacements, renewals or extensions thereof; provided that the Lien does not extend to any additional property other than after-acquired property that is affixed or incorporated into the property covered by such Lien or proceeds and products thereof;

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- (g) Liens securing performance of bids, contracts, statutory obligations, surety, performance and appeal bonds and other like obligations incurred in the ordinary course of business;
 - (h) pledges or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security legislation;
 - (i) Liens securing Permitted Debt in Section 8.3(n) so long as (i) after giving effect to the incurrence thereof Borrower is in *pro forma* compliance with the Senior Secured Net Leverage Ratio in Section 9.1 as demonstrated in writing by Borrower to Agent prior to any such incurrence being made and agreed to in writing by Agent to Borrower prior to any such incurrence, and (ii) such Liens were in existence prior to the date of such acquisition, merger, amalgamation or consolidation and were not incurred in anticipation thereof and do not extend to assets other than those acquired;
 - (j) Liens granted over the assets and properties of the Playa Vista Borrower to secure the Permitted Debt in Section 8.3(g);
 - (k) [reserved];
 - (l) Liens granted over the assets and properties of IMAX China Multimedia and/or IMAX China HK to secure the Permitted Debt in Section 8.3(i);
 - (m) Liens in favor of EDC over deposits of collateral given by Borrower in favor of EDC pursuant to the terms of the EDC Indemnity Agreement; provided that the Liens and interest of EDC in such collateral shall at all times be subject to and subordinate to any and all interests and Liens of Agent in such collateral;
 - (n) [reserved];
 - (o) Liens securing the Incremental Loans and/or Incremental Equivalent Debt so long as immediately after giving effect to the incurrence thereof the Senior Secured Net Leverage Ratio does not exceed 2.50:1.00 as demonstrated in writing (including with calculations of *pro forma* compliance with the Senior Secured Net Leverage Ratio) by Borrower to Agent prior to any such Lien being granted; provided that, such Liens are only on the Collateral and, such Liens are secured either (i) on a *pari passu* basis with respect to the Obligations, or (ii) on a junior basis with respect to the Obligations, and, additionally, in the case of all Liens securing Incremental Equivalent Debt, such Liens shall be subject to an Intercreditor Agreement, which such Intercreditor Agreement shall provide that any Liens securing such Incremental Equivalent Debt shall rank no higher in priority than the Liens securing the Obligations;
 - (p) Liens securing Permitted Debt not to exceed in the aggregate the greater of (i) \$50,000,000 and (ii) six percent (6%) of Consolidated Total Assets; provided that,

if such Liens are on the Collateral, such Liens shall be subject to an Intercreditor Agreement;

- (q) Liens securing Permitted Debt in Section 8.3(q);
- (r) [reserved];
- (s) any interest or title of a lessor or sublessor under any lease or sublease permitted hereunder;
- (t) (i) Liens solely on any cash earnest money deposits made by Borrower or any of its Subsidiaries in connection with any letter of intent or purchase agreement permitted hereunder or (ii) Liens on advances of cash or Cash Equivalents in favor of the seller of any property to be acquired in a Permitted Investment to be applied against the purchase price for such Permitted Investment;
- (u) purported Liens evidenced by the filing of precautionary PPSA and/or UCC financing statements relating solely to operating leases of personal property entered into in the ordinary course of business;
- (v) Liens in favor of customs and revenue authorities arising as a matter of Applicable Law to secure payment of customs duties in connection with the importation of goods;
- (w) any zoning or similar law or right reserved to or vested in any Governmental Authority to control or regulate the use of any real property and other land use restrictions, including, site plan agreements, development agreements and contract zoning agreements;
- (x) licenses of IP Rights granted by Borrower or any of its Subsidiaries in the ordinary course of business and not interfering in any respect with the ordinary conduct of the business of Borrower or such Subsidiary;
- (y) registered agreements with any municipal, provincial or federal governments or authorities and any public utilities or private suppliers of services, including subdivision agreements, development agreements, engineering, grading or landscaping agreements and similar agreements;
- (z) deposits made or other security provided in the ordinary course of business and the proceeds thereof to secure liability to insurance carriers for insurance premiums or under self-insurance arrangements in respect of such obligations;
- (aa) Liens that are contractual rights of set-off (i) relating to the establishment of depository relations with banks or other Persons not given in connection with the incurrence of Debt; (ii) relating to pooled deposit or sweep accounts of any Credit Party to permit satisfaction of overdraft or similar obligations incurred in the ordinary course of business of the Credit Parties; or (iii) relating to purchase orders

and other agreements entered into with customers of any Credit Party in the ordinary course of business; and

- (bb) Liens arising solely by virtue of any statutory or common law provision or customary business provision relating to banker's liens, rights of set off or similar rights.

8.3 Debt

Incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any Debt except:

- (a) the Obligations including obligations, liabilities and indebtedness under or in connection with Secured Hedge Agreements and the Secured Cash Management Agreements;
- (b) trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which such Credit Party is contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to it, and with respect to which adequate reserves have been set aside on its books;
- (c) purchase money Debt (including Capital Lease Obligations and any refinancings, extensions, renewals or replacements of such Debt) not to exceed in the aggregate the greater of (i) \$25,000,000 and (ii) three percent (3%) of Consolidated Total Assets, provided that such Debt does not exceed the cost of the acquired property *plus*, in the case of any such refinancings, extensions, renewals or replacements of such Debt, any accrued and unpaid interest thereon being refinanced, extended, renewed or replaced plus any other reasonable amounts paid and reasonable fees and expenses incurred in connection with such refinancing, extension, renewal or replacement;
- (d) the Debt set forth on Schedule 8.3(d) hereto, including any refinancings, extensions, renewals or replacements of such Debt; provided that any such refinancings extensions, renewals or replacements of such Debt shall not (i) include Debt of an obligor that was not an obligor with respect to the Debt being refinanced, extended, renewed or replaced or (ii) exceed in a principal amount the Debt and any accrued and unpaid interest thereon being refinanced, extended, renewed or replaced *plus* any other reasonable amounts paid and reasonable fees and expenses incurred in connection with such refinancing, extension, renewal replacement;
- (e) the Debt incurred pursuant to the BMO Facilities; provided that the Debt of Borrower under (i) the BMO LC Facility shall not exceed \$10,000,000, (ii) the Mastercard Facility shall not exceed CDN\$175,000 and (iii) the F/X Facility shall not exceed \$4,000,000, in each case, as may be replaced by Borrower;
- (f) the Debt and indemnity obligations incurred pursuant to the EDC Indemnity Agreement; provided that such Debt and indemnity obligations shall relate solely

to Indemnity Bonding Products (as defined in the EDC Indemnity Agreement) issued by EDC in support of the BMO LC Facility and not to exceed \$10,000,000 in the aggregate;

- (g) the Debt of the Playa Vista Borrower under the Playa Vista Credit Facility;
- (h) [reserved];
- (i) the Debt of IMAX Cayman, IMAX China Multimedia and/or IMAX China HK with respect to the IMAX China Credit Facility in an aggregate principal amount not to exceed \$10,000,000 and the Debt of Borrower with respect to the IMAX China Guarantee; provided that the amount guaranteed by Borrower pursuant to the IMAX China Guarantee shall count against the \$100,000,000 basket amount in Section 8.4(h);
- (j) intercompany Debt among Borrower and any Subsidiary to the extent permitted by Section 8.4(j);
- (k) [reserved];
- (l) Debt in an aggregate principal amount not to exceed, the greater of (i) \$100,000,000 and (ii) twelve percent (12%) of Consolidated Total Assets at the time of such incurrence;
- (m) (i) Debt in any amount so long as immediately after giving effect to the incurrence thereof the Total Net Leverage Ratio is less than or equal to 4.25:1.00 (the “**Ratio Debt Test**” and such Debt, “**Ratio Debt**”) as demonstrated in writing (including with calculations of *pro forma* compliance with the Total Net Leverage Ratio) by Borrower to Agent prior to any such incurrence being made; provided that Debt of a Subsidiary of Borrower (other than Credit Parties) permitted to be incurred pursuant to this clause (m) shall not exceed in the aggregate the greater of (A) \$50,000,000 and (B) six percent (6%) of Consolidated Total Assets and (ii) Permitted Refinancings of Ratio Debt subject to this clause (m);
- (n) the Debt of a Subsidiary acquired after the Closing Date or a Person merged into, amalgamated or consolidated with Borrower or any Subsidiary thereof after the Closing Date and Debt assumed in connection with any Permitted Investment and where, in each case, such acquisition, merger, amalgamation or consolidation is permitted by this Agreement, but only to the extent that such Debt (i) existed at the time such Person became a Subsidiary or the assets subject to such Debt were acquired, (ii) was not incurred in contemplation thereof and (iii) does not exceed in the aggregate the greater of (A) \$25,000,000 and (B) three percent (3%) of Consolidated Total Assets;
- (o) (i) Debt incurred to finance any Permitted Investment in any amount so long as immediately after giving effect to the incurrence thereof (A) Borrower would be permitted to incur at least \$1.00 of additional Debt pursuant to the Ratio Debt Test or (B) the Total Leverage Ratio would be less than immediately prior to such

Permitted Investment (“**Ratio Acquisitions Debt**”) as demonstrated in writing (including with calculations of *pro forma* compliance with the foregoing Ratio Debt Test and Total Leverage Ratio set forth in this clause) by Borrower to Agent prior to any such incurrence being made; provided that Debt of a Subsidiary of Borrower (other than Credit Parties) permitted to be incurred pursuant to this clause (o) shall not exceed in the aggregate the greater of (A) \$50,000,000 and (B) six percent (6%) of Consolidated Total Assets and (ii) Permitted Refinancings of Ratio Acquisitions Debt subject to clause (o);

- (p) Debt incurred to finance any Permitted Investment not to exceed in the aggregate, the greater of (i) \$50,000,000 and (ii) six percent (6%) of Consolidated Total Assets;
- (q) Debt of a Subsidiary of Borrower (other than a Credit Party) in an aggregate principal amount not to exceed the greater of (i) \$50,000,000 and (ii) six percent (6%) of Consolidated Total Assets;
- (r) Debt of joint ventures of Borrower and its Subsidiaries (or guarantees with respect thereto) not to exceed in the aggregate the greater of (i) \$75,000,000 and (ii) nine percent (9%) of Consolidated Total Assets;
- (s) Debt pursuant to financial guarantees and letters of credit to support Borrower’s operations in China and other financial guarantees in an aggregate amount to exceed \$25,000,000 (less all amounts incurred pursuant to Section 8.3(i));
- (t) guaranties in the ordinary course of business of the obligations of suppliers, customers, franchisees, lessors, licensees and sub-licensees of Credit Parties and their Subsidiaries;
- (u) any guarantee by any Credit Party or a Subsidiary thereof of Debt or other obligations of any other Credit Party or any of its Subsidiaries so long as the incurrence of such Debt or other obligations by such Credit Party or such Subsidiary is permitted under the terms of this Agreement;
- (v) Debt pursuant to the Playa Vista Guarantee;
- (w) Debt pursuant to the Hong Kong JV Guarantee (which shall count against the \$100,000,000 debt basket amount in Section 8.3(l));
- (x) [reserved];
- (y) Debt in the form of secured or unsecured term notes and/or term loans (and/or commitments in respect thereof) issued or incurred by Borrower in lieu of Incremental Term Loans (such term notes or term loans, “**Incremental Equivalent Debt**”); provided that, (i) the aggregate principal amount of such Incremental Equivalent Debt issued or incurred shall not exceed the aggregate principal amount of Incremental Loans permitted to be incurred under Section 2.6(a), (ii) any Incremental Equivalent Debt shall be subject to satisfaction of the requirements of

subclauses (i) and (ii) of Section 2.6(d), with all references to “Incremental Loan Commitments” and “Incremental Loan” being deemed to refer to “Incremental Equivalent Debt” and all references therein to “Increase Amount Date” being deemed to refer to the date of incurrence of such Incremental Equivalent Debt, (iii) any Incremental Equivalent Debt that is secured shall be secured only by the Collateral and on a *pari passu* or junior basis with the Collateral securing the Obligations and subject to an Intercreditor Agreement, which such Intercreditor Agreement shall provide that any Liens securing such Incremental Equivalent Debt shall rank no higher in priority than the Liens securing the Obligations, (iv) the incurrence of such Incremental Equivalent Debt shall be subject to the terms and conditions applicable to Incremental Term Loans set forth in Section 2.6(d)(vii) as if set forth in this Section 8.3(x) *mutatis mutandis*, (v) no Incremental Equivalent Debt may be guaranteed by any Person that is not a Credit Party or secured by any assets other than the Collateral, and (vi) prior to the incurrence of such Incremental Equivalent Debt, Borrower shall have delivered to Agent drafts of the documentation relating thereto (provided that at its option, Borrower may deliver a certificate to Agent in good faith at least five (5) Business Days prior to the incurrence of such Debt, together with a reasonably detailed description of the material terms and conditions of such Debt or drafts of the documentation relating thereto, stating that Borrower has determined in good faith that such terms and conditions satisfy the requirement set out in this clause (y), and such certificate shall be conclusive evidence that such terms and conditions satisfy such requirement unless Agent provides notice to Borrower of its objection during such five (5) Business Day period (including a reasonable description of the basis upon which it objects));

- (z) Debt incurred by Borrower or any of its Subsidiaries arising from agreements providing for indemnification, earn-outs, adjustment of purchase price or similar obligations, or from guaranties or letters of credit, surety bonds or performance bonds securing the performance of Borrower or any such Subsidiary pursuant to such agreements, in connection with Permitted Investments or permitted dispositions of any business, assets or Subsidiary of Borrower, in each case, to the extent not constituting debt for borrowed money;
- (aa) Debt of Borrower or any of its Subsidiaries which may be deemed to exist pursuant to any worker’s compensation claims, self-insurance obligations, guaranties, performance, surety, statutory, appeal, custom bonds or similar obligations incurred in the ordinary course of business;
- (bb) Debt of Borrower or any of its Subsidiaries in respect of cash management, cash pooling arrangements and related activities to manage cash balances of Borrower and its Subsidiaries and joint ventures including treasury, depository, overdraft, credit, purchasing or debit card, electronic funds transfer and other cash management arrangements, netting services, automatic clearinghouse arrangements, overdraft protections, employee credit card programs or otherwise in connection with deposit accounts or securities accounts incurred in the ordinary course of business;

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- (cc) Debt in respect of Hedge Agreements incurred in the ordinary course of business and not for speculative purposes; and
 - (dd) Debt incurred by a Subsidiary in connection with bankers' acceptances, discounted bills of exchange or the discounting or factoring of receivables for credit management purposes, in each case incurred or undertaken in the ordinary course of business on arm's-length commercial terms.

8.4 Investments

Directly or indirectly, without the prior written consent of Required Lenders which is not to be unreasonably withheld, make any loans or advance money or property to any person, or invest in (by capital contribution, dividend or otherwise) or purchase or repurchase the Equity Interests or Debt or all or a substantial part of the assets or property of any person, or agree to do any of the foregoing (each, an "Investment"), except for:

- (a) the endorsement of instruments for collection or deposit in the ordinary course of business;
- (b) investments in cash and Cash Equivalents;
- (c) equity Investments owned as of the Closing Date in any Subsidiary and other Investments outstanding on the Closing Date, in each case, set forth on Schedule 8.4 hereto;
- (d) investments in joint ventures with strategic partners for the purpose of advancing Borrower's business; provided that such investments in such joint ventures, whether direct or indirect, shall not, at any time and in the aggregate exceed the greater of (A) \$75,000,000 and (B) nine percent (9%) of Consolidated Total Assets and such investments shall not be made if an Event of Default exists and is continuing or would occur as result thereof (determined upon the earlier to occur of (x) the execution of definitive documentation with respect to such investment and (y) such investment);
- (e) loans or advances of money to affiliates in the ordinary course of Borrower's business with the proceeds of issuance of Equity Interests (other than Disqualified Equity Interests) of Borrower, provided that such proceeds are used in the ordinary course of business and shall not, for further clarity, be subject to any other restrictions on use contained herein;
- (f) payments to employees in connection with the repurchase of phantom stock (including stock appreciation rights) in the ordinary course of business; provided that such payments with respect to the repurchase of phantom stock (including stock appreciation rights) not in existence on the Closing Date shall not exceed, together with amounts paid under Section 8.5(c), \$1,000,000 *per annum*;
- (g) payments to counterparties under or in connection with Hedge Agreements;

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- (h) other Investments made after the Closing Date in an aggregate principal amount not to exceed the greater of (i) \$100,000,000 and (ii) twelve percent (12%) of Consolidated Total Assets so long as no Event of Default exists and is continuing or would occur as a result thereof (determined upon the earlier to occur of (x) the execution of definitive documentation with respect to such Investment and (y) such Investment;
 - (i) loans or advances of money from a Credit Party to another Credit Party whose assets and properties are subject to the first priority Liens of Agent (subject to Permitted Liens);
 - (j) (i) Borrower and any Subsidiary may make intercompany loans to and other investments in Credit Parties, (ii) any Subsidiary (other than a Credit Party) may make intercompany loans to and other investments in any Credit Party or any Subsidiary so long as in the case of such intercompany loans to Credit Parties, all payment obligations of the respective Credit Parties are subordinated to their Obligations under the Financing Agreements on terms reasonably satisfactory to Agent, (iii) the Credit Parties may make intercompany loans to, and other Investments in, Subsidiaries that are not Credit Parties so long as the aggregate amount of outstanding loans and other Investments made pursuant to this subclause (iii) does not exceed the greater of \$50,000,000 and six percent (6%) of Consolidated Total Assets and the proceeds were incurred as Permitted Debt pursuant to Section 8.3(q), (iv) any Subsidiary that is not a Credit Party may make intercompany loans to, and other Investments in, any other Subsidiary that is also not a Credit Party and (v) Credit Parties may make intercompany loans and other Investments in any Subsidiary that is not a Credit Party so long as such intercompany loans and other Investment is part of a series of simultaneous intercompany loans and other Investments by Subsidiaries in other Subsidiaries that simultaneously results in the proceeds of the initial intercompany loan and other Investment being made to or invested in one or more Credit Parties;
 - (k) [reserved];
 - (l) [reserved];
 - (m) [reserved];
 - (n) the IMAX Film Fund Put; provided that the fair market value to be paid by Borrower or its Subsidiary for pictures under the IMAX Film Fund Put shall be the fair market value thereof determined in accordance with the terms in the IMAX Film Fund Put, including that any appraiser determining fair market value in connection therewith shall be an investment bank or other entity experienced in determining the value of film assets; and
 - (o) the \$4,000,000 preferred share investment by IMAX HK in IMAX China HK;
 - (p) Investments in any amount so long as (i) immediately after giving effect to such Investment the Total Net Leverage Ratio is equal to or less than 2:75:1.00 as

demonstrated in writing (including with calculations of *pro forma* compliance with the Total Net Leverage Ratio) by Borrower to Agent prior to any such Investment being made and (ii) no Event of Default exists and is continuing or would occur as a result thereof (determined upon the earlier to occur of (A) the execution of definitive documentation with respect to such Investment and (B) the making of such Investment);

- (q) loans to employees not to exceed in the aggregate the greater of (i) \$2,500,000 and (ii) one percent (1%) of Consolidated Total Assets and so long as no Event of Default exists and is continuing or would occur as a result thereof;
- (r) Acquisitions of any single purpose Subsidiaries for the purpose of entering into the joint ventures and the third party productions permitted pursuant to Section 8.4(d) and (h) hereof;
- (s) Deposits, prepayments and other credits to suppliers made in the ordinary course of business consistent with the past practices of Borrower and its Subsidiaries;
- (t) extensions of trade credit in the ordinary course of business;
- (u) Investments of any Person in existence at the time such Person becomes a Subsidiary; provided that such Investment was not created in anticipation of such Person becoming a Subsidiary;
- (v) Investments made in the ordinary course and resulting from pledges and deposits referred to in Section 8.2(h); and
- (w) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or purchases of contract rights or licenses or leases of intellectual property, in each case in the ordinary course of business.

Any Future Permitted Transaction by Borrower and any investment, license, purchase or other transaction reasonably related thereto and in furtherance thereof shall be permitted hereunder and the amount of any such investment, license, purchase or other transaction shall not be included in (or count against) any of the foregoing basket amounts described in this Section 8.4.

8.5 Restricted Payments

Directly or indirectly, declare or pay any dividends on account of any of its Equity Interests now or hereafter outstanding, or redeem, retire, defease, purchase or otherwise acquire any of its Equity Interests, or make any other distribution (by reduction of capital or otherwise) in respect of any such Equity Interests (each, a "**Restricted Payment**") with the exception that:

- (a) wholly-owned Subsidiaries of a Subsidiary may pay cash dividends or distributions to such Subsidiary;

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- (b) non wholly-owned Subsidiaries of a Subsidiary may pay cash dividends or distributions to such Subsidiary and its other shareholders provided such Credit Party receives its ratable share of such dividends or distributions;
 - (c) Credit Parties and their Subsidiaries may redeem or purchase their respective Equity Interests which are held by any current, future or former officers, directors or employees of such Person not to exceed, together with amounts paid under Section 8.4(f), \$1,000,000 *per annum*;
 - (d) Credit Parties and their Subsidiaries may make Restricted Payments if made by way of Qualified Equity Interests only;
 - (e) Borrower may make Restricted Payments in any amount so long as (i) immediately after giving effect thereto the Total Net Leverage Ratio is equal to or less than 2.75:1.00 and (ii) in each case no Default or Event of Default exists and is continuing or would occur as a result thereof;
 - (f) [reserved];
 - (g) [reserved];
 - (h) IMAX Cayman may make Restricted Payments not to exceed in the aggregate in any calendar year the greater of (i) \$25,000,000 and (ii) 3% of Consolidated Total Assets and with the ability to carry-over any unused amount in a calendar year for the next two (2) succeeding calendar years so long as in each case no Default or Event of Default exists and is continuing or would occur as a result thereof;
 - (i) Credit Parties and their Subsidiaries may redeem or purchase their respective Equity Interests which are held by current, future or former officers, directors or employees of such Person in an amount not to exceed in the aggregate \$25,000,000 in any calendar year with the ability to carry-over any unused amount in a calendar year for the next two (2) succeeding calendar years so long as in each case no Default or Event of Default exists and is continuing or would occur as a result thereof;
 - (j) Credit Parties and their Subsidiaries may redeem or purchase their respective Equity Interests not to exceed in the aggregate in any calendar year the greater of (i) \$125,000,000 and (ii) fifteen percent (15%) of Consolidated Total Assets and with the ability to carry-over any unused amount in a calendar year for the next two (2) succeeding calendar years so long as in each case no Default or Event of Default exists and is continuing or would occur as a result thereof;
 - (k) Credit Parties and their Subsidiaries may make Restricted Payments not to exceed in the aggregate the greater of (i) \$100,000,000 and (ii) 12% of Consolidated Total Assets so long as in each case no Default or Event of Default exists and is continuing or would occur as a result thereof; and

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- (l) Credit Parties and their Subsidiaries may make Restricted Payments in connection with the purchase of fractional shares of its common stock arising out of stock dividends, splits or combinations or business combinations.

8.6 Transactions with Affiliates

Directly or indirectly, (a) purchase, acquire or lease any property from, or sell, transfer or lease any property to, any officer, director, agent or other person affiliated with it, except in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms no less favorable to it than it would obtain in a comparable arm's length transaction with an unaffiliated person or (b) make any payments of management, consulting or other fees for management or similar services, or of any Debt (including under the USERP) owing to any officer, employee, shareholder, director or other person affiliated with it except (i) reasonable compensation to officers, employees and directors for services rendered to it in the ordinary course of business and (ii) payments to Bradley J. Wechsler and Richard L. Gelfond in accordance with the USERP.

8.7 [Reserved]

8.8 [Reserved]

8.9 No Material Changes

(a) Change its Fiscal Quarters or its Fiscal Year, (b) make any material change to its business or the conduct thereof from that existing or being conducted as of the Closing Date, other than changes that would not be reasonably expected to have a Material Adverse Effect or (c) make any material changes to its accounting policies in effect as of the Closing Date, except as required or permitted by GAAP.

8.10 No Further Negative Pledges; Restrictive Agreements

- (a) Enter into, assume or be subject to any agreement prohibiting or otherwise restricting the creation or assumption of any Lien upon its properties or assets (including contractual provisions restricting the assignability thereof to Agent or to an assignee thereof upon exercise by Agent of any rights or remedies set forth in the Financing Agreements or at law) or requiring the grant of any security for such obligation if security is given for some other obligation, except (i) pursuant to this Agreement and the other Financing Agreements, (ii) pursuant to any document or instrument governing Debt incurred pursuant to Section 8.3(c); provided, that any such restriction contained therein relates only to the asset, properties or interests acquired in connection therewith, (iii) restrictions in connection with any Permitted Lien or any document or instrument governing any Permitted Lien (provided, that any such restriction contained therein relates only to the asset or properties subject to such Permitted Lien); (iv) pursuant to any document or instrument governing Permitted Debt; (v) restrictions by reason of customary provisions restricting assignments, subletting or other transfers contained in leases, licenses and similar agreements entered into in the ordinary course of business (provided that such restrictions are limited to the property or assets secured by such Liens or the

property or assets subject to such leases, licenses or similar agreements, as the case may be); (vi) customary provisions contained in joint venture agreements and other similar agreements applicable to joint ventures (to the extent only affecting the assets of, or the Equity Interests in, each such joint venture); and (vii) any agreement in effect at the time any Person becomes a Subsidiary (to the extent only affecting the assets of, or the Equity Interests in, each such Person), so long as such agreement was not entered into in contemplation of such Person becoming a Subsidiary; provided, that this Section 8.10(a) shall not apply to any Subsidiaries that are not Credit Parties and are not required to become Credit Parties hereunder.

- (b) Create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Credit Party or any Subsidiary thereof to (i) pay dividends or make any other distributions to any Credit Party or any Subsidiary on its Equity Interests, (ii) pay any obligations, liabilities and indebtedness owed to any Credit Party, (iii) make loans or advances to any Credit Party, (iv) sell, lease or transfer any of its properties or assets to any Credit Party or (v) act as a Guarantor pursuant to the Financing Agreements, except (in respect of any of the matters referred to in clauses (i) through (v) above) for such encumbrances or restrictions existing under or by reason of (A) this Agreement and the other Financing Agreements, (B) Applicable Law, (C) any document or instrument governing Debt incurred pursuant to Section 8.3(c) (provided, that any such restriction contained therein relates only to the asset or properties acquired in connection therewith), (D) any Permitted Lien or any document or instrument governing any Permitted Lien (provided, that any such restriction contained therein relates only to the asset or properties subject to such Permitted Lien), (E) obligations that are binding on a Subsidiary at the time such Subsidiary first becomes a Subsidiary of a Credit Party, so long as such obligations are not entered into in contemplation of such Person becoming a Subsidiary, (F) any document or instrument governing Permitted Debt, (G) customary provisions restricting assignments, subletting or other transfers contained in leases, licenses, joint venture agreements and similar agreements entered into in the ordinary course of business, (H) customary encumbrances or restrictions that are or were created by virtue of any transfer of, agreement to transfer or option or right with respect to any property, assets or Equity Interests not otherwise prohibited under this Agreement, (I) customary encumbrances or restrictions contained in contracts or agreements for the sale of assets applicable to such assets pending consummation of such sale, including customary restrictions with respect to a Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Equity Interests or assets of such Subsidiary, (J) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business, (K) customary provisions in (i) joint venture agreements entered into in the ordinary course of business with respect to the Equity Interests subject to the joint venture and (ii) operating or other similar agreements, asset sale agreements and stock sale agreements entered into in connection with the entering into of such transaction, which limitation is applicable only to the assets that are the subject of those agreements, (L) customary net worth and similar

provisions in leases for real property and (M) described in the definition of “Material Subsidiary”.

ARTICLE 9
FINANCIAL COVENANT

9.1 Maximum Senior Secured Net Leverage Ratio

Borrower shall not permit the Senior Secured Net Leverage Ratio as of the last day of any Fiscal Quarter to be greater than 3.25:1.00 (which ratio will be increased by 0.5x to 3.75:1.00 for the four (4) consecutive Fiscal Quarters following a Material Acquisition), which shall be calculated and tested on the last day of each Fiscal Quarter on a trailing four (4) Fiscal Quarter basis.

ARTICLE 10
EVENTS OF DEFAULT AND REMEDIES

10.1 Events of Default

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

- (a) Borrower fails to (i) pay any principal due and payable hereunder; (ii) any interest on any Loan or any fee or any other amount due hereunder within three (3) Business Days after the date due; or (iii) perform any of the covenants contained in Section 9.1 of this Agreement;
- (b) any Credit Party or any Subsidiary thereof fails to:
 - (i) perform any of the covenants contained in Sections 7.1 (with respect to the Credit Parties), 8.1, 8.2, 8.3, 8.4, 8.5 or 8.6 of this Agreement, where such failure to perform is not remedied to the satisfaction of Agent, in its sole discretion, within 3 days of such failure to perform; or
 - (ii) perform any other terms, covenants, conditions or provisions contained in this Agreement or any of the other Financing Agreements, where such failure to perform is not remedied to the satisfaction of Agent or waived by Agent, in its sole discretion, within 30 days from receipt by any Credit Party of notice by Agent;
- (c) any representation or warranty made by or on behalf of any Credit Party hereunder or under any other Financing Agreement proves to be false or inaccurate (i) in any material respect when made if not subject to materiality or Material Adverse Effect qualifications or (ii) in any respect if subject to materiality or Material Adverse Effect qualifications, and in each case same is not remedied to the satisfaction of Agent or waived by Agent, in its sole discretion, within 15 days from receipt by any Credit Party of notice by Agent;

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- (d) any Credit Party shall contest the validity or enforceability of any Financing Agreement in writing or deny in writing that it has any liability, including with respect to future advances by Lenders, under any Financing Agreement to which it is a party;
 - (e) [reserved];
 - (f) (i) any final non-appealable judgment for the payment of money is rendered against any Credit Party or any Subsidiary thereof in excess of \$25,000,000 in the aggregate and (A) shall remain undischarged or unvacated for a period in excess of 60 days or (B) execution shall at any time not be effectively stayed; or (ii) any final non-appealable judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against any Credit Party or any Subsidiary thereof or any of their assets that could reasonably be expected to have a Material Adverse Effect and (A) shall remain undischarged or unvacated for a period in excess of 60 days or (B) execution shall at any time not be effectively stayed; provided that, in each case of clause (i) and (ii), no Event of Default shall occur if (x) the applicable judgment is paid, (y) the applicable judgment is covered by third-party insurance as to which the insurer has been notified of such judgment and has not denied full coverage thereof in writing to such Credit Party or Subsidiary or (z) the applicable judgment is covered by an enforceable indemnity by an arms-length third party, to the extent that such Credit Party or Subsidiary shall have made a claim for indemnification and the applicable indemnifying party shall not have disputed such claim;
 - (g) [reserved];
 - (h) [reserved];
 - (i) an Insolvency Proceeding is filed or commenced against any Credit Party or Material Subsidiary thereof or all or any part of its properties and (i) such Insolvency Proceeding is not dismissed within 60 days after the date of its filing, or (ii) any Credit Party or Material Subsidiary thereof shall file any answer admitting or not contesting such Insolvency Proceeding or indicates in writing its consent to, acquiescence in or approval of, any such Insolvency Proceeding or (iii) the relief requested is granted by a court of competent jurisdiction;
 - (j) an Insolvency Proceeding is filed or commenced by any Credit Party or Material Subsidiary thereof for all or any part of its property including if any Credit Party or Material Subsidiary shall:
 - (i) apply for or consent to the appointment of a receiver, trustee or liquidator of it or of all or a substantial part of its property and assets;
 - (ii) be unable, or admit in writing its inability, to pay its debts as they mature, or commit any other act of bankruptcy;
 - (iii) make a general assignment for the benefit of creditors;

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- (iv) file a voluntary petition or assignment in bankruptcy or a proposal seeking a reorganization, compromise, moratorium or arrangement with its creditors;
 - (v) take advantage of any Insolvency Law pertaining to arrangements, moratoriums, compromises or reorganizations, or admit the material allegations of a petition or application filed in respect of it in any Insolvency Proceeding; or
 - (vi) take any corporate action for the purpose of effecting any of the foregoing;
- (k)
- (i) any failure of any Credit Party or any Subsidiary thereof to pay when due any principal of or interest on or any other amount payable in respect of one or more items of Debt (other than with respect to the Obligations hereunder, by Borrower under the Playa Vista Guarantee or by Playa Vista Borrower under the Playa Vista Credit Facility) in an aggregate principal amount in excess of \$25,000,000, which failure continues for more than the applicable cure period, if any, with respect thereto; or
 - (ii) any default by any Credit Party or any Subsidiary thereof with respect to any other term of (A) one or more items of Debt in the aggregate principal amount referred to in clause (i) above or (B) any agreement, document or instrument relating to such item(s) of Debt, in each case after the expiration of the applicable cure period, if any, with respect thereto, if the effect of such default is to cause, or to permit the holder or holders of that Debt, to cause that Debt to become or be declared due and payable (or redeemable) prior to its stated maturity or the stated maturity of any underlying obligation, as the case may be; provided that this clause (k)(ii) shall not apply to (x) secured Debt that becomes due as a result of the sale or transfer or other disposition of the property or assets securing such Debt permitted hereunder and under the documents providing for such Debt and such Debt is repaid when required under the documents providing for such Debt or (y) events of default, termination events or any other similar event under the documents governing Hedge Agreements for so long as such event of default, termination event or other similar event does not result in the occurrence of an early termination date or any acceleration or prepayment of any amounts or other Debt payable thereunder;
- (l) [reserved];
- (m) any acquisition of Control or change in the Controlling ownership of Borrower, if any, which may reasonably be expected to have a Material Adverse Effect;
- (n) [reserved];
- (o) any Lien created by a Financing Agreement shall cease to be a valid and perfected first priority Lien (except for Permitted Liens) in favor of Agent in any material

amount of the collateral purported to be covered thereby for any reason other than the failure of Agent or any Secured Party to take any action within its control; or

- (p) an ERISA Event shall occur which results in or would reasonably be expected to result in a Material Adverse Effect.

10.2 Remedies

- (a) At any time an Event of Default has occurred and is continuing, Agent shall (at the request of, or may, with the consent of, the Required Lenders) have all rights and remedies provided in the Financing Agreements, the PPSA, UCC and other Applicable Law, all of which rights and remedies may be exercised without notice to or consent by any Credit Party, except as such notice or consent is expressly provided for hereunder or required by Applicable Law. All rights, remedies and powers granted to Agent and Lenders under any of the Financing Agreements, the PPSA, UCC or other Applicable Law, are cumulative, not exclusive and enforceable, in Agent's or Lenders' discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by any Credit Party of any of the Financing Agreements. Agent shall (at the request of, or may, with the consent of, the Required Lenders) at any time or times, proceed directly against any Credit Party to collect the Obligations (except under or in connection with Secured Hedge Agreements (which shall be collected in accordance with the terms thereof)) without prior recourse to the Collateral.
- (b) Without limiting the foregoing and subject to Section 10.2(c) hereof, upon the occurrence and continuation of any Event of Default, upon notice to Borrower by Agent, Agent shall (at the request of, or may, with the consent of, the Required Lenders): (i) accelerate the payment of all outstanding Obligations (other than Obligations in connection with Secured Hedge Agreements which may be terminated in accordance with their own terms) (provided that, upon the occurrence of any Event of Default described in Section 10.1(i) or 10.1(j), all such outstanding Obligations shall automatically become due and payable without notice to Borrower or demand by Agent) and demand immediate payment thereof to Agent; (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral and carry on the business of any Credit Party; (iii) require each Credit Party, at such Credit Party's expense, to assemble and make available to Agent any part or all of the Collateral at any place and time designated by Agent; (iv) collect, foreclose, receive, appropriate, set-off and realize upon any and all Collateral; (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose; (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Agent or elsewhere) at such prices or terms as Agent may

deem reasonable, for cash, upon credit or for future delivery, with Agent having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of any Credit Party, which right or equity of redemption is hereby expressly waived and released by each Credit Party; (vii) without limiting clause (vi), grant a general, special or other license in respect of any aspect of the Collateral on an exclusive or non-exclusive basis to any person throughout the world or any part of it and on such terms and on such conditions as Agent may consider appropriate; (viii) enforce against any licensee or other person all rights and remedies of each Credit Party with respect to all or any part of the Collateral, and take or refrain from taking any action that any Credit Party might take with respect to any of those rights and remedies, and for this purpose Agent shall have the exclusive right to enforce or refrain from enforcing those rights and remedies, and may in the name of any Credit Party and at its expense retain and instruct counsel and initiate any court or other proceeding that Agent considers necessary or expedient; (ix) take any step necessary to preserve, maintain or insure the whole or any part of the Collateral or to realize upon any of it or to put it in vendable condition, and any amount paid as a result of any taking any such steps shall be a cost the payment of which is secured by the Financing Agreements; (x) borrow money and use the Collateral directly or indirectly in carrying on any Credit Party's business or as security for loans or advances for any such purposes; (xi) require each Credit Party to immediately begin using commercially reasonable efforts to obtain all consents and to provide all notices which may be required to permit Agent to assign any agreement or contract; (xii) grant extensions of time and other indulgences, take and give up security, accept compositions, grant releases and discharges, and otherwise deal with any Credit Party, debtors of any Credit Party, sureties and others as Agent may see fit without prejudice to the liability of any Credit Party or Agent's right to hold and realize the security interest created under any Financing Agreement; and/or (xiii) terminate this Agreement. If any of the Collateral is sold or leased by Agent upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Agent. If notice of disposition of Collateral is required by law, ten (10) days prior notice by Agent to Borrower designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and each Credit Party waives any other notice. In the event Agent institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, each Credit Party waives the posting of any bond which might otherwise be required.

(c) Notwithstanding anything to the contrary contained in this Section 10.2:

- (i) for the duration of the IP Grace Period, Agent shall not be permitted to enforce its security interest against the IP Collateral, or to exercise its rights under Section 10.2(b) with respect to the IP Collateral hereof except as permitted pursuant to the IP Collateral License Agreement;

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- (ii) for the duration of the IP Grace Period, Borrower shall be permitted to use the IMAX name to carry on business;
 - (iii) upon the commencement of the IP Grace Period, Agent shall have, pursuant to the IP Collateral License Agreement, a royalty-free, freely assignable perpetual license to use the IP Collateral required to enable Agent to perform the obligations of Borrower under any contract or agreement;
 - (iv) upon the commencement of the IP Grace Period, Agent may sell, transfer, assign and/or otherwise dispose of the Collateral, other than the IP Collateral, to any transferee or assignee in accordance with the terms of the Financing Agreements; and
 - (v) subsequent to the expiry of the IP Grace Period, provided that an Event of Default is then continuing, Agent may sell, transfer, assign and/or otherwise dispose of any of the IP Collateral up to a maximum amount equal to the outstanding Obligations together with all costs, charges and expenses incurred by Agent as a result of enforcing against the IP Collateral and Borrower hereby irrevocably designates and appoints Agent (and any officer or agent thereof) as Borrower's true and lawful attorney-in-fact and authorizes Agent (and any officer or agent thereof) to effect the foregoing.
- (d) Agent may apply the cash proceeds of Collateral actually received by Agent from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations in the order set forth in Section 5.3(b).
 - (e) [Reserved].
 - (f) Without limiting the foregoing, (1) upon the occurrence of any Event of Default described in Section 10.1(i) or 10.1(j), automatically, Agent shall (at the request of, or may, with the consent of, the Required Lenders), and (2) upon the occurrence and continuation of any other Event of Default, upon notice to Borrower by Agent, Agent shall (at the request of, or may, with the consent of, the Required Lenders), (i) cease making Loans or arranging Letter of Credit Accommodations, (ii) terminate any provision of this Agreement providing for any future Loans or Letter of Credit Accommodations to be made by Lenders to Borrower and/or (iii) appoint, remove and reappoint any person or persons, including an employee or agent of Agent or a Lender to be a receiver (the "**Receiver**") which term shall include a receiver and manager of, or agent for, all or any part of the Collateral (and such Receiver shall have all of the powers and rights of Agent described in this Section 10.2 and Agent may, either directly or through its agents or nominees, exercise any or all powers and rights of a Receiver).
 - (g) [Reserved.]
 - (h) Where Agent realizes upon any of the Collateral, and in particular upon any of the IP Collateral, to the extent permitted or not prohibited by any agreements relating to such IP Collateral, each Credit Party shall provide without charge its know-how

and expertise relating to the use and application of the Collateral, and in particular shall instruct Agent, and any purchaser of the Collateral designated by Agent, concerning any IP Collateral including any confidential information or trade secrets of such Credit Party. For greater certainty, the parties agree that unless such confidential information or trade secrets form part of the Collateral being realized upon, such confidential information or trade secrets shall be provided for use only subject to any agreement regarding the confidentiality thereof or for the protection thereof as may be reasonably requested by a Credit Party.

- (i) [Reserved].
- (j) Each Credit Party hereby irrevocably designates and appoints Agent (and any officer or agent thereof) as such Credit Party's true and lawful attorney-in-fact, and authorizes Agent, in such Credit Party's or Agent's name, to: (a) at any time an Event of Default has occurred and is continuing: (i) demand payment on Accounts or other proceeds of the Collateral, (ii) enforce payment of Accounts by legal proceedings or otherwise, (iii) exercise all of such Credit Party's rights and remedies to collect any Account or other Collateral, (iv) sell or assign any Account upon such terms, for such amount and at such time or times as Agent deems advisable, (v) settle, adjust, compromise, extend or renew an Account, (vi) discharge and release any Account, (vii) prepare, file and sign such Credit Party's name on any proof of claim in bankruptcy or other similar document against an account debtor, (viii) notify the post office authorities to change the address for delivery of such Credit Party's mail to an address designated by Agent, and open and dispose of all mail addressed to such Credit Party, (ix) do all acts and things which are necessary, in Agent's determination, to fulfill such Credit Party's obligations under the Financing Agreements, (x) have access to any lockbox or postal box into which such Credit Party's mail is deposited, (xi) endorse such Credit Party's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Account or any goods pertaining thereto or any other Collateral, (xii) sign such Credit Party's name on any verification of Accounts and notices thereof to account debtors, (xiii) endorse such Credit Party's name upon any items of payment or proceeds thereof and deposit the same in Agent's account for application to the Obligations; and (xiv) take control in any manner of any item of payment or proceeds thereof; and (b) at any time, to execute in such Credit Party's name and file any PPSA, UCC or other financing statements or amendments thereto in respect of the security interests granted to Agent pursuant to any of the Financing Agreements if such Credit Party has not done so within two (2) days from Agent's request. Neither Agent nor its officers, employees and agents shall be responsible to any Credit Party from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Agent's own gross negligence or willful misconduct or the gross negligence or willful misconduct of its officers, employees or agents, in each case, as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

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

ARTICLE 11
ASSIGNMENT AND PARTICIPATIONS: APPOINTMENT OF AGENT

11.1 Assignment and Participations

- (a) Subject to and in accordance with the terms of this Section 11.1, any Lender may make an assignment or a sale of participations in, at any time or times, the Financing Agreements, any Loans and any Commitment or any portion thereof or interest therein, including any Lender's rights, title, interests, remedies, powers or duties thereunder. Any assignment by a Lender shall:
- (i) be in a minimum amount of \$5,000,000 with respect to Revolving Loans and \$1,000,000 with respect to Term Loans;
 - (ii) require the consent of Agent, Issuing Lender, Swingline Lender and Borrower; provided that:
 - (A) such consent is not to be unreasonably withheld, conditioned or delayed;
 - (B) the consent of Issuing Lender and Swingline Lender shall not be required with respect to assignments of Term Loans;
 - (C) the consent of Borrower shall not be required if:
 - (1) a Payment/Insolvency Event of Default has occurred and is continuing;
 - (2) such assignment is to an Eligible Transferee; or
 - (3) Borrower does not object to such assignment within ten (10) Business Days of receipt of notice of such assignment;

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- (iii) not be to a Prohibited Transferee;
 - (iv) be effected by the execution of an Assignment and Assumption Agreement;
 - (v) be conditioned on such assignee Lender representing to the assigning Lender and Agent that it is purchasing the Loans to be assigned to it for its own account, for investment purposes and not with a view to the distribution thereof; and
 - (vi) include a payment from such assignee to Agent of an assignment fee of \$3,500.

In the case of an assignment by a Lender under this Section 11.1, the assignee shall have, to the extent of such assignment, the same rights, benefits and obligations as all other Lenders hereunder. The assigning Lender shall be relieved of its obligations hereunder with respect to its Commitment or assigned portion thereof from and after the date of such assignment. Borrower hereby acknowledges and agrees that any assignment shall give rise to a direct obligation of Borrower to the assignee and that the assignee shall be considered to be a “**Lender**” hereunder. In all instances, each Lender’s liability to make Loans hereunder shall be several and not joint and shall be limited to such Lender’s Pro Rata Share of the Commitment. In the event any Lender assigns or otherwise transfers all or any part of the Obligations, such Lender shall provide prior notice to Borrower and Borrower shall, upon the request of Agent or such Lender, execute new notes in exchange for the notes, if any, being assigned. Borrower agrees from time to time to execute notes (in form and substance satisfactory to Agent, acting reasonably) evidencing the Loans if requested by Agent. Notwithstanding the foregoing provisions of this Section 11.1(a), any Lender may at any time pledge the Obligations held by it and such Lender’s rights under this Agreement and the other Financing Agreements to a Federal Reserve Bank, the Bank of Canada or the Canada Deposit Insurance Corporation or foreign equivalent; provided, that no such pledge shall release such Lender from such Lender’s obligations hereunder or under any other Financing Agreement or substitute any such pledgee or assignee for such Lender as a party hereto.

- (b) Any sale of a participation by a Lender of all or any part of its Commitment or Loans shall be made with the understanding that all amounts payable by Borrower hereunder shall be determined as if that Lender had not sold such participation, and that the holder of any such participation shall not be entitled to require such Lender to take or omit to take any action hereunder except actions directly affecting (i) any reduction in the principal amount of, or interest rate or fees payable with respect to any Loan in which such holder participates, (ii) any extension of the scheduled amortization of the principal amount of any Loan in which such holder participates or the final maturity date thereof, and (iii) any release of all or substantially all of the Collateral (other than in accordance with the terms of this Agreement or the other Financing Agreements). Neither Agent nor any Lender (other than a Lender selling a participation) shall have any duty to any participant and may continue to

deal solely with Lenders selling a participation as if no such sale had occurred. No consent of Borrower, Agent or Issuing Lender is required with respect to the sale of a participation by a Lender of all or any part of its Commitment or Loans; provided that each Lender shall provide Agent and Borrower with prior written notice of each sale of a participation. No sale of a participation by a Lender of all or any part of its Commitment or Loans shall be made to a Prohibited Transferee.

- (c) Each Credit Party shall assist any Lender permitted to sell assignments or participations under this Section 11.1 as reasonably required to enable the assigning or selling Lender to effect any such assignment or participation, including the execution and delivery of any and all agreements, notes and other documents and instruments as shall be requested, the preparation of informational materials for, and the participation of management in meetings with, potential assignees or participants. Each Credit Party shall certify the correctness, completeness and accuracy of all descriptions of it and its respective affairs contained in any selling materials provided by it and all other information provided by it and included in such materials.
- (d) A Lender may furnish any information concerning a Credit Party in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants), in each case, other than to any Prohibited Transferee, provided such Persons agree to maintain the confidentiality of such information in accordance with Section 7.11(b).
- (e) No Credit Party may assign its rights under the Financing Agreements and any other document referred to herein or therein without the prior written consent of Agent and all Lenders.

11.2 Appointment of Agent

- (a) Agent is hereby appointed to act on behalf of Secured Parties as Agent under this Agreement and the other Financing Agreements. The provisions of this Section 11.2 are solely for the benefit of Agent and Lenders and neither any Credit Party nor any other Person shall have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement and the other Financing Agreements, Agent shall act solely as an agent of Secured Parties and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for any Credit Party or any Person other than Secured Parties. Agent shall have no duties or responsibilities except for those expressly set forth in this Agreement and the other Financing Agreements. The duties of Agent shall be mechanical and administrative in nature and Agent shall not have, or be deemed to have, by reason of this Agreement, any other Financing Agreement or otherwise a fiduciary relationship in respect of any Secured Party. Except as expressly set forth in this Agreement and the other Financing Agreements, Agent shall not have any duty to disclose, and shall not be liable for failure to disclose, any information relating to any Credit Party or any of their respective Subsidiaries that is communicated to or obtained by

Agent or any of its affiliates in any capacity. Neither Agent nor any of its affiliates nor any of their respective officers, directors, employees, agents or representatives shall be liable to any Secured Party for any action taken or omitted to be taken by it hereunder or under any other Financing Agreement, or in connection herewith or therewith, except for damages caused by its or their own gross negligence or willful misconduct as determined by a final and non-appealable judgment or court order binding on them.

- (b) If Agent shall request instructions from all Lenders, all affected Lenders or Required Lenders, as the case may be, with respect to any act or action (including failure to act) in connection with this Agreement or any other Financing Agreement, then Agent shall be entitled to refrain from such act or taking such action unless and until Agent shall have received instructions from all Lenders, all affected Lenders or Required Lenders, as the case may be, and Agent shall not incur liability to any Person by reason of so refraining. Agent shall be fully justified in failing or refusing to take any action hereunder or under any other Financing Agreement (i) if such action would, in the opinion of Agent, be contrary to law or the terms of this Agreement or any other Financing Agreement; (ii) if such action would, in the opinion of Agent, expose Agent to liabilities under Environmental Laws; or (iii) if Agent in good faith believes such action would expose it to personal liability unless such Agent receives an indemnification satisfactory to it from Lenders and Issuing Lenders with respect to such action. Without limiting the foregoing, no Secured Party shall have any right of action whatsoever against Agent as a result of Agent acting or refraining from acting hereunder or under any other Financing Agreement in accordance with the instructions of all Lenders, all affected Lenders or Required Lenders, as the case may be.

11.3 Agent's Reliance, Etc.

Agent: (i) may treat the payee of any note as the holder thereof until Agent receives written notice of the assignment or transfer thereof signed by such payee and in form reasonably satisfactory to Agent; (ii) may consult with legal counsel, independent public accountants and other experts selected by it; (iii) makes no warranty or representation to any Secured Party and shall not be responsible to any Secured Party for any statements, warranties or representations made in or in connection with this Agreement or the other Financing Agreements; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or the other Financing Agreements on the part of any Credit Party or to inspect the Collateral (including the books and records) of any Credit Party; (v) shall not be responsible to any Secured Party for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Financing Agreements or any other instrument or document furnished pursuant hereto or thereto; and (vi) shall incur no liability under or in respect of this Agreement or the other Financing Agreements by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopy, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

11.4 Agent as Lender

With respect to its Commitment and Loans hereunder, Agent shall have the same rights and powers under this Agreement and the other Financing Agreements as any other Lender and may exercise the same as though it were not Agent; and the term “**Lender**” or “**Lenders**” hereunder shall, unless otherwise expressly indicated, include Agent in its individual capacity. Agent and its affiliates may lend money to, invest in, and generally engage in any kind of business with any Credit Party, any of its affiliates and any Person who may do business with or own securities of any Credit Party or any such affiliate, all as if Agent were not Agent and without any duty to account therefore to Secured Parties. Agent and its affiliates may accept fees and other consideration from any Credit Party for services in connection with this Agreement or otherwise without having to account for the same to Secured Parties. Each Secured Party acknowledges the potential conflict of interest between Agent as a Lender and Agent as agent hereunder.

11.5 Lender Credit Decision

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

11.6 Indemnification

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

11.7 Failure to Act

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

11.8 Concerning the Collateral and the Related Financing Agreements

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

11.9 Reports and other Information; Disclaimer by Lenders.

By signing this Agreement, each Lender:

- (a) is deemed to have requested that Agent furnish such Lender, within a reasonable time after it becomes available to Agent, a copy of each report, Compliance Certificate and/or other documentation (each such report, certificate or documentation being referred to herein as a “**Report**” and collectively, “**Reports**”) provided to Agent by Credit Parties pursuant to the Financing Agreements;
- (b) expressly agrees and acknowledges that Agent (i) does not make any representation or warranty as to the accuracy of any Report, or (ii) shall not be liable for any information contained in any Report; and
- (c) agrees to keep all Reports confidential in accordance with Section 7.11(b).

11.10 Collateral Matters

- (a) Lenders (including in its or any of its Affiliate’s capacities as a potential Hedge Bank or Cash Management Bank) hereby irrevocably authorize Agent at its option and in its discretion to release any Lien upon any of the Collateral (i) upon termination of the Commitment and payment and satisfaction of all of the non-contingent Obligations and delivery of cash collateral to the extent required under Section 2.3(a); or (ii) constituting property being sold or disposed of if such sale or disposition is permitted by this Agreement (or permitted pursuant to a waiver of or consent to a transaction otherwise prohibited by this Agreement); or (iii) constituting property in which applicable Credit Party did not own an interest at the time the Lien was granted or at any time thereafter; or (iv) if required under the terms of any of the other Financing Agreements, including any intercreditor agreement; or (v) approved, authorized or ratified in writing in accordance with Section 11.14 hereof. Lenders hereby irrevocably authorize Agent to subordinate its Lien upon the specific Collateral on which another Person has a Lien as

permitted under Section 8.2 and if such Person will not permit Agent to retain its Lien on such Collateral, Lenders hereby irrevocably authorize Agent to release its Lien upon such Collateral. Except as provided above, Agent will not release any Lien upon any of the Collateral without the prior written authorization required in accordance with Section 11.14 hereof.

- (b) Without in any manner limiting Agent's authority to act without any specific or further authorization or consent by applicable Lenders, each Lender, as applicable, agrees to confirm in writing, upon request by Agent, the authority to release Collateral conferred upon Agent under this Agreement. Agent shall (and is hereby irrevocably authorized by Lenders to) execute and deliver to the applicable Credit Party such documents as such Credit Party may reasonably request to evidence the release of the Liens granted to Agent upon any Collateral or to evidence the release of such Credit Party from its Obligations under the Financing Agreements in each case in accordance with the terms of the Financing Agreements and this Section 11.10; provided, that, such release shall not in any manner discharge, affect or impair the Obligations or any Lien upon (or obligations of any Credit Party in respect of) the Collateral retained by such Credit Party.
- (c) Except for the exercise of reasonable care in the custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, Agent shall have no obligation whatsoever to any Lender or any other Person to investigate, confirm or assure that the Collateral exists or is owned by any Credit Party or is cared for, protected or insured or has been encumbered, or that the Liens granted to Agent pursuant hereto or any of the Financing Agreements or otherwise have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent in this Agreement or in any of the other Financing Agreements, it being understood and agreed that in respect of Collateral, or any act, omission or event related thereto, Agent may act in any manner it may deem appropriate, in its discretion, given Agent's own interest in the Collateral as a Lender and that Agent shall have no duty or liability whatsoever to any other Lender.
- (d) Each Lender hereunder (i) agrees that it will be bound by and will take no actions contrary to the provisions of the Intercreditor Agreement, as applicable, and (ii) authorizes and instructs Agent, to the extent required by the terms of the Financing Agreements, to enter into any Intercreditor Agreements contemplated by this Agreement as Agent on behalf of such Lender. Each Lender hereby further agrees that (i) Agent may, from time to time on and after the Closing Date, without any further consent of any Lender, enter into any Intercreditor Agreement, any subordination agreement or other intercreditor agreement contemplated by this Agreement with the collateral agent or other representatives of the holders of Debt that is permitted to be secured by a Lien on the Collateral under this Agreement, in each case, in order to effect the relative priority of Liens on the Collateral and to provide for certain additional rights, obligations and limitations in respect of, any

Liens permitted by the terms of this Agreement to be *pari passu* with or junior or senior to the Liens securing the Obligations with respect to part or all of the Collateral, which are, in each case, incurred in accordance with this Agreement, and to establish certain relative rights as between the holders of the Obligations and the holders of the Debt secured by such Liens, and (ii) such Intercreditor Agreements and any other subordination agreement or intercreditor agreement referred to in the foregoing clause (i) entered into by Agent shall be binding on the Secured Parties.

11.11 Successor Agent and Resignation of Swingline Lender

- (a) Agent may resign at any time by giving not less than thirty (30) days' prior written notice thereof to Lenders and Borrower. Upon any such resignation, Required Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by Required Lenders and shall have accepted such appointment within thirty (30) days after the resigning Agent's giving notice of resignation, then the resigning Agent may, on behalf of Lenders, appoint a successor Agent, which shall be a Lender, if a Lender is willing to accept such appointment, or otherwise shall be a commercial bank or financial institution or a subsidiary of a commercial bank or financial institution if such commercial bank or financial institution or other entity whose business includes making commercial loans, in each case, is organized under the laws of Canada, the United States or any province or state thereof and has total assets in excess of \$1,000,000,000, or the foreign currency equivalent thereof. If no successor Agent has been appointed pursuant to the foregoing, within 30 days after the date such notice of resignation was given by the resigning Agent, such resignation shall become effective and Required Lenders shall thereafter perform all the duties of Agent hereunder until such time, if any, as Required Lenders appoint a successor Agent as provided above. Any successor Agent appointed by Required Lenders hereunder shall be subject to the approval of Borrower, such approval not to be unreasonably withheld or delayed; provided, that such approval shall not be required if a Payment/Insolvency Event of Default has occurred and is continuing. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent. Upon the earlier of the acceptance of any appointment as Agent hereunder by a successor Agent or the effective date of the resigning Agent's resignation, the resigning Agent shall be discharged from its duties and obligations under this Agreement and the other Financing Agreements, except that any indemnity rights or other rights in favor of such resigning Agent shall continue. After any resigning Agent's resignation hereunder, the provisions of this Article 11 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was acting as Agent under this Agreement and the other Financing Agreements.
- (b) Any Swingline Lender may resign at any time by giving 30 days' prior notice to Agent, Lenders and Borrower. After the resignation of a Swingline Lender hereunder, the retiring Swingline Lender shall remain a party hereto and shall

continue to have all the rights and obligations of a Swingline Lender under this Agreement and the other Financing Agreements with respect to Swingline Loans made by it prior to such resignation, but shall not be required to make any additional Swingline Loans.

11.12 Setoff and Sharing of Payments

In addition to any rights now or hereafter granted under Applicable Law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default and subject to Section 11.13(f), each Lender is hereby authorized at any time or from time to time, without notice to Borrower or to any other Person other than Agent, any such notice being hereby expressly waived, to setoff and to appropriate and to apply any and all balances held by it at any of its offices for the account of any Credit Party (regardless of whether such balances are then due to any Credit Party) and any other properties or assets (other than deposits in fiduciary accounts as to which a Credit Party is acting as fiduciary for another Person who is not a Credit Party and other than payroll or trust fund accounts) at any time held or owing by that Lender to or for the credit or for the account of any Credit Party against and on account of any of the Obligations that are not paid when due; provided, that Lenders exercising such setoff rights shall give notice thereof to such Credit Party promptly after exercising such rights. Any Lender exercising a right of setoff or otherwise receiving any payment on account of the Obligations in excess of its Pro Rata Share thereof shall purchase for cash (and the other Lenders shall sell) such participations in each such other Lender's Pro Rata Share of the Obligations as would be necessary to cause such Lender to share the amount so setoff or otherwise received with the other Lenders in accordance with their respective Pro Rata Shares. Each Credit Party agrees, to the fullest extent permitted by law that (a) any Lender may exercise its right to setoff with respect to amounts in excess of its Pro Rata Share of the Obligations and may sell participations in such amounts so setoff to the other Lenders; and (b) any Lender so purchasing a participation in a Loan made or other Obligations held by the other Lenders may exercise all rights of setoff, bankers' lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of the Loan and the other Obligations in the amount of such participation. Notwithstanding the foregoing, if all or any portion of the setoff amount or payment otherwise received is thereafter recovered from a Lender that has exercised the right of setoff, the purchase of participations by that Lender shall be rescinded and the purchase price restored without interest.

11.13 Advances; Payments; Non-Funding Lenders; Information; Actions in Concert

(a) Advances; Payments.

- (i) In each funding notice provided by Agent to a Lender hereunder, Agent shall provide such Lender with written confirmation (by telephone, telecopy or email (if such Lender has provided email notice coordinates to Agent)) that all conditions precedent hereunder to such funding have been satisfied or waived in accordance with the terms hereof.
- (ii) Each Lender shall make the amount of such Lender's Pro Rata Share of such Loan available to Agent in same day funds by wire transfer to Agent's account not later than 12:00 noon (New York time) (or promptly thereafter)

on the requested funding date (which must be a Business Day). Swingline Lender shall make the amount of the requested Swingline Loan available to Agent in same day funds by wire transfer to Agent's account not later than 12:00 noon (New York time) (or promptly thereafter) on the requested funding date (which must be a Business Day). After receipt of such wire transfers (or, in Agent's sole discretion, before receipt of such wire transfers), subject to the terms hereof, Agent shall make the requested Loan to Borrower. All payments by each Lender shall be made without setoff, counterclaim or deduction of any kind. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by Revolving Lenders as provided in Section 2.1(c).

- (iii) On the fifth (5th) Business Day of each Fiscal Quarter or more frequently at Agent's election (each, a "**Settlement Date**"), Agent shall advise each Lender by telephone, teletype or email (if such Lender has provided email notice coordinates to Agent) of the amount of such Lender's Pro Rata Share of principal, interest and fees paid for the benefit of Lenders with respect to each applicable Loan. Provided that each Lender has funded all payments and Loans required to be made by it and purchased all participations required to be purchased by it under this Agreement and the other Financing Agreements as of such Settlement Date, Agent shall pay to each Lender such Lender's Pro Rata Share of principal, interest and fees paid by Borrower since the previous Settlement Date for the benefit of such Lender on the portion of the Loans held by it. To the extent that any Lender (a "**Non-Funding Lender**") has failed to fund all such payments and Loans or failed to fund the purchase of all such participations, Agent shall be entitled to set off the funding short-fall against that Non-Funding Lender's Pro Rata Share of all payments received from Borrower. Such payments shall be made by wire transfer to such Lender's account not later than 2:00 p.m. (New York time) on the next Business Day following each Settlement Date. Each payment to Agent on account of the principal of or interest on the Swingline Loans or of any fee, commission or other amounts payable to Swingline Lender shall be made in like manner, but for the account of Swingline Lender.
- (b) Availability of Lender's Pro Rata Share. Agent may assume that each Lender will make its Pro Rata Share of each Loan available to Agent on each funding date (which must be a Business Day). If such Pro Rata Share is not, in fact, paid to Agent by such Lender when due, Agent will be entitled to recover such amount on demand from such Lender without setoff, counterclaim or deduction of any kind. If any Lender fails to pay the amount of its Pro Rata Share forthwith upon Agent's demand, Agent shall promptly notify Borrower and Borrower shall immediately repay such amount to Agent. Nothing in this Section 11.13(b) or elsewhere in this Agreement or the other Financing Agreements shall be deemed to require Agent to advance funds on behalf of any Lender or to relieve any Lender from its obligation to fulfill its Commitment hereunder or to prejudice any rights that a Credit Party may have against any Lender as a result of any default by such Lender hereunder.

To the extent that Agent advances funds to Borrower on behalf of any Lender and is not reimbursed therefore on the same Business Day as such Loan is made, Agent shall be entitled to retain for its account all interest accrued on such advance until reimbursed by the applicable Lender.

(c) Return of Payments.

- (i) If Agent pays an amount to a Lender under this Agreement in the belief or expectation that a related payment has been or will be received by Agent from Borrower and such related payment is not received by Agent, then Agent will be entitled to recover such amount from such Lender on demand without setoff, counterclaim or deduction of any kind.
- (ii) If Agent determines at any time that any amount received by Agent under this Agreement must be returned to Borrower or paid to any other Person pursuant to any Insolvency Law or otherwise, then, notwithstanding any other term or condition of this Agreement or any other Financing Agreement, Agent will not be required to distribute any portion thereof to any Lender. In addition, each Lender will repay to Agent on demand any portion of such amount that Agent has distributed to such Lender, together with interest at such rate, if any, as Agent is required to pay to Borrower or such other Person, without setoff, counterclaim or deduction of any kind.

- (d) Non-Funding Lenders. The failure of any Non-Funding Lender to make any Loan or any payment required by it hereunder on the date specified thereof, shall not relieve the other Lenders (each such other Lender, an “**Other Lender**”) of its obligations to make such Loan or purchase such participation on such date, but neither any Other Lender nor Agent shall be responsible for the failure of any Non-Funding Lender to make a Loan, purchase a participation or make any other payment required hereunder. Notwithstanding anything set forth herein to the contrary, (i) a Non-Funding Lender shall not have any voting or consent rights under or with respect to any Financing Agreement or constitute a “**Lender**” for any voting or consent rights under or with respect to any Financing Agreement and (ii) fees shall cease to accrue on the unfunded portion of the Revolving Loan Commitment of such Non-Funding Lender pursuant to Section 3.7. At Borrower’s request, Agent or a Person acceptable to Agent shall have the right with Agent’s consent (but shall have no obligation) to purchase from any Non-Funding Lender, and each Non-Funding Lender agrees that it shall sell and assign to Agent or such Person, all of the Commitments and Loans of that Non-Funding Lender for an amount equal to the principal balance of all Loans held by such Non-Funding Lender and all accrued interest and fees with respect thereto through the date of sale, such purchase and sale to be consummated pursuant to an executed Assignment and Assumption Agreement; provided, however, that the failure of any Non-Funding Lender to execute an Assignment and Assumption Agreement shall not render such assignment invalid. If any Letter of Credit Accommodation exists at the time such Lender becomes a Non-Funding Lender then:

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- (i) all or any part of such Non-Funding Lender's Pro Rata Share of any participations in any Letter of Credit Accommodations shall be reallocated among the non-Non-Funding Lenders in accordance with their respective Pro Rata Shares but only to the extent the sum of all non-Non-Funding Lenders' Revolving Loan Exposures plus such Non-Funding Lender's Pro Rata Share of any participations in any Letter of Credit Accommodations does not exceed the total of all non-Non-Funding Lenders' Revolving Loan Commitments and to the extent that any non-Non-Funding Lender's Revolving Loan Exposure *plus* its allocated Pro Rata Share of such Non-Funding Lender's participation in any Letter of Credit Accommodations does not exceed such non-Non-Funding Lender's Revolving Loan Commitment;
- (ii) if the reallocation described in clause (i) above cannot, or can only partially, be effected, Borrower shall within one Business Day following notice by Agent (x) cash collateralize for the benefit of Issuing Lender only Borrower's obligations corresponding to such Non-Funding Lender's Pro Rata Share of the Letter of Credit Accommodations (after giving effect to any partial reallocation pursuant to clause (i) above) for so long as such Letter of Credit Accommodations are outstanding or (y) make other arrangements satisfactory to Agent, and to Issuing Lender, as the case may be, in their sole discretion, to protect them against the risk of non-payment by such Non-Funding Lender; provided that (A) to the extent that cash collateral has previously been provided pursuant to this clause (ii) and, a result of a repayment of Revolving Loans or otherwise, further reallocation of amounts among the Lenders in accordance with clause (i) above may be made, then, solely to the extent of the amounts so reallocated, the cash collateral requirement pursuant to this clause (ii) will terminate and Issuing Lender will cause any cash collateral posted with respect to its Letter of Credit Accommodations to be returned to Borrower subject to any terms relating to such cash collateral and (B) neither such reallocation nor any payment pursuant hereto will constitute a waiver or release of any claim Borrower, Agent, any Issuing Lender or any other Lender may have against such Non-Funding Lender or cause such Non-Funding Lender to be a non-Non-Funding Lender;
- (iii) if Borrower cash collateralizes any portion of such Non-Funding Lender's Pro Rata Share of the Letter of Credit Accommodations pursuant to clause (ii) above, Borrower shall not be required to pay any fees to such Non-Funding Lender pursuant to Section 2.2(b) with respect to such Non-Funding Lender's Pro Rata Share of the Letter of Credit Accommodations during the period such Non-Funding Lender's Pro Rata Share of the Letter of Credit Accommodations is cash collateralized;
- (iv) if a reallocation of the Letter of Credit Accommodations among the non-Non-Funding Lenders is effected pursuant to clause (i) above, then the fees payable to the Lenders pursuant to Section 3.7 and Section 2.2(b) shall be

adjusted in accordance with such non-Non-Funding Lenders' Pro Rata Shares after giving effect to such reallocation; and

- (v) if all or any portion of such Non-Funding Lender's Pro Rata Share of the Letter of Credit Accommodations is neither reallocated nor cash collateralized pursuant to clause (i) or (ii) above, then, without prejudice to any rights or remedies of Borrower, Issuing Lender or any other Lender hereunder, all letter of credit fees payable under Section 2.2(b) with respect to such Non-Funding Lender's Pro Rata Share of the Letter of Credit Accommodations shall be payable to Issuing Lender until and to the extent that such Non-Funding Lender's Pro Rata Share of the Letter of Credit Accommodations is reallocated and/or cash collateralized.
- (e) Dissemination of Information. Agent shall use reasonable efforts to provide Lenders with (i) any notice of any Event of Default received by Agent from, or delivered by Agent to, Borrower, (ii) notice of any Event of Default of which Agent has actually become aware, (iii) notice of any action taken by Agent following any Event of Default and (iv) any notice received from any Credit Party pursuant to Section 7.6(b); provided, that Agent shall not be liable to any Lender for any failure to do so, except to the extent that such failure is attributable to Agent's gross negligence or willful misconduct as determined by a final and non-appealable judgment or court order binding on Agent.
- (f) Actions in Concert. Anything in this Agreement to the contrary notwithstanding, each Lender hereby agrees with Agent and each other Lender that no Lender shall take any action to protect or enforce its rights arising out of this Agreement or the other Financing Agreements (excluding exercising any rights of setoff) without first obtaining the prior written consent of Agent and all other Lenders, it being the intent of Lenders that any such action to protect or enforce rights under this Agreement and the other Financing Agreements shall be taken in concert and at the direction or with the consent of Agent, all Lenders, affected Lenders or Required Lenders, as the case may be.

11.14 Approval of Lenders and Agent

- (a) Notwithstanding any other provision of this Agreement but subject to Section 11.14(b), (c) and (d), no amendment or waiver of any provision of this Agreement, nor consent to any departure by any Credit Party therefrom, shall in any event be effective unless the same shall be in writing and signed by Credit Parties and the Required Lenders, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given;
 - (i) provided that no amendment, waiver or consent shall, unless in writing and signed by all Lenders directly and adversely affected thereby (other than a Non-Funding Lender) do any of the following at any time:

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- (A) reduce the rate or amount of any principal, interest or fees payable by Borrower or alter the currency or mode of calculation or computation thereof;
 - (B) extend the time for payments required to be made by Borrower or the Maturity Date;
 - (C) increase any Lender's Commitment;
 - (D) change the definition of Required Lenders, any provision of this Section 11.14, amend the *pro rata* sharing provisions hereunder or amend the voting percentages hereunder; or
 - (E) change the payment waterfall in Section 5.3(b) hereof;
- (ii) provided further that no amendment, waiver or consent shall, unless in writing and signed by all Lenders (other than a Non-Funding Lender) do any of the following at any time:
- (A) release all or substantially all of (x) the value of the Collateral under any Financing Agreement or (y) the guarantees of the Obligations; and
 - (B) permit any Credit Party to assign its rights under the Financing Agreements.
- (b) Notwithstanding Section 11.14(a), Agent may, without the consent of Lenders, (i) make amendments to the Financing Agreements that are for the sole purpose of curing any immaterial or administrative ambiguity, omission, defect or inconsistency, (ii) enter into amendments or modifications to this Agreement or any other Financing Agreement or enter into additional Financing Agreements as Agent reasonably deems appropriate in order to implement any Replacement Rate or otherwise effectuate the terms of Section 3.2(c) in accordance with the terms of Section 3.2(c), (iii) amend any provision of any other Financing Agreement to better implement the intentions of this Agreement and the other Financing Agreements, in each case, such amendments shall become effective without any further action or consent of any other party to any Financing Agreement if the same is not objected to in writing by Required Lenders within five (5) Business Days following receipt of notice thereof and (iv) enter into amendments or modifications to this Agreement or any other Financing Agreement or enter into additional Financing Agreements as Agent reasonably deems appropriate in order to implement any provisions related to Term Loans or otherwise effectuate the terms of Section 2.6 with respect to the establishment of any Term Loan Commitments. Agent shall promptly notify Lenders of any such action.
- (c) Notwithstanding Section 11.14(a), no amendment, waiver or consent shall, unless in writing and signed by Agent in addition to Lenders required above to take such

action, affect the rights or duties of Agent under this Agreement or any of the other Financing Agreements.

- (d) Notwithstanding Section 11.14(a), no amendment, waiver or consent shall, unless in writing and signed by Issuing Lender in addition to Lenders required above to take such action, affect the rights or duties of Issuing Lender under this Agreement or any of the other Financing Agreements.
- (e) No Cash Management Bank or Hedge Bank that obtains the benefits of Section 5.3 or any Collateral by virtue of the provisions hereof or of any Financing Agreement shall have any right to notice of any action or to consent to, direct or object to any action hereunder or under any other Financing Agreement or otherwise in respect of the Collateral (including the release or impairment of any Collateral) other than in its capacity as a Lender and, in such case, only to the extent expressly provided in the Financing Agreements. Notwithstanding any other provision of this Article 11 to the contrary, Agent shall not be required to verify the payment of, or that other satisfactory arrangements have been made with respect to, Secured Hedge Agreements and Secured Cash Management Agreements unless Agent has received written notice of such Secured Hedge Agreements and Secured Cash Management Agreements, together with such supporting documentation as Agent may request from the applicable Hedge Bank or Cash Management Bank, as the case may be.
- (f) Notwithstanding Section 11.14(a), no amendment, waiver or consent shall, unless in writing and signed by Swingline Lender in addition to Lenders required above to take such action, affect the rights or duties of Swingline Lender under this Agreement or any of the other Financing Agreements.

ARTICLE 12
GOVERNING LAW; JURISDICTION, ETC.

12.1 Governing Law; Jurisdiction, Etc.

- (a) Governing Law. This Agreement and the other Financing Agreements and any claim, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Agreement or any other Financing Agreements (except, as to any other Financing Agreements, as expressly set forth therein) and the transactions contemplated hereby and thereby shall be governed by, and construed in accordance with, the law of the State of New York.
- (b) Submission to Jurisdiction. Each party hereto irrevocably and unconditionally agrees that it will not commence any action, litigation or proceeding of any kind or description, whether in law or equity, whether in contract or in tort or otherwise, against any other party hereto relating to this Agreement or any other Financing Agreement or the transactions relating hereto or thereto, in any forum other than the courts of the State of New York sitting in New York County, and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, and each of the parties hereto irrevocably and unconditionally

submits to the exclusive jurisdiction of such courts and agrees that all claims in respect of any such action, litigation or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by Applicable Law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action, litigation or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or in any other Financing Agreement shall affect any right that Agent, any Lender, or Issuing Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Financing Agreement against Borrower or any other Credit Party or their respective properties in the courts of any jurisdiction where the Collateral is located or in any jurisdiction of organization of such Credit Party.

- (c) Waiver of Venue. Borrower and each other Credit Party irrevocably and unconditionally waives, to the fullest extent permitted by Applicable Law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Agreement or any other Financing Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by Applicable Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.
- (d) Service of Process. Each party hereto irrevocably consents to service of process in the manner provided for notices in Section 13.2. Nothing in this Agreement will affect the right of any party hereto to serve process in any other manner permitted by Applicable Law.
- (e) WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER FINANCING AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER FINANCING AGREEMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS IN THIS SECTION.
- (f) Waiver of Consequential Damages. Each Credit Party hereby waives any claims for special, punitive, exemplary, indirect or consequential damages in respect of any breach or alleged breach by Agent or any Lender of any of the terms of this Agreement or the other Financing Agreements except in the case of gross

negligence or willful misconduct of Agent or any Lender as determined by a final and non-appealable judgment or court order binding on Agent or Lender.

- (g) Waiver of Notice. Each Credit Party waives the posting of any bond otherwise required of Agent in connection with any judicial process or proceeding to obtain possession of, replevy, attach or levy upon the Collateral or other security for the Obligations, to enforce any judgment or other court order entered in favor of Agent, or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction or any other Financing Agreement.

12.2 Waiver of Notices

Each Credit Party hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonor with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on any Credit Party which Agent may elect to give shall entitle any Credit Party to any other or further notice or demand in the same, similar or other circumstances.

12.3 Amendments and Waivers

Subject to Section 11.14, neither this Agreement nor any provision hereof shall be amended or waived, nor consent to any departure by any Credit Party therefrom permitted, orally or by course of conduct, but only by a written agreement signed by an authorized officer of each applicable Lender (if any) and Agent, and as to amendments, as also signed by an authorized officer of each Credit Party. Agent shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Agent. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent would otherwise have on any future occasion, whether similar in kind or otherwise.

12.4 Waiver of Counterclaim

Each Credit Party waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other than compulsory counterclaims) in any action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

12.5 Indemnification

Each Credit Party shall indemnify and hold Arranger, Agent, Issuing Lender and each Lender, and their respective directors, officers, agents, representatives, employees and counsel (each such Person, an "**Indemnitee**"), harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to (x) the

negotiation, preparation, execution, delivery, enforcement, performance or administration of any Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto or the relationship between any Credit Party, on one hand, and an Indemnitee, on the other hand or (y) any actual or alleged presence or release of Hazardous Materials on or from any property currently or formerly owned or operated by any Credit Party or any of its Subsidiaries, or any Environmental Liability related in any way to any Credit Party or any of its Subsidiaries, including amounts paid in settlement, court costs, and the fees, expenses and disbursements of counsel and others incurred in connection with investigating, preparing to defend or defending any such litigation, investigation, claim or proceeding (but limited, in the case of such fees, expenses and disbursements of counsel, to the reasonable, documented and invoiced fees, expenses and disbursements of one primary counsel for all Indemnitees, taken as a whole, and, if reasonably necessary, a single outside local and a single outside specialty counsel in each other jurisdiction material to the interests of all Indemnitees taken as a whole for all Indemnitees taken as a whole (and, in the case of an actual or perceived conflict of interest where the Indemnitee affected by such conflict informs Borrower of such conflict, one additional primary counsel for all Indemnitees subject to such conflict taken as a whole). Such indemnification described in clauses (x) and (y) above shall not apply to losses, claims, damages, liabilities, costs or expenses (i) resulting from the bad faith, fraud, gross negligence or willful misconduct of an Indemnitee as determined pursuant to a final non-appealable order of a court of competent jurisdiction, (ii) relating to disputes among Indemnitees that does not involve an act or omission by Credit Parties, (iii) resulting from a breach of an Indemnitee's obligations to a Credit Party hereunder as determined pursuant to a final non-appealable order of a court of competent jurisdiction or (iv) resulting from settlements of any such litigation, investigation, claim or proceeding effected by the Indemnitees without the prior written consent of Borrower (which consent shall not be unreasonably withheld, delayed or conditioned); provided that any indemnification obligations owed by Credit Parties hereunder and not otherwise related to the foregoing settlement shall nonetheless remain an obligation of Credit Parties. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section 12.5 may be unenforceable because it violates any Applicable Law, each Credit Party shall pay the maximum portion which it is permitted to pay under Applicable Law to each Indemnitee in satisfaction of indemnified matters under this Section 12.5. The foregoing indemnity shall survive the payment of the Obligations and the termination of this Agreement.

12.6 Costs and Expenses

Upon demand by Agent, each Credit Party agrees within ten (10) days of receipt of a reasonably detailed written invoice therefor (or such longer period as Agent may agree), to pay to Arranger, Agent, Issuing Lender and Lenders all reasonable out-of-pocket costs, expenses and filing fees paid or payable in connection with the structuring, arrangement, syndication, preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, restructuring, enforcement and defense of the Obligations, Agent's and each Lender's rights in the Collateral, the Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including: (a) all costs and expenses of filing or recording or searching (including PPSA and UCC financing statement and other similar filing and recording fees, if applicable); (b) reasonable out-of-pocket costs and expenses of remitting loan proceeds and other items of payment, together with Agent's customary, reasonable

out-of-pocket charges and fees with respect thereto; (d) reasonable out-of-pocket costs and expenses of preserving and protecting the Collateral; (e) reasonable out-of-pocket costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the security interests and liens of Agent, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of the Financing Agreements or defending any claims made or threatened against Agent and Lenders arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); (f) all reasonable out-of-pocket expenses including due diligence, negotiation, arrangement, syndication, restructuring, administration and amending of this Agreement; and (g) the fees, expenses and disbursements of counsel (including legal assistants) to Arranger, Agent, Issuing Lender, and Lenders in connection with any of the foregoing (but limited, in the case of such fees, expenses and disbursements of counsel, to the reasonable, documented and invoiced fees, expenses and disbursements of one primary counsel for Arranger, Agent, Issuing Lender and Lenders, taken as a whole (and, if reasonably determined by Agent to be necessary, a single outside local and a single outside special counsel in each jurisdiction material to the interests of all such Persons taken as a whole for all such Persons taken as a whole and, in the case of an actual or perceived conflict of interest where such Person affected by such conflict informs Borrower of such conflict, one additional primary counsel for all such Persons subject to such conflict taken as a whole) and counsel otherwise retained with Borrower's consent (which consent shall not be unreasonably withheld or delayed).

12.7 Further Assurances

At the reasonable request of Agent at any time and from time to time, each Credit Party shall, at its expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary to evidence, perfect, maintain and enforce the Liens and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of any of the Financing Agreements. Where permitted by law, each Credit Party hereby authorizes Agent to execute and file one or more PPSA, UCC or other financing statements or notices signed only by Agent or Agent's representative.

ARTICLE 13 **MISCELLANEOUS**

13.1 Notice

All notices, requests and demands hereunder shall be in writing and (a) made to Agent and Lenders at their respective addresses set forth below and to Borrower (on behalf of itself and each other Credit Party) at its chief executive office set forth below, or to such other address as any party may designate by written notice to the other in accordance with this provision, and (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by email or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next Business Day, one (1) Business Day after sending; and if by registered mail, return receipt requested, five (5) days after mailing.

13.2 Partial Invalidity

If any provision of this Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Agreement as a whole, but this Agreement shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by Applicable Law.

13.3 Successors

The Financing Agreements and any other document referred to herein or therein shall be binding upon and inure to the benefit of and be enforceable by Agent, Lenders and each Credit Party and their respective successors and permitted assigns.

13.4 Entire Agreement

The Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto, and supersede all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written. In the event of any inconsistency between the terms of this Agreement and any schedule or exhibit hereto, the terms of this Agreement shall govern.

13.5 Headings

The division of this Agreement into sections and the insertion of headings and a table of contents are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

13.6 Judgment Currency

To the extent permitted by Applicable Law, the obligations of Borrower in respect of any amount due under this Agreement shall, notwithstanding any payment in any other currency (the "**Other Currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the currency in which it is due (the "**Agreed Currency**") that Agent may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the Business Day immediately after the day on which Agent receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Borrower shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligation of Borrower not discharged by that payment shall, to the extent permitted by Applicable Law, be due as a separate and independent obligation and, until discharged as provided in this section, continue in full force and effect.

13.7 Counterparts and Facsimile

This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and such counterparts together shall constitute one and the same agreement. The delivery of a facsimile or pdf copy of an executed counterpart of this Agreement shall be deemed to be valid execution and delivery of this Agreement, but the party delivering a facsimile or pdf copy shall deliver to the other party an original copy of this Agreement as soon as possible after delivering the facsimile or pdf copy.

13.8 Patriot Act Notice

Agent and each Lender which is subject to the *Patriot Act* hereby notifies each Credit Party that pursuant to the requirements of the *Patriot Act*, it is required to obtain, verify and record information that identifies each person or corporation who opens an account and/or enters into a business relationship with it, which information includes the name and address of each Credit Party and its Subsidiaries and other information that will allow Agent and such Lender to identify such person in accordance with the *Patriot Act* and any other Applicable Law. Each Credit Party is hereby advised that any Loans or Letter of Credit Accommodations hereunder are subject to satisfactory results of such verification.

13.9 Acknowledgement and Consent to Bail-In of EEA Financial Institutions.

Notwithstanding anything to the contrary in any Financing Agreement or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Financing Agreement, to the extent such liability is unsecured, may be subject to the Write-Down and Conversion Powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

- (a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and
- (b) the effects of any Bail-in Action on any such liability, including, if applicable:
 - (i) a reduction in full or in part or cancellation of any such liability;
 - (ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Financing Agreement; or
 - (iii) the variation of the terms of such liability in connection with the exercise of the Write-Down and Conversion Powers of any EEA Resolution Authority.

ARTICLE 14
ACKNOWLEDGMENT AND RESTATEMENT

14.1 [Reserved]

14.2 Acknowledgment of Security Interests

- (a) Borrower hereby acknowledges, confirms and agrees that Agent, on behalf of itself and Secured Parties, shall continue to have a Lien upon the Collateral heretofore granted to Original Lender and Original Agent pursuant to and in connection with the Original Loan Agreement, the First Amended and Restated Credit Agreement, the Second Amended and Restated Credit Agreement, the Third Amended and Restated Credit Agreement and the Fourth Amended and Restated Credit Agreement, as the case may be, to secure the Obligations, as well as any Collateral granted under or in connection with this Agreement or under any of the other Financing Agreements or otherwise granted to or held by Agent, any Lender, Original Lender, Original Agent, any Secured Party or any of their respective Affiliates.
- (b) The Liens of Agent, on behalf of itself and Secured Parties, in the Collateral shall be deemed to be continuously granted and perfected from the earliest date of the granting and perfection of such Liens to Original Lender, Original Agent or Agent under the Financing Agreements or any Secured Hedge Agreements.
- (c) Notwithstanding any term of any Financing Agreement, Borrower acknowledges, confirms and agrees that all security granted by it under, or in connection with, the Original Loan Agreement, the First Amended and Restated Credit Agreement, the Second Amended and Restated Credit Agreement, the Third Amended and Restated Credit Agreement, the Fourth Amended and Restated Credit Agreement and the other Financing Agreements shall be held by Agent, on behalf of itself and Secured Parties (including those under Secured Hedge Agreements and Secured Cash Management Agreements), to secure the Obligations (including those arising under the Secured Hedge Agreements and Secured Cash Management Agreements).

14.3 [Reserved]

14.4 Restatement

- (a) Except as otherwise stated in Section 14.2 hereof and this Section 14.4, as of the Closing Date, the terms, conditions, agreements, covenants, representations and warranties set forth in the Fourth Amended and Restated Credit Agreement are simultaneously amended and restated in their entirety, and as so amended and restated, replaced and superseded by the terms, conditions, agreements, covenants, representations and warranties set forth in this Agreement and the other Financing Agreements executed and/or delivered on or after the Closing Date, except that nothing herein or in the other Financing Agreements shall impair or adversely affect the continuation of the liability of Borrower for the Obligations heretofore incurred

and the Liens and other interests in the Collateral heretofore granted, pledged and/or assigned by Borrower to Agent, Original Lender, Original Agent, any Lender, any Secured Party or any of their respective Affiliates (whether directly, indirectly or otherwise).

- (b) The amendment and restatement contained herein shall not, in any manner, be construed to constitute payment of (other than any actual repayment of outstanding amounts), or impair, limit, cancel or extinguish, or constitute a novation in respect of, the Obligations and other obligations, liabilities and indebtedness of Borrower evidenced by or arising under the Fourth Amended and Restated Credit Agreement, and the Liens of Agent, on behalf of itself and Secured Parties, securing such Obligations and other obligations, liabilities and indebtedness, which shall not in any manner be impaired, limited, terminated, waived or released, but shall continue in full force and effect in favor of Agent, for the benefit of itself and Secured Parties.
- (c) All loans, advances and other financial accommodations under the Fourth Amended and Restated Credit Agreement and all other obligations, liabilities and indebtedness of Borrower outstanding and unpaid as of the Closing Date pursuant to the Fourth Amended and Restated Credit Agreement or otherwise shall be deemed Obligations of Borrower pursuant to the terms hereof (other than any actual repayment of outstanding amounts). The principal amount of the Revolving Loans and the amount of the Letters of Credit Accommodations outstanding as of the Closing Date under the Fourth Amended and Restated Credit Agreement shall be allocated to the Revolving Loans and Letter of Credit Accommodations hereunder in such manner and in such amounts as Agent shall determine in accordance with the terms hereof (other than any actual repayment of outstanding amounts).

[The remainder of this page is intentionally left blank]

IN WITNESS WHEREOF, Lenders, Agent and Credit Parties have caused this Agreement to be duly executed as of the day and year first above written.

AGENT, ISSUING LENDER, SWINGLINE LENDER AND LENDER:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Bryan Milinovich
Name: Bryan Milinovich
Title: Vice President

By: /s/ Brian Gilstrap
Name: Brian Gilstrap
Title: Vice President

Address:
333 South Grand Ave, 6th Floor
Los Angeles, CA 90039

Attention: Bryan Milinovich
Fax:
Email: bryan.milinovich@wellsfargo.com

LENDER:

CITIBANK, N.A.

By: /s/ Varun Gupta

Name: Varun Gupta

Title: SVP

Address:

1 Sansome Street, 22nd Floor
San Francisco, CA 94104

Attention: James Haack

Fax:

Email: james.haack@citi.com

LENDER:

HSBC BANK CANADA

By: /s/ Simon Tobin
Name: Simon Tobin
Title: Director, Large Corporate Banking

By: /s/ Dimitri Kovachis
Name: Dimitri Kovachis
Title: Director, Large Corporate Banking

Address:

70 York Street
Toronto, ON M5J 1S9

Attention: Simon Tobin
Fax:
Email: simon.r.tobin@hsbc.ca

LENDER:

EXPORT DEVELOPMENT CANADA

By: /s/ Michael Lambe
Name: Michael Lambe
Title: Senior Associate\

By: /s/ Jeff Patterson
Name: Jeff Patterson
Title: Manager

Address:
150 Slater Street
Ottawa, Ontario K1A 1K3

Attention: Michael Lambe
Fax: 613-598-3186
Email: Mlambe@edc.ca

LENDER:

NATIONAL BANK OF CANADA

By: /s/ Michael Parizeau
Name: Michael Parizeau
Title: Portfolio Manager

By: /s/ Eric Diana
Name: Eric Diana
Title: Director

Address:
130 King Street West
8th Floor
Toronto, Ontario M5X 1J9

Attention: Jonathan Hopkins
Fax: 416-864-7819
Email: jonathan.hopkins@nbc.ca

BORROWER:

IMAX CORPORATION

By: /s/ Patrick McClymont
Name: Patrick McClymont
Title: Chief Financial Officer and Executive Vice President

By: /s/ Kenneth Weissman
Name: Kenneth Weissman
Title: Senior Vice President, Legal Affairs and Corporate Secretary

Chief Executive Office:

902 Broadway
20th Floor
New York, New York 10010
Attention: Chief Legal Officer
Fax: 212-731-7584
Email: RLister@imax.com

GUARANTOR:

1329507 ONTARIO INC.

By: /s/ Kenneth Weissman
Name: Kenneth Weissman
Title: Secretary

By: /s/ Edward MacNeil
Name: Edward MacNeil
Title: Vice President, Finance

GUARANTOR:

IMAX U.S.A. INC.

By: /s/ Kenneth Weissman
Name: Kenneth Weissman
Title: President and Secretary

By: /s/ Edward MacNeil
Name: Edward MacNeil
Title: Vice President, Finance

GUARANTOR:

IMAX POST/DKP INC.

By: /s/ Kenneth Weissman
Name: Kenneth Weissman
Title: President and Secretary

By: /s/ Edward MacNeil
Name: Edward MacNeil
Title: Vice President, Finance

GUARANTOR:

IMAX II U.S.A. INC.

By: /s/ Kenneth Weissman
Name: Kenneth Weissman
Title: President and Secretary

By: /s/ Edward MacNeil
Name: Edward MacNeil
Title: Vice President, Finance

GUARANTOR:

IMAX THEATRES INTERNATIONAL LIMITED

By: /s/ Kevin Glass
Name: Kevin Glass
Title: Director

By: /s/ Giovanni Dolci
Name: Giovanni Dolci
Title: Director

GUARANTOR:

IMAX (BARBADOS) HOLDING, INC.

By: /s/ Kenneth Weissman
Name: Kenneth Weissman
Title: Secretary

By: /s/ Edward MacNeil
Name: Edward MacNeil
Title: Vice President, Finance

FORM OF DIRECTOR INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made as of •, 2018

BETWEEN

• (the “**Indemnified Party**”)

- and -

IMAX Corporation, a corporation incorporated under the laws of Canada (the “**Corporation**”).

WHEREAS the *Canada Business Corporations Act* (the “**Act**”) permits the Corporation to indemnify directors of the Corporation and certain other individuals;

WHEREAS the Indemnified Party is willing to act or to continue to act as a director of the Corporation or is currently or may, in the future, be willing to act or to continue to act as a director, or an individual acting in a similar capacity to that of a director, of another entity, if, among other things, the Corporation provides the Indemnified Party with a contractual indemnity;

WHEREAS the Board of Directors has determined that the Corporation should act to assure the Indemnified Party of reasonable protection through indemnification against certain risks arising out of service to, and activities on behalf of, the Corporation to the extent permitted by the Act and the Corporation’s articles and by-laws;

AND WHEREAS it is reasonable and prudent for the Corporation to obligate itself contractually to indemnify such persons (including the Indemnified Party) to the fullest extent permitted by applicable law so that they will serve or continue to serve the Corporation.

NOW THEREFORE, in consideration of the Indemnified Party agreeing to serve or continue to serve, as set forth above, and having regard to the premises and the covenants and agreements contained herein, the receipt and sufficiency of which are acknowledged by the Corporation, the parties agree as follows:

ARTICLE 1 - INTERPRETATION

1.01 Definitions

In this Agreement, unless something in the subject matter or context is inconsistent therewith:

“**Agreement**” means this director indemnification agreement, including its recitals and schedules, as amended from time to time.

“**Board of Directors**” means the board of directors of the Corporation.

“**Business Day**” means a day other than a Saturday, Sunday or statutory holiday in Toronto, Ontario.

“**Cost Advance**” means an advance of moneys to the Indemnified Party of Costs before the final disposition of any Proceeding.

“**Costs**” means any and all losses, liabilities, claims, damages, costs, charges, statutory obligations, professional fees, Taxes and other expenses of whatever nature or kind reasonably incurred from time to time by the Indemnified Party in respect of any Proceeding.

“**Defence Counsel**” has the meaning set out in Section 3.01(3).

“**Defence Notice**” has the meaning set out in Section 3.01(1).

“**Eligible Event**” means any event or occurrence arising out of or in connection with (i) the fact that the Indemnified Party (A) is or was a director of the Corporation; or (B) is or was serving at the request of the Corporation as a director or in a similar capacity, or holds or held a position equivalent to that of a director, of a Related Entity; or (ii) anything done or not done by the Indemnified Party in any such capacity.

“**Final Judgment**” means, in respect of any matter, a final judicial determination (as to which all rights of appeal therefrom have been exhausted or lapsed) of a court having jurisdiction over such matter.

“**Indemnitees**” means the Indemnified Party and his/her heirs and personal or other legal representatives.

“**Liabilities**” means all Costs suffered, sustained or incurred by, or imposed upon, the Indemnified Party, or which the Indemnified Party is required to pay, in connection with any Proceeding, and includes any federal, provincial, municipal or foreign taxes imposed on the Indemnified Party as a result of the actual or deemed receipt of any payments under this Agreement.

“**Notice of Proceedings**” has the meaning set out in Section 3.01(1).

“**Policies**” means director liability policies of insurance, and “**Policy**” has a corresponding meaning.

“**Proceeding**” means any current, threatened, pending, commenced or completed action, suit, proceeding, hearing, inquiry, investigation, arbitration or alternative dispute resolution mechanism or procedure, whether civil, criminal, administrative, investigative or other, and whether arising in law, equity or under statute, rule, regulation or ordinance of any governmental or administrative body or otherwise, and whether made or commenced by the Corporation or any Related Entity and any appeal or appeals therefrom, in which the Indemnified Party is, has been or may be involved or is or may be liable for or in respect of a judgment, penalty or fine in, or Costs related thereto, by reason of or arising out of or in connection with an Eligible Event.

“**Related Entity**” means any entity of which the Indemnified Party acts or acted as a director or in a similar capacity, or holds or held a position equivalent to that of a director, at the request of the Corporation.

“**Subsidiary**” means, with respect to any person, an entity that is controlled by such person.

“**Taxes**” includes any assessment, reassessment, claim or other amount for taxes, charges, duties, levies, imposts or similar amounts, including any interest and penalties in respect thereof.

1.02 Extended Meanings

In this Agreement words importing the singular number include the plural and *vice versa*, words importing any gender include all genders and words importing persons include individuals, corporations, limited and unlimited liability companies, general and limited partnerships, associations, trusts, unincorporated organizations, joint ventures and governmental authorities. The term “including” means “including without limiting the generality of the foregoing” and the term “third party” means any person other than the Corporation and the Indemnified Party.

1.03 Statutory References

In this Agreement, unless something in the subject matter or context is inconsistent therewith or unless otherwise herein provided, a reference to any statute is to that statute as now enacted or as the same may from time to time be amended, re-enacted or replaced and includes any regulations, rules or policies made thereunder.

1.04 Control

(1) For the purposes of this Agreement,

- (a) a person controls a body corporate if the person beneficially owns securities of the body corporate to which are attached more than 50% of the votes that may be cast to elect directors of the body corporate and the votes attached to those securities are sufficient, if exercised, to elect a majority of the directors of the body corporate;
- (b) a person controls an unincorporated entity, other than a limited partnership, if more than 50% of the ownership interests, however designated, into which the entity is divided are beneficially owned by that person and the person is able to direct the business and affairs of such entity; and
- (c) the general partner of a limited partnership controls the limited partnership.

(2) A person who controls an entity is deemed to control any entity that is controlled, or deemed to be controlled, by such entity.

(3) A person is deemed to control, within the meaning of Section 1.04(1)(a) or (b), an entity if the aggregate of:

- (a) any securities of the entity that are beneficially owned by that person, and
- (b) any securities of the entity that are beneficially owned by any entity controlled by that person

is such that, if that person and all of the entities referred to in Section 1.04(3)(b) that beneficially own securities of the entity were one person, that person would control the entity.

ARTICLE 2 - RIGHT OF INDEMNITY

2.01 Right of Indemnity

Upon and subject to the terms and conditions hereof, the Corporation will indemnify and save harmless the Indemnified Party and the Indemnitees from and against all Liabilities, to the fullest extent authorized and permitted by applicable law.

2.02 Cost Advances

(1) Upon and subject to the terms and conditions hereof, the Corporation will, at the request of the Indemnified Party, make Cost Advances in respect of a Proceeding to the Indemnified Party to the fullest extent permitted by law, on receipt of the following:

- (a) a statement of the Indemnified Party's good faith belief that the Indemnitees are entitled to indemnification hereunder;
- (b) a written undertaking, in form and on terms satisfactory to the Corporation acting reasonably, by or on behalf of the Indemnitees to repay such Cost Advances if it is ultimately determined by a tribunal of competent jurisdiction that the Corporation is prohibited from paying such Costs; and
- (c) satisfactory evidence as to the amount of the Costs requested as Cost Advances.

(2) For greater certainty, subject as hereinafter provided in Section 2.03, it shall not be necessary for the Indemnitees to pay such Costs and then seek reimbursement; if the Indemnitees provide satisfactory evidence to the Corporation for direct payment by the Corporation, the Corporation shall make payment to the Indemnitees (or as the Indemnitees may direct) within ten (10) Business Days after the Corporation has received the foregoing information from the Indemnitees. If any portion of the Costs is subject to dispute in accordance with Section 2.03, the Corporation shall promptly pay the undisputed portion of any Costs.

(3) The written certification of any of the Indemnitees, together with a copy of a receipt, or a statement indicating the amount paid or to be paid by the Indemnitees, will constitute satisfactory evidence of any Costs for the purposes of Section 2.02(1). The

Corporation shall have the burden of establishing that any Costs it wishes to challenge are not reasonable.

(4) It is the intent of the parties hereto that (i) in the event of any change, after the date of this Agreement, in any applicable law which expands the right of the Corporation to indemnify or make Cost Advances to a director or officer, the Indemnified Party shall receive the greater benefits afforded by such change, and (ii) this Agreement be interpreted and enforced so as to provide obligatory indemnification and Cost Advances under such circumstances as set forth in this Agreement, if any, in which the providing of indemnification or Cost Advances would otherwise be discretionary.

2.03 Denial of Indemnity

If indemnification under this Agreement is not paid in full by the Corporation within thirty (30) days after a written claim therefor has been received by it and the applicable approval of the Court has been obtained where required, whichever is later, the Indemnitees may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if wholly successful on the merits or otherwise, the Indemnitees will also be entitled to be paid all Costs incurred in connection with the prosecution of such claim including, for greater certainty, legal fees (including reasonable disbursements). It will be a defence to any such action that the Indemnified Party has not met the standards of conduct which make it permissible under this Agreement, the Act or applicable law for the Corporation to indemnify the Indemnitees for the amount claimed.

2.04 Limits of Indemnity

The indemnity provided in Section 2.01 will not apply unless, in connection with the matter which gave rise or will give rise to the Liabilities for which indemnification is sought hereunder, the Indemnified Party:

- (a) acted honestly and in good faith with a view to the best interests of the Corporation or, as the case may be, the best interests of the Related Entity; and
- (b) in the case of a criminal or administrative Proceeding that is enforced by a monetary penalty, the Indemnified Party had reasonable grounds for believing that the Indemnified Party's conduct was lawful.

2.05 Exceptions to Indemnity and Cost Advances

Notwithstanding any other provision of this Agreement, the Corporation will not be obligated pursuant to the terms of this Agreement to indemnify, or make Cost Advances to, the Indemnified Party:

- (a) for any amount in respect of which the Indemnified Party may not be relieved of liability under the Act or otherwise at law;

-
- (b) arising in connection with any Proceeding initiated or commenced by the Indemnified Party against (i) the Corporation or any Related Entity, unless it is brought to establish or enforce any right under this Agreement or rights of indemnification under any other agreement or under any Policy or any indemnity provisions of the constating documents of the Corporation or a Related Entity, as applicable, or (ii) any other person; unless, in either case, (A) the Corporation or the Related Entity, as applicable, has joined in or consented to the initiation of such Proceeding, or (B) such Proceeding is a counterclaim to any Proceeding in respect of which the Indemnified Party is otherwise entitled to indemnification hereunder;
 - (c) to the extent the Indemnified Party is indemnified or reimbursed for Liabilities or Cost Advances, as applicable, and is, in each case, actually paid, other than pursuant to this Agreement or pursuant to a Policy, (without any written obligation to reimburse any third party for such Liabilities or Cost Advances), as applicable;
 - (d) to the extent that payment is actually made to the Indemnified Party under a valid and enforceable Policy;
 - (e) for a disgorgement of profits made from the purchase and sale by the Indemnified Party of securities pursuant to Section 122(4) of the *Securities Act* (Ontario) or similar provisions of any applicable Canadian provincial law or common law; or
 - (f) arising out of the Indemnified Party's breach of any employment agreement with the Corporation or any of its Subsidiaries.

2.06 No Presumption

(1) Termination of any Proceeding by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, or similar or other result, will not, of itself, create any presumption for the purposes of this Agreement that the Indemnified Party did not act honestly and in good faith with a view to the best interests of the Corporation, as the case may be, or, in the case of a Proceeding other than a civil proceeding, that he/she did not have reasonable grounds for believing that his/her conduct was lawful (unless the judgment or order of a court or another tribunal of competent jurisdiction specifically finds otherwise). Neither the failure of the Corporation (including the Board of Directors, its independent legal counsel or its shareholders) to have made a determination that indemnification of the Indemnitees is proper in the circumstances because the Indemnified Party has met the applicable standard of conduct, nor an actual determination by the Corporation (including the Board of Directors, its independent legal counsel or its shareholders) that the Indemnified Party has not met such applicable standard of conduct, will be a defence to any action brought by the Indemnitees against the Corporation to recover the amount of any indemnification claim, nor create a presumption that the Indemnified Party has not met the applicable standard of conduct.

(2) For purposes of any determination under this Agreement, the Corporation will have the burden of establishing the absence of good faith.

(3) The knowledge and/or actions, or failure to act, of any other director, officer, agent or employee of the Corporation will not be imputed to the Indemnified Party for purposes of determining the right to indemnification under this Agreement.

2.07 Insolvency

It is the intention of the parties hereto that this Agreement and the obligations of the Corporation will not be affected, discharged, impaired, mitigated or released by reason of any bankruptcy, insolvency, receivership or other similar proceeding of creditors of the Corporation and that in such event any amount owing to the Indemnitees hereunder will be treated in the same manner as the other fees or expenses of the directors and officers of the Corporation.

2.08 Income Tax

(1) Each payment made by the Corporation to the Indemnified Party pursuant to this Agreement will be made without setoff, counterclaim or reduction for, and without deduction for or because of, any taxes imposed, levied, collected, assessed or withheld by or within any taxing jurisdiction, unless the Corporation is required by law or the interpretations thereof by any relevant governmental authority to make such withholding or deduction.

(2) Should any payment made pursuant to this Agreement, including the payment of insurance premiums or any payment made by an insurer under a Policy, be deemed to constitute a taxable benefit or otherwise be or become subject to any Taxes or levy, then the Corporation shall pay any amount necessary to ensure that the amount received by or on behalf of the Indemnitees, after the payment of or withholding for Taxes, fully reimburses the Indemnitees for the actual cost, expense or liability incurred by or on behalf of the Indemnitees.

ARTICLE 3 - PROCEDURES

3.01 Notice

(1) Promptly after the assertion, commencement or threat of commencement by any third party of any Proceeding against the Indemnified Party that results or may result in the incurrence by such Indemnified Party of any Liabilities for which such Indemnified Party would be entitled to indemnification, or in any demand by the Indemnified Party for Cost Advances, pursuant to this Agreement, the Indemnified Party will promptly notify the Corporation of the assertion, commencement or threatened commencement of such Proceeding. Such notice (a "**Notice of Proceedings**") will also specify with reasonable detail the factual basis for the Proceeding, the amount claimed by the third party or, if such amount is not then determinable, a reasonable estimate of the likely amount of the claim by the third party. The failure to promptly provide such Notice of Proceeding will not relieve the Corporation of any obligation to indemnify the Indemnified Party or to make Cost Advances under this Agreement, except to the extent such failure results in actual prejudice to the Corporation or any Related Entity. Thereupon, the Corporation will have the right, upon written notice (the "**Defence Notice**") to

the Indemnified Party within 20 Business Days after receipt by the Corporation of the Notice of Proceeding to conduct, at its own expense, the defence against the Proceeding in its own name or, if necessary, in the name of the Indemnified Party.

(2) If the Corporation receives notice from any other source of any matter of which the Indemnitees would otherwise be obligated hereunder to give notice to the Corporation, then the Indemnitees will be relieved of the obligation hereunder to give notice to the Corporation, provided that the Corporation has not suffered any actual prejudice from the failure of the Indemnitees to give notice as herein provided. The Corporation will give notice of such matter to the Indemnitees as soon as reasonably practicable.

(3) The Defence Notice will specify the counsel the Corporation will appoint to defend such Proceeding (the “**Defence Counsel**”). The Indemnified Party will have the right to employ separate counsel in any Proceeding and to participate in the defence thereof, but the fees and expenses of such counsel will be at the expense of the Indemnified Party and will not be included as part of any Costs or Liabilities incurred by the Indemnified Party for which the Indemnified Party will be entitled to claim from the Corporation unless: (i) the Indemnified Party has received a written opinion of counsel, reasonably acceptable to the Corporation, to the effect that the interests of the Indemnified Party and the Corporation with respect to the Proceeding are sufficiently adverse to prohibit the representation by the same counsel of both parties under applicable ethical rules; (ii) the employment of such counsel at the expense of the Corporation has been specifically authorized by the Corporation; or (iii) the Corporation has not assumed the defence of the Proceeding and employed counsel therefor satisfactory to the Indemnitees, acting reasonably, within a reasonable period of time after receiving notice thereof. The party conducting the defence of any Proceeding will keep the other party apprised of all significant developments in relation thereto.

(4) The Indemnified Party and the Corporation will reasonably cooperate with each other and, if applicable, their respective counsel in the investigation related to, and defence of, any Proceeding and will make available to each other all relevant books, records, documents and files and will otherwise use reasonable efforts to assist each other’s counsel to conduct a proper and adequate defence.

(5) The Corporation may conduct any investigation it considers appropriate of any Proceeding of which it receives notice under Section 3.01(1), and will pay all costs of that investigation.

ARTICLE 4 - SETTLEMENT

4.01 Conduct of Settlements

(1) The Corporation will not, without the Indemnified Party’s prior written consent (such consent not to be unreasonably withheld or delayed), settle, compromise, consent to the entry of any judgment in or otherwise seek to terminate any Proceeding in respect of which indemnification or a Cost Advance has been sought hereunder unless such settlement, compromise, consent or termination (i) includes an unconditional release of the Indemnified Party from any liabilities on claims that are the subject matter of such Proceeding, and (ii) does

not include a statement as to, or an admission of, fault, culpability or a failure to act by or on behalf of the Indemnified Party.

(2) The Corporation will not be liable for any settlement of any Proceeding effected without its prior written consent, such consent shall not be unreasonably withheld, conditioned or delayed. The Indemnified Party will have the right to negotiate a settlement in respect of any Proceeding without the prior written consent of the Corporation, provided that (i) the Indemnified Party will pay any compensation, payment costs or other liabilities to be incurred under such settlement and the costs of negotiating and implementing such settlement, and will not seek indemnity from the Corporation in respect of such compensation, payment, costs or other Liabilities and will repay any Cost Advances previously made by the Corporation in respect of such Proceeding, and (ii) the settlement may not include a statement as to, or an admission of, fault, culpability or a failure to act by or on behalf of the Corporation or any Related Entity.

ARTICLE 5 - DIRECTOR LIABILITY INSURANCE

5.01 Liability Insurance

(1) The Corporation will obtain and maintain Policies. Such Policies in respect of the directors of the Corporation and of each Related Entity will include such customary terms and conditions and such limits as are then available to the Corporation on reasonable commercial terms, having regard to the historical and current market capitalization of the Corporation, the nature and size of the business and operations of the Corporation and its Subsidiaries from time to time. In all such Policies maintained by the Corporation, the Indemnified Party will be named as an insured. The Corporation shall advise the Indemnified Party promptly after it becomes aware of any material change in, cancellation, termination, or lapse in coverage of any applicable Policy.

(2) In the event the Corporation is sold or enters into any business combination as a result of which the Policies are terminated and not replaced with substantially similar policies equally applicable to the Indemnified Party, the Corporation shall use its reasonable best efforts to cause run-off "tail" insurance to be purchased for the benefit of the Indemnified Party with substantially the same coverage until the sooner to occur of (a) six (6) years following the termination of the Policies, or (b) six (6) years following the Indemnified Party ceasing to be a director or officer of the Corporation.

(3) Upon receipt by the Corporation of a Notice of Proceeding, the Corporation will promptly give notice to the insurer(s) under the Policies maintained by it and comply with all procedures and guidelines of the insurer(s) required for coverage of the Indemnified Party under the Policies.

(4) In the event that a Proceeding is brought in which the Indemnified Party is named as party or in respect of which the Indemnified Party may be entitled to receive payments or benefits under any Policy maintained by the Corporation, the Corporation will promptly pay, if permitted by applicable law, the insurance deductible applicable under any Policies providing coverage to the Indemnified Party.

(5) The indemnity provided for in this Agreement is separate and independent of the Policies and is not in any way limited to the amount of insurance provided under such Policies.

ARTICLE 6 - GENERAL

6.01 Further Assurances

Each of the Corporation and the Indemnified Party will from time to time execute and deliver all such further documents and instruments and do all acts as the other party may reasonably require to effectively carry out the intent of this Agreement.

6.02 Benefit of the Agreement

This Agreement will enure to the benefit of and be binding upon the respective heirs, executors, administrators, other legal representatives, successors and permitted assigns of the parties hereto. In the event that the Corporation undertakes a transaction pursuant to which the Corporation (i) amalgamates, consolidates with or merges or winds up into any other person and the Corporation will cease to exist as a legal entity; (ii) amalgamates, consolidates with or merges or winds up into any other person, but the Corporation will not cease to exist as a legal entity; (iii) transfers or disposes of all or substantially all of its properties and assets to any person or persons, or (iv) undergoes an acquisition, take-over or other transaction resulting in a change of control of the Corporation, then in each such case, the Corporation will ensure that proper provision is made so that the obligations of the Corporation set forth in this Agreement will continue in full force, including, if applicable, providing for the assumption of the obligations under this Agreement by any corporation or other entity continuing following an amalgamation, merger, consolidation or winding-up of the Corporation with or into one or more other entities, or by the person or persons acquiring all or substantially all of the properties and assets of the Corporation, as the case may be.

6.03 Amendments and Waivers

No amendment to this Agreement will be valid or binding unless set forth in writing and duly executed by the parties hereto. No waiver of any breach of any provision of this Agreement will be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided, will be limited to the specific breach waived.

6.04 Assignment

This Agreement may be assigned by the Corporation without the consent of the Indemnified Party, provided that such transferee enters into a written agreement with the Indemnified Party to be bound by the provisions of this Agreement in all respects and to the same extent as the Corporation is bound and provided that the Corporation will continue to be bound by all the obligations hereunder as if such assignment had not occurred and perform such obligations to the extent that such transferee fails to do so.

6.05 Notice

Any demand, notice or other communication to be given in connection with this Agreement must be given in writing and will be given by personal delivery or by electronic means of communication addressed to the recipient as follows:

To the Corporation:

IMAX Corporation
902 Broadway
20th Floor
New York, NY 10010

Email: KWeissman@imax.com

Attention: Ken Weissman, Senior Vice President, Legal Affairs and Corporate Secretary

To the Indemnified Party:

•

Email: •

Attention: •

or to such other street address, individual or electronic communication number or address as may be designated by notice given by either party to the other. Any demand, notice or other communication given by personal delivery will be conclusively deemed to have been given on the day of actual delivery thereof and, if given by electronic communication, on the day of transmittal thereof if given during the normal business hours of the recipient and on the Business Day during which such normal business hours next occur if not given during such hours on any day.

6.06 Remedies Cumulative

The rights and remedies of the parties hereunder are cumulative and are in addition to, and not in substitution for, any other rights and remedies available at law or in equity or otherwise. No single or partial exercise by a party of any right or remedy precludes or otherwise affects the exercise of any other right or remedy to which that party may be entitled.

6.07 Independent Legal Advice

The Indemnified Party acknowledges that the Corporation has advised the Indemnified Party to obtain independent legal advice with respect to entering into this

Agreement, and that the Indemnified Party has either obtained such independent legal advice or has independently determined that the Indemnified Party does not require such advice, and that the Indemnified Party acknowledges and agrees that the Indemnified Party fully understands the nature and effect of this Agreement and is entering into this Agreement with full knowledge of the contents hereof, of the Indemnified Party's own free will and with full capacity to do so.

6.08 Resignation; Right to Continue to Serve

Nothing in this Agreement will prevent the Indemnified Party from resigning as a director of the Corporation or any Related Entity or as an individual acting in a similar capacity, or holding a position equivalent to that of a director, of any Related Entity, at any time nor will anything contained in this Agreement be construed as creating any right in favour of the Indemnified Party to continue as an officer or director of the Corporation.

6.09 Construction as Employment Agreement

Nothing contained in this Agreement will be construed as giving the Indemnified Party any right to be retained in the employ of the Corporation or any of its Subsidiaries.

6.10 Governing Law

This Agreement is governed by and will be construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

6.11 Attornment

For the purpose of all legal proceedings this Agreement will be deemed to have been performed in the Province of Ontario and the courts of the Province of Ontario will have jurisdiction to entertain any action arising under this Agreement. The Corporation and the Indemnified Party each hereby attorns to the jurisdiction of the courts of the Province of Ontario.

6.12 Obligations Not Affected

The obligations and rights created under this Agreement will not be affected by any amendment to the Corporation's articles, by-laws or other constating documents or any agreement or instrument to which the Indemnified Party is not a party, and will not diminish any other rights which the Indemnified Party now or in the future has against the Corporation or any other person.

6.13 Subrogation

In the event of payment under this Agreement, the Corporation will be subrogated to the extent of such payment to all of the rights of recovery of the Indemnified Party, who hereby agrees to execute all documents required and do all acts that may be necessary to secure such rights and to enable the Corporation effectively to bring suit to enforce such rights.

6.14 **Duration of Agreement**

All obligations of the Corporation under this Agreement will continue during the period in which the Indemnified Party is a director of the Corporation or a Related Entity or is serving at the request of the Corporation as a director, or in a similar capacity (including an individual holding a position equivalent to that of director), of a Related Entity and will continue thereafter so long as the Indemnified Party is subject to any Proceeding by reason of his or her former or current capacity at the Corporation or a Related Entity, as the case may be, whether or not he or she is acting in any such capacity at the time any Liability is incurred for which indemnification can be provided under this Agreement.

6.15 **Counterparts**

This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original and all of which taken together will be deemed to constitute one and the same instrument.

6.16 **Severability**

If any provision of this Agreement is determined by any court of competent jurisdiction to be illegal or unenforceable, that provision will be severed from this Agreement and the remaining provisions will continue in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either of the parties.

6.17 **Electronic Execution**

Delivery of an executed signature page to this Agreement by any party by electronic transmission will be as effective as delivery of a manually executed copy of the Agreement by such party.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF the parties have executed this Agreement.

SIGNED, SEALED AND DELIVERED)
in the presence of:)
)
)
)
)
)
)
)

Witness

Name of Indemnified Party:

IMAX CORPORATION

Per: _____
Name:
Title:

Per: _____
Name:
Title:

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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2018

By: /s/ Richard L. Gelfond

Name: Richard L. Gelfond

Title: Chief Executive Officer

IMAX CORPORATION

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002

I, Patrick McClymont, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2018

By: /s/ Patrick McClymont

Name: Patrick McClymont

Title: Chief Financial Officer & Executive Vice President

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 & Director of IMAX Corporation, a Canadian corporation (the "Company"), hereby certify, to my knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 25, 2018

By: /s/ Richard L. Gelfond

Name: Richard L. Gelfond

Title: 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, Patrick McClymont, Chief Financial Officer & Executive Vice President of IMAX Corporation, a Canadian corporation (the "Company"), hereby certify, to my knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 25, 2018

By: /s/ Patrick McClymont

Name: Patrick McClymont

Title: Chief Financial Officer & Executive Vice President