

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

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

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

110 E. 59th Street, Suite 2100
New York, New York, USA 10022
(212) 821-0100

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

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

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

None

(Title of class)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting Company

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

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, computed by reference to the last sale price of such shares as of the close of trading on June 30, 2016 was \$1,700.7 million.

As of January 31, 2017, there were 66,313,034 common shares of the registrant outstanding.

Document Incorporated by Reference

Portions of the registrant's definitive Proxy Statement to be filed within 120 days of the close of IMAX Corporation's fiscal year ended December 31, 2016, with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors and the annual meeting of the stockholders of the registrant (the "Proxy Statement") are incorporated by reference in Part III of this Form 10-K to the extent described therein.

IMAX CORPORATION

December 31, 2016

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IMAX CORPORATION

EXCHANGE RATE DATA

Unless otherwise indicated, all dollar amounts in this document are expressed in United States ("U.S.") dollars. The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in the City of New York for cable transfers in foreign currencies as certified for customs purposes by the Bank of Canada (the "Noon Buying Rate"). Such rates quoted are the number of U.S. dollars per one Canadian dollar and are the inverse of rates quoted by the Bank of Canada for Canadian dollars per U.S. \$1.00. The average exchange rate is based on the average of the exchange rates on the last day of each month during such periods. The Noon Buying Rate on December 31, 2016 was U.S. \$0.7448.

Years Ended December 31,

	2016	2015	2014	2013	2012
Exchange rate at end of period	0.7448	0.7225	0.8620	0.9402	1.0051
Average exchange rate during period	0.7558	0.7748	0.9022	0.9713	1.0006
High exchange rate during period	0.7972	0.8527	0.9422	1.0164	1.0299
Low exchange rate during period	0.6854	0.7148	0.8589	0.9348	0.9599

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this annual 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; the Company's largest customer accounting for a significant portion of the Company's revenue and backlog; risks related to new business initiatives; conditions in the in-home and out-of-home entertainment industries; the opportunities (or lack thereof) that may be presented to and pursued by the Company; risks related to cyber-security; risks related to the Company's inability to protect 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; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements, and actual results or anticipated developments by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

IMAX[®], IMAX[®] Dome, IMAX[®] 3D, IMAX[®] 3D Dome, Experience It In IMAX[®], *The IMAX Experience[®]*, *An IMAX Experience[®]*, *An IMAX 3D Experience[®]*, IMAX DMR[®], DMR[®], IMAX 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.

PART I

Item 1. *Business*

The Company is a Canadian corporation that was formed in March 1994 as a result of an amalgamation between WGIM Acquisition Corp. and the former IMAX Corporation (“Predecessor IMAX”). Predecessor IMAX was incorporated in 1967.

GENERAL

The Company is one of the world’s leading entertainment technology companies, specializing in motion picture technologies and presentations. IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and as such, IMAX’s theater network is among the most important and successful theatrical distribution platforms for major event films around the world.

The Company’s principal businesses are:

- the design and manufacture of premium theater systems (“IMAX theater systems”) and the sale, lease or contribution of those systems to customers under theater system arrangements; and
- the Digital Re-Mastering of films into the IMAX format and the exhibition of those films in the IMAX theater network.

IMAX theater systems are based on proprietary and patented technology developed over the course of the Company’s 49-year history. The Company’s customers who purchase, lease or otherwise acquire the IMAX theater systems through joint revenue sharing arrangements are theater exhibitors that operate commercial theaters (particularly multiplexes), museums, science centers, or destination entertainment sites. The Company generally does not own IMAX theaters, but licenses the use of its trademarks along with the sale, lease or contribution of the IMAX theater system. The Company refers to all theaters using the IMAX theater system as “IMAX theaters”.

IMAX theater systems combine:

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

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

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

The Company believes the IMAX theater network is one of the most extensive premium theater networks in the world with 1,215 theater systems (1,123 commercial, 92 institutional) operating in 75 countries as at December 31, 2016. This compares to 1,061 theater systems (962 commercial, 99 institutional) operating in 67 countries as at December 31, 2015. The success of the Company’s digital and joint revenue sharing strategies and the strength of its film slate have enabled the Company’s theater network to expand significantly since 2008, upon the introduction of the Company’s xenon-based digital projection system, with the Company’s overall network increasing by 306% and its commercial network increasing by 527% since such time. In 2016 and 2015, the Company signed theater agreements for 319 and 138 theater systems, respectively, which are expected to drive additional growth in the Company’s theater network in 2017 and thereafter.

The Company believes that over time its commercial multiplex theater network could grow to approximately 2,450 IMAX theaters worldwide from the 1,107 commercial multiplex IMAX theaters in operation as of December 31, 2016. While the Company continues to grow in the United States and Canada, it believes that the majority of its future growth will come from international markets. As at December 31, 2016, 63.7% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 58.5% as at December 31, 2015, and approximately 87.8% of IMAX theater systems in backlog are scheduled to be installed in international markets, compared to 88.2% as at December 31, 2015. 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.

Greater China continues to be the Company's second-largest and fastest-growing market, measured by revenues. In recent years, the Company's Greater China operations have accounted for an increasingly significant portion of its overall revenues, with approximately 31% of overall revenues generated from the Company's China operations in 2016. As at December 31, 2016, the Company had 424 theaters operating in Greater China and an additional 334 theaters in backlog that are scheduled to be installed in Greater China by 2022. The Company's backlog in Greater China represents 67.1% of the Company's current backlog. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. The Company's largest single international partnership is in China with Wanda Cinema Line Corporation ("Wanda"). In 2016, the Company and Wanda signed an agreement for an additional 150 theater systems under a joint revenue sharing arrangement. This increases Wanda's total commitment to the Company to 360 theater systems, of which 345 theater systems are under the parties' joint revenue sharing arrangement. Furthermore, the Company has partnerships with CJ CGV Holdings, Ltd., for a commitment of 120 theater systems (of which 100 theater systems will be located in China), and with Guangzhou JinYi Media Corporation for a commitment of 60 theater systems (all of which are located in China).

In 2014, the Company completed the sale and issuance of 20% of the shares of the Company's subsidiary, IMAX China Holding, Inc. ("IMAX China"), to entities owned and controlled by CMC Capital Partners ("CMC"), an investment fund that is focused on media and entertainment, and FountainVest Partners ("FountainVest"), a China-focused private equity firm. The sale price for the interest was \$80.0 million (collectively, the "IMAX China Investment"). On October 8, 2015, IMAX China completed an initial public offering of its ordinary shares on the Main Board of the Hong Kong Stock Exchange Limited (the "IMAX China IPO"). Following the IMAX China IPO, the Company continues to indirectly own approximately 68.2% of IMAX China, which remains a consolidated subsidiary of the Company.

The Company believes that there have been a number of financial, strategic and operating benefits resulting from both the IMAX China Investment and the IMAX China IPO. With respect to the IMAX China Investment, the Company believes that the investors' knowledge of, and influence in, the Chinese media and entertainment industry has contributed to the continued expansion of IMAX's theater network in China and the further strengthening of the Company's government and industry relationships. In addition, the Company believes that the IMAX China IPO provides investors the ability to directly access and evaluate the IMAX China business, and provides greater clarity into the business's performance in the fastest-growing entertainment market in the world.

Over the years, several technological breakthroughs have established IMAX as an important distribution platform for Hollywood's biggest event films. These include:

- **DMR** — IMAX's proprietary DMR technology digitally converts live-action digital films or 35mm to its large-format, while meeting the Company's high standards of image and sound quality. In a typical IMAX DMR film arrangement, the Company receives a percentage, which in recent years has averaged approximately 12.5%, of box-office receipts, net of sales tax, of any commercial films released in the IMAX theater network outside of Greater China from the applicable film studio for the conversion of the film to the IMAX DMR format and for access to the Company's premium distribution platform. Within Greater China, the Company receives a lower percentage of box-office receipts for certain films. At December 31, 2016, the Company had released 294 IMAX DMR films since the introduction of IMAX DMR in 2002. The number of films released on an annual basis that have been converted through the DMR process has increased significantly in recent years with the advent of digital technology that has reduced the DMR conversion time and with the strengthening of the Company's relationships with major Hollywood studios, as well as international studios. Accordingly, 51 films converted through the IMAX DMR process were released in 2016, as compared to six in 2007.

- IMAX Xenon-Based Digital Projection System — The Company introduced its xenon-based digital projection system in 2008. Prior to 2008, all of IMAX’s large format projectors were film-based and required analog film prints. The IMAX xenon-based digital projection system, which operates without the need for such film prints, was designed specifically for use by commercial multiplex operators and allows operators to reduce the capital and operating costs required to run an IMAX theater without sacrificing the image and sound quality of *The IMAX Experience*. By making *The IMAX Experience* more accessible for commercial multiplex operators, the introduction of the IMAX xenon-based digital projection system paved the way for a number of important joint revenue sharing arrangements which have allowed the Company to rapidly expand its theater network. Since announcing that the Company was developing xenon-based digital projection technology, the vast majority of the Company’s theater system signings have been for xenon-based digital systems. As at December 31, 2016, the Company has signed agreements for 1,571 xenon-based digital systems since 2007, 303 of which were signed in 2016 alone. As at December 31, 2016, 1,093 IMAX xenon-based digital projection systems were in operation, an increase of 16.4% over the 939 xenon-based digital projection systems in operation as at December 31, 2015 and 478 IMAX xenon-based digital projection systems were in backlog as compared to 348 xenon-based digital systems in backlog as at December 31, 2015.
- IMAX Laser-Based Digital Projection System — As one of the world’s leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. To that end, the Company introduced its next-generation laser-based digital projection system at the end of 2014, which was co-developed with Barco N.V. and incorporates exclusive technology developed or otherwise obtained by the Company. The Company believes that the IMAX laser-based digital projectors present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network. As of December 31, 2016, 39 laser-based digital theater systems were operational. The Company is in the process of developing a commercial laser-based digital projection system designed for IMAX theaters in multiplexes.

In addition to the design and manufacture of premium theater systems, the Company is also engaged in the production and distribution of original large-format films, the provision of services in support of the IMAX theater network, the provision of post-production services for large-format films, the operation of three IMAX theaters and, from time-to-time the conversion of two-dimensional (“2D”) and three-dimensional (“3D”) Hollywood feature films for exhibition on IMAX theater systems around the world.

NEW BUSINESS INITIATIVES

The Company is exploring new lines of business, with a focus on location-based experiences, alternative forms of in-cinema entertainment and in-home entertainment. In the second quarter of 2016, the Company announced its comprehensive virtual reality (“VR”) strategy to develop a premium, location-based VR offering that will deliver immersive, multi-dimensional experiences, including entertainment content and games, to branded VR centers (“IMAX VR Centers”). IMAX VR Centers are expected to be located in both stand-alone venues as well as multiplexes, malls and other commercial destinations, and will be retrofitted with proprietary VR pods that permit interactive, moveable VR experiences. The Company’s VR initiative is premised on a unique combination of premium content, proprietary design and best-in-class technology.

In order to deliver high quality content to the IMAX VR Centers, the Company has partnered with Google to design and develop a cinema-grade IMAX VR camera, which will enable filmmakers and content creators to capture and deliver high-quality, 360-degree content experiences to audiences. In addition, the Company recently announced the creation of an approximately \$50.0 million virtual reality fund (the “VR Fund”) among the Company, its subsidiary IMAX China and other strategic investors. The VR Fund will help finance the creation of an estimated 25-30 interactive VR content experiences over the next three years for use across all VR platforms, including in the IMAX VR Centers. The VR Fund will target premium productions with its Hollywood studio and filmmaker partners, as well as gaming publishers and other leading content developers.

In January 2017, the Company launched its flagship pilot IMAX VR Center in Los Angeles and has signed agreements for additional IMAX VR center pilots in China, the U.S. and the United Kingdom, which are scheduled to open in the coming months. The Company plans to use these pilot locations to test several factors including the overall customer experience, pricing models, throughput, types of content featured and differences in geographic areas. If successful, the Company’s intent is to roll out IMAX VR Centers globally.

Through its VR initiative, the Company sees a unique opportunity to combine premium equipment, more robust computing power, and specially designed spaces to create a highly differentiated, destination-based VR experience that will draw consumers out of their homes, similar to the strategy it has successfully employed in the cinema space.

The Company is also focusing on alternative forms of in-cinema entertainment, including original content. In November 2016, the Company announced an agreement with Marvel Television Inc. (“Marvel”) and Disney|ABC Television Group to co-produce and exclusively premiere the new ABC series “*Marvel’s Inhumans*” in IMAX theaters. Under the agreement, the first two episodes of the series are expected to run worldwide exclusively in IMAX theaters for two weeks in September 2017. Several weeks later, the series will premiere on the ABC network in the U.S. and across other networks internationally. As a result of the Company’s significant financing commitment, the Company will have an equity participation both in the pilot and in the television series. This agreement marks the first time a live-action television series has debuted in this manner, and the first time the Company has an economic interest in a television property.

In 2015, the Company announced the creation of the IMAX China Film Fund (the “China Film Fund”) with its subsidiary IMAX China, its partner CMC and several other larger investors to help fund Mandarin language commercial films. The China Film Fund, which is expected initially to be capitalized with over \$100.0 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.

Also, in 2014, the Company announced the creation of the IMAX Original Film Fund (the “Film Fund”) to co-finance a portfolio of 10 original large format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company agreed to contribute \$9.0 million to the Film Fund over five years starting in 2014 and sees the Film Fund as a self-perpetuating vehicle designed to generate a continuous flow of high-quality documentary content. As at December 31, 2016, the Film Fund has invested \$13.4 million toward the development of original films.

The Company has also made inroads in the realm of in-home entertainment. To that end, the Company has announced home theater initiatives, including a joint venture with TCL Multimedia Technology Holding Limited (“TCL”) to design, develop, manufacture and sell a premium home theater system. Since 2013, the joint venture has signed agreements with end users for the sale of more than 140 premium home theater systems, and has signed agreements with distributors for the sale of more than 500 home theater systems. Beyond its premium home theater, the Company is also currently developing other components of broader home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*[®] in their homes.

PRODUCT LINES

The Company believes it is the world’s largest designer and manufacturer of specialty premium projection and sound system components for large-format theaters around the world, as well as a significant producer and distributor of large-format films. The Company’s theater systems include specialized IMAX projectors, advanced sound systems and specialty screens. The Company derives its revenues from:

- IMAX theater systems (design, manufacture, sale or lease of, and provision of services related to, its theater systems);
- Films (production and digital re-mastering of films, the distribution of film products to the IMAX theater network, post-production and print services for films);
- Joint revenue sharing arrangements (the provision of its theater system to an exhibitor in exchange for a certain percentage of theater revenue and, in some cases, a small upfront or initial payment);
- Theater system maintenance (the use of maintenance services related to its theater systems); and
- Other activities, which include theater operations (owning equipment, operating, managing or participating in the revenues of IMAX theaters), the sale of after-market parts and camera rentals.

Segmented information is provided in note 18 to the accompanying audited consolidated financial statements in Item 8.

IMAX Theater Systems, Theater System Maintenance and Joint Revenue Sharing Arrangements

The Company’s primary products are its theater systems. The Company’s digital projection systems include a projector that offers superior image quality and stability and a digital theater control system; a digital audio system delivering up to 12,000 watts of sound; a screen with a proprietary coating technology, and, if applicable, 3D glasses cleaning equipment. IMAX’s digital projection system also operates without the need for analog film prints. Traditional IMAX film-based theater systems contain the same components as the digital projection systems but include a rolling loop 15/70-format projector and require the use of analog film prints. Since its

introduction in 2008, the vast majority of the Company's theater sales have been digital systems. Furthermore, a majority of the Company's existing film-based theater systems have been upgraded, at a cost to the exhibitor, to an IMAX digital system. As part of the arrangement to sell or lease its theater systems, the Company provides extensive advice on theater planning and design and supervision of installation services. Theater systems are also leased or sold with a license for the use of the world-famous IMAX brand.

The Company's digital projection system provides a premium and differentiated experience to moviegoers that is consistent with what they have come to expect from the IMAX brand, while providing for the compelling economics and flexibility that digital technology affords. The relatively low cost of a digital file delivery (approximately \$100 per movie per system compared to \$30 thousand per 2D print and \$60 thousand per 3D print for an IMAX analog film print) ensures programming flexibility, which in turn allows theaters to program significantly more IMAX DMR films per year. More programming increases customer choice and potentially increases total box-office revenue. In 2016, 51 films converted through the IMAX DMR process were released to the IMAX theater network as compared to six films in 2007. To date, the Company has contracted for the release of 26 DMR titles to its theater network for 2017; however, the Company expects a similar number of films to be released to the network in 2017 as experienced in 2016. The Company remains in active discussions with all the major studios regarding future titles for 2017 and beyond. Furthermore, the Company expects to announce both additional local language IMAX DMR films and original and alternative content to be released to the IMAX theater network in 2017 and beyond. Supplementing the Company's film slate of Hollywood DMR titles with appealing local DMR titles is an important component of the Company's international film strategy.

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

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

The Company's arrangements for theater system equipment involve a sale, sales-type lease or joint revenue sharing arrangement. As part of the purchase, lease or other acquisition of an IMAX theater system, the Company also advises the customer on theater design, supervises the installation of the theater systems and provides projectionists with training in using the equipment. The supervision of installation requires that the equipment also be put through a complete functional start-up and test procedure to ensure proper operation. Theater owners or operators are responsible for providing the theater location, the design and construction of the theater building, the installation of the system components and any other necessary improvements, as well as the theater's marketing and programming. The Company's typical arrangement also includes trademark license rights whose term tracks the term of the underlying agreement. The theater system equipment components (including the projector, sound system, screen system, and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and trademark rights are all elements of what the Company considers the system deliverable (the "System Deliverable"). For a separate fee, the Company provides ongoing maintenance and extended warranty services for the theater system. The Company's contracts are generally denominated in U.S. dollars, except in Canada, China, Japan and parts of Europe, where contracts are sometimes denominated in local currency.

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

Under a sales agreement, by contrast, the 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.

The typical sales-type lease or sales arrangement provides for three major sources of cash flows for the Company: (i) initial fees; (ii) ongoing minimum fixed and contingent fees; and (iii) ongoing maintenance and extended warranty fees. Initial fees generally are

received over the period of time from the date the arrangement is executed to the date the equipment is installed and customer acceptance has been received. However, in certain cases, the payments of the initial fee may be scheduled over a period of time after the equipment is installed and customer acceptance has been received. Ongoing minimum fixed and contingent fees and ongoing maintenance and extended warranty fees are generally received over the life of the arrangement and are usually adjusted annually based on changes in the local consumer price index. The ongoing minimum fixed and contingent fees generally provide for a fee which is the greater of a fixed amount or a certain percentage of the theater box-office. The terms of each arrangement vary according to the configuration of the theater system provided, the cinema market and the film distribution market relevant to the geographic location of the customer.

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

Under a hybrid joint revenue sharing arrangement, by contrast, the customer is responsible for making upfront payments prior to the delivery and installation of the IMAX theater system in an amount that is typically half of what the Company would receive from a straight sale transaction. As with a traditional joint revenue sharing arrangement, the customer also pays the Company a portion of the customer's IMAX box-office receipts over the term of the arrangement, although the percentage of box-office receipts owing to the Company is typically half that of a traditional joint revenue sharing arrangement. The Company generally retains title to the theater system equipment components, and the equipment is returned to the Company at the conclusion of the arrangement. In limited instances, however, title to the theater system equipment components passes to the customer.

Under the significant majority of joint revenue sharing arrangements (both traditional and hybrid), the initial non-cancellable term of IMAX theater systems is 10 years or longer, and is renewable by the customer for one to two additional terms of between three to five years. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are non-cancellable by the customer unless the Company fails to perform its obligations. In rare cases, the contract provides certain performance thresholds that, if not met by either party, allow the other party to terminate the agreement. By offering arrangements in which exhibitors do not need to invest the significant initial capital required of a sales-type lease or a sale arrangement, the Company has been able to expand its theater network at a significantly faster pace than it had previously. As at December 31, 2016, the Company has entered into joint revenue sharing arrangements for 995 systems with 48 partners, 640 of which were in operation as at December 31, 2016.

In 2012, Dalian Wanda Group Co., Ltd. ("Dalian Wanda"), the parent company of Wanda, acquired AMC Entertainment Holdings, Inc. ("AMC"). Under common ownership, Wanda and AMC together is the Company's largest customer, representing approximately 13.5%, 16.0% and 14.5% of the Company's total revenue in 2016, 2015 and 2014, respectively. In addition, Wanda and AMC together represented approximately 40.3% of the commercial network and 39.8% of the Company's backlog as of December 31, 2016. See Risk Factors – "Under common ownership, Wanda and AMC together account for a significant and growing portion of the Company's revenue and backlog. A deterioration in the Company's relationship with Wanda and/or AMC could materially, adversely affect the Company's business, financial condition or results of operations." in Item 1A.

Sales Backlog

The Company's sales backlog is as follows:

	December 31, 2016		December 31, 2015	
	Number of Systems	Fixed Contractual Dollar Value (in thousands)	Number of Systems	Fixed Contractual Dollar Value (in thousands)
Sales and sales-type lease arrangements	143	\$ 175,331	160	\$ 207,858
Joint revenue sharing arrangements				
Hybrid arrangements	92	48,658 ⁽¹⁾	117	62,606 ⁽¹⁾
Traditional arrangements	263	3,680 ⁽²⁾	95	450 ⁽²⁾
	<u>498 ⁽³⁾</u>	<u>\$ 227,669</u>	<u>372 ⁽⁴⁾</u>	<u>\$ 270,914</u>

- (1) Reflects contractual upfront payments. Future contingent payments are not reflected as these are based on negotiated shares of box-office results.
- (2) No fixed upfront or annual minimum payments. Future contingent payments are not reflected as these are based on negotiated shares of box-office results.
- (3) Includes 20 laser-based digital theater system configurations, including three upgrades. The Company continues to develop and roll out its laser-based digital projection system. See "Research and Development" in this Part I for additional information.
- (4) Includes 24 laser-based digital theater system configurations, including 13 upgrades.

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, however it excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of contractual ongoing fees that may be received in the future. The value of sales backlog does not include revenue from theaters in which the Company has an equity interest, operating leases, letters of intent or long-term conditional theater commitments. The value of theaters under joint revenue sharing arrangements is excluded from the dollar value of sales backlog, although certain theater systems under joint revenue sharing arrangements provide for contracted upfront payments and therefore carry a backlog value based on those payments. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

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

	2016		2015	
	Theater Network Base	Backlog	Theater Network Base	Backlog
Flat Screen (2D)	9	-	12	-
Dome Screen (2D)	45	-	53	-
IMAX 3D Dome (3D)	2	-	2	-
IMAX 3D GT (3D)	18	-	24	-
IMAX 3D SR (3D)	9	-	13	-
IMAX Digital: Xenon (3D)	1,093	478	939	348 ⁽²⁾
IMAX Digital: Laser (3D)	39	20 ⁽¹⁾	18	24 ⁽³⁾
Total	<u>1,215</u>	<u>498</u>	<u>1,061</u>	<u>372</u>

- (1) Backlog includes three upgrades to laser-based digital theater systems from xenon-based digital theater systems in existing IMAX theater locations (all institutional)

- (2) Includes two upgrades from film-based theater systems to xenon-based digital theater systems in existing IMAX theater locations (one commercial and one institutional).
- (3) Backlog includes 13 upgrades to laser-based digital theater systems from xenon-based digital theater systems in existing IMAX theater locations (three commercial and 10 institutional).

The Company estimates that it will install approximately 150 – 155 new theater systems (excluding upgrades) in 2017. The Company's installation estimates includes scheduled systems from backlog, as well as the Company's estimate of installations from arrangements that will sign and install in the same calendar year. The Company cautions, however, that theater system installations may slip from period to period over the course of the Company's business, usually for reasons beyond its control.

IMAX theater systems consist of the following configurations:

IMAX Digital: Xenon Theater Systems. In July 2008, the Company introduced a proprietary IMAX xenon-based digital projection system that it believes delivers higher quality imagery compared with other digital systems and that is consistent with the Company's brand. As at December 31, 2016, the Company had installed 1,093 xenon-based digital theater systems and has an additional 478 xenon-based digital theater systems in its backlog.

IMAX Digital: Laser Theater Systems. The Company introduced its next-generation laser-based digital projection system at the end of 2014. The Company believes the IMAX laser-based digital projectors present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology, capable of illuminating the largest screens in the IMAX theater network. As at December 31, 2016, the Company had installed 39 laser-based digital systems. The Company is in the process of developing a commercial laser-based digital projection system designed for IMAX theaters in multiplexes.

IMAX Flat Screen and IMAX Dome Theater Systems. IMAX flat screen and IMAX dome systems primarily have been installed in institutions such as museums and science centers. Flat screen IMAX theaters were introduced in 1970, while IMAX dome theaters, which are designed for tilted dome screens, were introduced in 1973. There have been several significant proprietary and patented enhancements to these systems since their introduction. As at December 31, 2016, there were 56 IMAX flat screen and IMAX dome theater systems in the IMAX network, as compared to 67 IMAX flat screen and IMAX dome theater systems as at December 31, 2015. With the introduction of the IMAX digital theater systems, there has been a decrease in the number of IMAX flat screen and IMAX dome theater systems in the network.

IMAX 3D GT and IMAX 3D SR Theater Systems. IMAX 3D theaters utilize a flat screen 3D system, which produces realistic 3D images on an IMAX screen. As at December 31, 2016, there were 27 IMAX 3D GT and IMAX 3D SR theater systems in operation compared to 37 IMAX 3D GT and IMAX 3D SR theater systems in operation as at December 31, 2015. The decrease in the number of 3D GT and 3D SR theater systems is largely attributable to the conversion of existing 3D GT and 3D SR theater systems to IMAX digital theater systems.

Films

Film Production and Digital Re-mastering (IMAX DMR)

In 2002, the Company developed a proprietary technology to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in IMAX theaters at a modest cost that is incurred by the Company. This system, known as IMAX DMR, digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which *The IMAX Experience* is known. This technology has enabled the IMAX theater network to release Hollywood films simultaneously with their broader domestic release. The development of this technology was critical in helping the Company execute its strategy of expanding its commercial theater network by establishing IMAX theaters as a key, premium distribution platform for Hollywood films. In a typical IMAX DMR film arrangement, the Company receives a percentage, which in recent years has averaged approximately 12.5%, of box-office receipts, net of sales tax, of any commercial films released in the IMAX theater network outside of Greater China from the applicable film studio for the conversion of the film to the IMAX DMR format and for access to the Company's premium distribution platform. Within Greater China, the Company receives a lower percentage of box-office receipts for certain films.

Other factors beyond the IMAX DMR format, and IMAX's proprietary projection and sound technology, further differentiate IMAX content from other film content. Filmmakers choose IMAX cameras to shoot selected scenes to increase the audience's immersion in the film and take advantage of the unique dimensions of the IMAX screen by shooting the film in a larger aspect ratio.

Certain films also enjoy early release windows in IMAX, including *Everest: An IMAX 3D Experience* and *The Walk: The IMAX Experience*, which were released one week early in IMAX theaters in 2015. Several recent films have featured select sequences shot with IMAX cameras including *Captain America: Civil War: An IMAX 3D Experience*, released in May 2016; *Batman v Superman: Dawn of Justice: An IMAX 3D Experience*, released in March 2016; *Star Wars: The Force Awakens: An IMAX 3D Experience*, released in December 2015; *Interstellar: The IMAX Experience*, released in November 2014; and *Transformers Age of Extinction: An IMAX 3D Experience*, released in June 2014, among others. In addition, Marvel's *Avengers: Infinity War — Part 1: An IMAX 3D Experience* and *Avengers: Infinity War — Part 2: An IMAX 3D Experience* are expected to be shot in their entireties using the IMAX camera, which is the second time a full feature length movie will be filmed with the IMAX cameras. *Sully: The IMAX Experience*, released in August 2016, was shot with IMAX cameras for a majority of the film. IMAX theaters therefore serve as an additional distribution platform for Hollywood films, just as home video and pay-per-view are ancillary distribution platforms. In some cases, the Company may also have certain distribution rights to the films produced using its IMAX DMR technology.

The IMAX DMR process involves the following:

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

The first IMAX DMR film, *Apollo 13: The IMAX Experience*, produced in conjunction with Universal Pictures and Imagine Entertainment, was released in September 2002 to 48 IMAX theaters. One of the more recent IMAX DMR films, *Fantastic Beasts and Where to Find Them: An IMAX 3D Experience* was released in November 2016 to 1,108 IMAX theaters. Since the release of *Apollo 13: The IMAX Experience*, to December 31, 2016, an additional 293 IMAX DMR films have been released to the IMAX theater network.

Advances in the IMAX DMR process allow the re-mastering process to meet aggressive film production schedules. The Company has decreased the length of time it takes to reformat a film with its IMAX DMR technology. *Apollo 13: The IMAX Experience*, released in September 2002, was re-mastered in 16 weeks, while certain current films can be re-mastered in less than one week. The IMAX DMR conversion of simultaneous, or “day-and-date” releases are done in parallel with the movie’s filming and editing, which is necessary for the simultaneous release of an IMAX DMR film with the domestic release to conventional theaters.

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

The Company believes that the growth in international box-office will continue to be an important driver of future growth for the Company. In fact, during the year ended December 31, 2016, 61.8% of the Company’s gross box-office from IMAX DMR films was generated in international markets. To support growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company’s film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. In 2016, the Company released 12 local language IMAX DMR films, including nine in China, two in Russia and one in Japan, and in 2015, the Company released 11 local language IMAX DMR films, including eight in China and three in Japan.

In 2016, 51 films were converted through the IMAX DMR process and released to theaters in the IMAX network by film studios as compared to 44 films in 2015.

To date, the Company has announced the following 26 DMR titles to be released in 2017 to the IMAX theater network:

- *Your Name: The IMAX Experience* (Toho Co., Ltd., January 2017);
- *xXx: Return of Xander Cage: The IMAX Experience* (Paramount Pictures, January 2017);
- *Resident Evil: The Final Chapter: The IMAX Experience* (Sony Pictures, January 2017);
- *Attraction: The IMAX Experience* (Art Pictures Studio, January 2017, Russia only);
- *Journey to The West: The Demons Strike Back: The IMAX Experience* (Alibaba Pictures Group, January 2017);
- *The Lego Batman Movie: The IMAX Experience* (Warner Bros. Pictures, February 2017);
- *Sing: The IMAX Experience* (Universal Pictures, February 2017, China and Japan only);
- *Logan: The IMAX Experience* (20th Century Fox, March 2017);
- *Kong: Skull Island: The IMAX Experience* (Warner Bros. Pictures, March 2017);
- *Beauty and The Beast: The IMAX Experience* (Walt Disney Studios, March 2017);
- *Ghost in the Shell: The IMAX Experience* (Paramount Pictures, March 2017);
- *The Fate of the Furious: The IMAX Experience* (Universal Pictures, April 2017);
- *Guardians of the Galaxy Vol. 2: The IMAX Experience* (Walt Disney Studios, May 2017);
- *Pirates of the Caribbean: Dead Men Tell No Tales: The IMAX Experience* (Walt Disney Studios, May 2017);
- *Wonder Woman: The IMAX Experience* (Warner Bros. Pictures, June 2017);
- *The Mummy: The IMAX Experience* (Universal Pictures, June 2017);
- *Transformers: The Last Knight: The IMAX Experience* (Paramount Pictures, June 2017);
- *Spider-Man: Homecoming: The IMAX Experience* (Sony Pictures-distributed and Marvel Studios and Sony Pictures-produced, July 2017);
- *Dunkirk: The IMAX Experience* (Warner Bros. Pictures, July 2017);
- *The Solutrean: The IMAX Experience* (Sony Pictures, September 2017);
- *The Lego Ninjago Movie: The IMAX Experience* (Warner Bros. Pictures, September 2017);
- *Blade Runner 2049: The IMAX Experience* (Warner Bros. Pictures, October 2017);
- *Geostorm: The IMAX Experience* (Warner Bros. Pictures, October 2017);
- *Thor: Ragnarök: The IMAX Experience* (Walt Disney Studios, November 2017);
- *Justice League: The IMAX Experience* (Warner Bros. Pictures, November 2017); and
- *Star Wars: The Last Jedi: The IMAX Experience* (Walt Disney Studios, December 2017).

In addition, in conjunction with Marvel and Disney|ABC Television Group, the Company will be co-producing and exclusively premiering the new ABC series “*Marvel’s Inhumans*” in IMAX theaters. The first two episodes of the series are expected to run worldwide exclusively in IMAX theaters for two weeks in September 2017, and several weeks later, the series will premiere on the ABC network. The Company will have an equity participation both in the pilot and in the television series, representing the first time the Company will have an economic interest in a television property.

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

The Company also expects to announce both additional local language IMAX DMR films and original and alternative content to be released to the IMAX theater network in 2017 and beyond. Supplementing the Company’s film slate of Hollywood DMR titles with appealing local DMR titles is an important component of the Company’s international film strategy.

Film Distribution

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.

Films produced by the Company are typically financed through third parties, whereby the Company will generally receive a film production fee in exchange for producing the film and a distribution fee for distributing the film. The ownership rights to such films may be held by the film sponsors, the film investors and/or the Company. As at December 31, 2016, the Company currently has distribution rights with respect to 46 of such films, which cover such subjects such as space, wildlife, music, history and natural wonders. Several more recent large-format films that have been distributed by the Company include: *A Beautiful Planet*, which was

released in April 2016 and has grossed over \$10.1 million as at the end of 2016; *Voyage of Time*, which was released in October 2016 and has grossed over \$0.3 million as at the end of 2016; *Island of Lemurs: Madagascar*, which was released in April 2014 and has grossed over \$13.2 million as at the end of 2016; *Journey to the South Pacific*, which had a limited release in November 2013 and a broader release in 2014 and has grossed \$12.6 million as at the end of 2016. Large-format films have significantly longer exhibition periods than conventional commercial films and many of the films in the large-format library have remained popular for many decades, including the films *SPACE STATION*, *Hubble 3D* and *T-REX: Back to the Cretaceous*.

Film Post-Production

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.

Other

Theater Operations

As at December 31, 2016 and 2015, the Company had two and three owned and operated theaters on leased premises, respectively. In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses. The Company also provides management services to two theaters.

Cameras

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

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

MARKETING AND CUSTOMERS

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

The commercial multiplex theater segment of the Company's theater network is now its largest segment, comprising 1,107 IMAX theaters, or 91.1%, of the 1,215 IMAX theaters open as at December 31, 2016. The Company's institutional customers include science and natural history museums, zoos, aquaria and other educational and cultural centers. Over the last several years the Company has not been able to digitally upgrade many of the institutional locations due to the size of the screens. The development of the IMAX digital laser-based system, which was rolled out at the end of 2014, together with the completion of the Film Fund, should assist in supporting this segment of the Company's customer base. The Company also sells or leases its theater systems to theme parks, private home theaters, tourist destination sites, fairs and expositions (the Commercial Destination segment). At December 31, 2016, approximately 63.7% of all opened IMAX theaters were in locations outside of the United States and Canada.

The following table outlines the breakdown of the theater network by type and geographic location as at December 31:

	2016 Theater Network Base				2015 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	349	5	41	395	342	6	45	393
Canada	37	2	7	46	37	2	8	47
Greater China ⁽¹⁾	407	-	17	424	290	-	17	307
Asia (excluding Greater China)	93	2	3	98	81	3	6	90
Western Europe	76	6	10	92	69	7	10	86
Russia & the CIS	56	-	-	56	49	-	-	49
Latin America ⁽²⁾	38	-	12	50	35	-	11	46
Rest of the World	51	1	2	54	40	1	2	43
Total	1,107	16	92	1,215	943	19	99	1,061

(1) Greater China includes the People's Republic of China, Hong Kong, Taiwan and Macau.

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

For information on revenue breakdown by geographic area, see note 18 to the accompanying audited consolidated financial statements in Item 8. The Company's foreign operations are subject to certain risks. See "Risk Factors – The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations sales and future growth prospects" and "Risk Factors – The Company faces risks in connection with the continued expansion of its business in China" in Item 1A. The Company's two largest customers as at December 31, 2016, collectively represent 40.3% of the Company's network base of theaters, 39.8% of the Company's theater system backlog and 17.0% of revenues.

INDUSTRY AND COMPETITION

Within the past decade, as the motion picture industry has transitioned from film projection to digital projection, a number of companies have introduced digital 3D projection technology and an increasing number of Hollywood features have been exhibited using these technologies. As part of this digital transition, a number of commercial exhibitors have introduced their own large screen branded theaters, while certain projection manufacturers and entertainment technology companies have also announced their own proprietary theater systems, some of which include laser-based projectors. The Company believes that all of these alternative film formats deliver images and experiences that are inferior to *The IMAX Experience*. In 2008, the Company introduced its proprietary digitally-based projector which is capable of 2D and 3D presentations on large screens and which comprises the majority of its current theater system sales. The Company is in the process of developing a commercial laser-based digital projection system designed for IMAX theaters in multiplexes.

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

The Company believes that its competitive strengths include the value of the IMAX brand name, the premium IMAX consumer experience, the design, quality and historic reliability rate of IMAX theater systems, the return on investment of an IMAX theater, the number and quality of IMAX films that it distributes, the relationships the Company maintains with prominent Hollywood and international filmmakers, a number of whom desire to film portions of their movies with IMAX cameras, the quality of the sound system components included with the IMAX theater, the availability of Hollywood and international event films to IMAX theaters through IMAX DMR technology, consumer loyalty and the level of the Company's service and maintenance and extended warranty efforts. The Company believes that its next-generation laser-based projection system increases further the technological superiority of the consumer experience it delivers. As a result, the Company believes that all of the best performing premium theaters in the world are IMAX theaters.

THE IMAX BRAND

IMAX is a world leader in entertainment technology. The Company relies on its brand to communicate its leadership and singular goal of creating entertainment experiences that exceed all expectations. Top filmmakers and studios use the IMAX brand to message that a film will connect with audiences in unique and extraordinary ways. The IMAX brand is a promise to deliver what today's movie audiences crave — a memorable, more emotionally engaging, more thrilling and shareable experience. Consumer research conducted in six countries worldwide by a leading third-party research firm shows that the IMAX brand has near universal awareness, creates a special experience and is by far the most differentiated movie-going brand. On a standardized measure of brand equity, the IMAX brand ranged from two to 10 times more powerful than other exhibition and entertainment technology brands. The Company believes that its strong brand equity supports consumers' predisposition to choose IMAX over competing brands and to pay a premium for *The IMAX Experience* now and into the future. IMAX brand strength is evidenced by growing market share, high average ticket prices and per screen averages that outperform the industry.

RESEARCH AND DEVELOPMENT

The Company believes that it is one of the world's leading entertainment technology companies with significant proprietary expertise in digital and film-based projection and sound system component design, engineering and imaging technology, particularly in laser-based technology. In recent years, the Company has increased its level of research and development in order to develop its next-generation laser-based projection system. The laser-based projection system provides greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. Currently, the Company experiences lower than expected margins from the installation of these laser-based projection systems. As a result, in 2016, the Company focused its research and development efforts on a new commercial laser-based projection system in order to create a more cost-effective solution. The Company intends for additional research and development to continue in 2017 to support the further development of the laser-based digital projection system. In 2016, the Company also began research and development in connection with its exploration of a comprehensive VR strategy to deliver immersive and interactive experiences to consumers through pilot IMAX VR Centers. In addition, the Company plans to continue research and development activity in the future in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors; enhancing the Company's 2D and 3D image quality; expanding the applicability of the Company's digital technology, and using such technology to help expand the Company's home entertainment platform; developing IMAX theater systems' capabilities in both home and live entertainment; and improving the Company's proprietary tuning system and mastering processes.

The Company has also made significant investments in other areas of digital technologies, including the development of proprietary technology to digitally enhance image resolution and quality of motion picture films including High Dynamic Range content, the creation of an IMAX digital projector and the licensing of prominent laser illumination technology. Accordingly, the Company holds a number of patents, patents pending and other intellectual property rights in these areas. In addition, the Company holds numerous digital patents and relationships with key manufacturers and suppliers in digital technology.

In 2009, the Company developed its first 3D digital camera primarily for use in IMAX documentary productions. Portions of *Born to Be Wild 3D* and *Island of Lemurs: Madagascar* were filmed with the IMAX 3D digital camera and the camera has subsequently been used to film footage for *Transformers: Age of Extinction: An IMAX 3D Experience*, released in June 2014 and *Star Wars: The Force Awakens: An IMAX 3D Experience*, released in December 2015. Several recent films have featured select sequences shot with IMAX cameras including *Batman v Superman: Dawn of Justice: An IMAX 3D Experience*, released in March 2016; *Captain America: Civil War: An IMAX 3D Experience*, released in May 2016; and *Transformers Age of Extinction: An IMAX 3D Experience*, released in June 2014. In addition, Marvel's *Avengers: Infinity War — Part 1: An IMAX 3D Experience* and *Avengers: Infinity War — Part 2: An IMAX 3D Experience* are expected to be shot in their entirety using the IMAX camera, which is the second time a full feature length movie will be filmed with the IMAX cameras. Due to the increasing success major Hollywood filmmakers have experienced with IMAX cameras, the Company has identified the development and manufacture of additional IMAX cameras as an important research and development initiative.

The Company also has made progress deploying its proprietary expertise in image technology and 3D technology, as well as its proprietary film content and the IMAX brand, for applications in its in-home entertainment technology initiatives, including its premium home theater system with TCL. The premium home theater system incorporates 4K projection technology, together with security and delivery technology to enable the viewing of current theatrical releases that have been digitally re-mastered with IMAX enhancement technology. To date, the Company's joint venture with TCL has signed agreements with end users for the sale of more than 140 theater systems, and has signed agreements with distributors for the sale of more than 500 home theater systems.

For the years ended December 31, 2016, 2015, and 2014, the Company recorded research and development expenses of \$16.3 million, \$12.7 million and \$16.1 million, respectively. As at December 31, 2016, 88 of the Company's employees were connected with research and development projects.

MANUFACTURING AND SERVICE

Projector Component Manufacturing

The Company assembles the projector of its theater systems at its office in Mississauga, Ontario, Canada (near Toronto). The Company develops and designs all of the key elements of the proprietary technology involved in this component. Fabrication of a majority of parts and sub-assemblies is subcontracted to a group of carefully pre-qualified third-party suppliers. Manufacture and supply contracts are signed for the delivery of the component on an order-by-order basis. The Company believes its significant suppliers will continue to supply quality products in quantities sufficient to satisfy its needs. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the projector to comprehensive testing individually and as a system prior to shipment. In 2016, these projectors, including both the Company's xenon and laser-based projection systems, had reliability rates based on scheduled shows of approximately 99.9%.

Sound System Component Manufacturing

The Company develops, designs and assembles the key elements of its theater sound system component. The standard IMAX theater sound system component comprises parts from a variety of sources, with approximately 50% of the materials of each sound system attributable to proprietary parts provided under original equipment manufacturers agreements with outside vendors. These proprietary parts include custom loudspeaker enclosures and horns, specialized amplifiers, and signal processing and control equipment. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the sound system component to comprehensive testing individually and as a system prior to shipment.

Screen and Other Components

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

Maintenance and Extended Warranty Services

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

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

PATENTS AND TRADEMARKS

The Company's inventions cover various aspects of its proprietary technology and many of these inventions are protected by Letters of Patent or applications filed throughout the world, most significantly in the United States, Canada, China, Belgium, Japan, France, Germany and the United Kingdom. The subject matter covered by these patents, applications and other licenses encompasses theater design and geometry, electronic circuitry and mechanisms employed in projectors and projection equipment (including 3D projection equipment), a method for synchronizing digital data, a method of generating stereoscopic (3D) imaging data from a monoscopic (2D) source, a process for digitally re-mastering 35mm films into large-format, a method for increasing the dynamic range and contrast of projectors, a method for visibly seaming or superimposing images from multiple projectors and other inventions relating to digital projectors. In 2011, the Company entered into a deal in which it secured the exclusive license rights from Kodak to a portfolio of more than 50 patent families covering laser projection technology as well as certain exclusive rights to a broad range of Kodak patents in the field of digital cinema. The Company has been and will continue to be diligent in the protection of its proprietary interests.

As at December 31, 2016, the Company holds or licenses 109 patents, has 15 patents pending in the United States and has corresponding patents or filed applications in many countries throughout the world. While the Company considers its patents to be important to the overall conduct of its business, it does not consider any particular patent essential to its operations. Certain of the Company's patents for improvements to the IMAX projection system components expire between 2021 and 2034.

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

EMPLOYEES

The Company had 703 employees as at December 31, 2016, compared to 646 employees as at December 31, 2015. Both employee counts exclude hourly employees at the Company's owned and operated theaters, virtual reality centers and certain other new business initiatives.

AVAILABLE INFORMATION

The Company makes available, free of charge, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to such reports, as soon as reasonably practicable after such filings have been made with the United States Securities and Exchange Commission (the "SEC"). The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, as well as obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Reports may be obtained free of charge through the SEC's website at www.sec.gov and through the Company's website at www.imax.com or by calling the Company's Investor Relations Department at 212-821-0100. No information included on the Company's website shall be deemed included or otherwise incorporated into this Annual Report on Form 10-K for the Fiscal Year ended December 31, 2016 (this "2016 Form 10-K"), except where expressly indicated.

Item 1A. Risk Factors

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

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

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

A significant portion of the Company's revenues and gross box-office are generated by customers located outside the United States and Canada. Approximately 62%, 60% and 60% of the Company's revenues were derived outside of the United States and Canada in 2016, 2015 and 2014, respectively. As at December 31, 2016, approximately 87.8% of IMAX theater systems arrangements in backlog are scheduled to be installed in international markets. Accordingly, the Company expects its international operations to continue to account for an increasingly significant portion of its revenues in the future. There are a number of risks associated with operating in international markets that could negatively affect the Company's operations, sales and future growth prospects. These risks include:

- new restrictions on access to markets, both for theater systems and films;
- unusual or burdensome foreign laws or regulatory requirements or unexpected changes to those laws or requirements;
- fluctuations in the value of foreign currency versus the U.S. dollar and potential currency devaluations;
- new tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers;
- imposition of foreign exchange controls in such foreign jurisdictions;
- dependence on foreign distributors and their sales channels;
- difficulties in staffing and managing foreign operations;
- local business practices that can present challenges to compliance with applicable anti-corruption and bribery laws;
- difficulties in establishing market-appropriate pricing;
- less accurate and/or less reliable box-office reporting;
- adverse changes in monetary and/or tax policies, and/or difficulties in repatriating cash from foreign jurisdictions (including with respect to China, where approval of the State Administration of Foreign Exchange is required);
- poor recognition of intellectual property rights;
- difficulties in enforcing contractual rights;
- inflation;
- requirements to provide performance bonds and letters of credit to international customers to secure system component deliveries; and
- political, economic and social instability.

In addition, the change in administrations in the United States could lead to changes in international policy, which could present new risks and uncertainties as the Company continues to expand its international operations.

The Company faces risks in connection with the continued expansion of its business in China.

At present, Greater China is the Company's second largest and fastest-growing market, by revenue. In recent years, the Company's Greater China operations have accounted for an increasingly significant portion of its overall revenues, with nearly 31% of overall revenues generated from the Company's China operations in 2016. As at December 31, 2016, the Company had 424 theaters operating in Greater China with an additional 334 theaters in backlog, which represent 67.1% of the Company's current backlog and which are scheduled to be installed in Greater China by 2022.

The China market faces a number of risks, including changes in laws and regulations, currency fluctuations, increased competition and changes in economic conditions, including the risk of an economic downturn or recession, as well as other conditions that may impact consumer spending. Adverse developments in any of these areas could impact the Company's future revenues and cash flows and could cause the Company to fail to achieve anticipated growth.

Moreover, certain risks and uncertainties of doing business in China are solely within the control of the Chinese government, and Chinese law regulates both the scope of the Company's continued expansion in China and the business conducted by it within China. For instance, the Chinese government regulates both the number and timing or terms of Hollywood films released to the China market. The Company cannot provide assurance that the Chinese government will continue to permit the release of IMAX films in China or that the timing of IMAX releases will be favorable to the Company. There are also uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights in China. If the Company were unable to navigate China's regulatory environment, including with respect to its current customs inquiry, or if the Company were unable to enforce its intellectual property or contract rights in China, the Company's business could be adversely impacted.

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

An important factor affecting the growth and success of the IMAX theater network is the availability and strategic selection of films for IMAX theaters and the box-office performance of such films. The Company itself produces only a small number of such films and, as a result, the Company relies principally on films produced by third party filmmakers and studios, including both Hollywood and local language features converted into the Company's large format using the Company's IMAX DMR technology. In 2016, 51 IMAX DMR films were released by studios to the worldwide IMAX theater network. There is no guarantee that filmmakers and studios will continue to release films to the IMAX theater network, or that the films selected for release to the IMAX theater network will be commercially successful. The Company is directly impacted by the box-office results for the films released to the IMAX network through its joint revenue sharing arrangements as well as through the percentage of the box-office receipts the Company receives from the studios releasing IMAX DMR films, and the Company's continued ability to secure films, find suitable partners for joint revenue share arrangements and to sell IMAX theater systems also depends on the number and commercial success of films released to its network. The commercial success of films released to IMAX theaters depends on a number of factors outside of the Company's control, including whether the film receives critical acclaim, the timing of its release, the success of the marketing efforts of the studio releasing the film, consumer preferences and trends in cinema attendance. Moreover, films can be subject to delays in production or changes in release schedule, which can negatively impact the number, timing and quality of IMAX DMR and IMAX original films released to the IMAX theater network.

In addition, as the Company's international network has expanded, the Company has signed deals with studios in other countries to convert their films to the Company's large format and release them to IMAX theaters. The Company may be unable to select films which will be successful in international markets or may be unsuccessful in selecting the right mix of Hollywood and local DMR films for a particular country or region. Also, conflicts in international release schedules may make it difficult to release every IMAX film in certain markets.

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

The Company's primary customers are commercial multiplex exhibitors, whose systems represent 99.0% of the 498 theater systems in the Company's backlog as at December 31, 2016. The Company is unable to predict if, or when, they or other exhibitors will purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, or whether any of the Company's existing customers will continue to do any of the foregoing. If exhibitors choose to reduce their levels of expansion or decide not to purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, the

Company's revenues would not increase at an anticipated rate and motion picture studios may be less willing to convert their films into the Company's format for exhibition in commercial IMAX theaters. As a result, the Company's future revenues and cash flows could be adversely affected.

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

A substantial portion of the Company's revenues are denominated in U.S. dollars, while a substantial portion of its expenses are denominated in Canadian dollars. The Company also generates revenues in Chinese Yuan Renminbi, Euros and Japanese Yen. While the Company periodically enters into forward contracts to hedge its exposure to exchange rate fluctuations between the U.S. and the Canadian dollar, the Company may not be successful in reducing its exposure to these fluctuations. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility. Even in jurisdictions in which the Company does not accept local currency, significant local currency issues may impact the profitability of the Company's arrangements for the Company's customers, which ultimately affect the Company's ability to negotiate cost-effective arrangements and, therefore, the Company's results of operations. In addition, because IMAX films generate box-office in 74 different countries, unfavourable exchange rates between applicable local currencies and the U.S. dollar could affect the Company's reported gross box-office and revenues, further impacting the Company's results of operations.

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

The out-of-home entertainment industry is very competitive, and the Company faces a number of competitive challenges. According to the National Association of Theater Owners, as at December 31, 2016, there were approximately 16,481 conventional-sized screens in North American multiplexes equipped with digital 3D systems. In addition, some commercial exhibitors, projection manufacturers and entertainment technology companies have announced or introduced their own branded, large-screen 3D auditoriums or other proprietary theater systems, some of which include laser-based projectors, and in many cases have marketed those auditoriums or theater systems as having the same quality or attributes as an IMAX theater. The Company also may face competition in the future from companies in the entertainment industry with new technologies and/or substantially greater capital resources to develop and support them. If the Company is unable to continue to deliver a premium movie-going experience, or if other technologies surpass those of the Company, the Company may be unable to continue to produce theater systems which are premium to, or differentiated from, other theater systems. If the Company is unable to produce a differentiated theater experience, consumers may be unwilling to pay the price premiums associated with the cost of IMAX theater tickets and box-office performance of IMAX films may decline. Declining box-office performance of IMAX films would materially and adversely harm the Company's business and prospects. The Company also faces in-home competition from a number of alternative motion picture distribution channels such as home video, pay-per-view, video-on-demand, DVD, Internet and syndicated and broadcast television. The Company further competes for the public's leisure time and disposable income with other forms of entertainment, including gaming, sporting events, concerts, live theater, social media and restaurants.

Failure to respond adequately or in a timely fashion to changes and advancements in digital technology could negatively affect the Company's business.

There have been a number of advancements in the digital cinema field in recent years. In order to keep pace with these changes and in order to continue to provide an experience which is premium to and differentiated from conventional cinema experiences, the Company has made, and expects to continue to make, significant investments in digital technology in the form of research and development and the acquisition of third party intellectual property and/or proprietary technology. Recently, the Company has made significant investments in laser technology as part of the development of its next-generation laser-based digital projection system, which it began rolling out to the largest theaters in the IMAX network at the end of 2014. The Company intends to continue to invest in the development of its commercial laser-based digital projection system. The process of developing new technologies is inherently uncertain and subject to certain factors that are outside of the Company's control, including reliance on third party partners and suppliers, and the Company can provide no assurance its investments will result in commercially viable advancements to the Company's existing products or in commercially successful new products, or that any such advancements or products will improve upon existing technology or will be developed within the timeframe expected.

Under common ownership, Wanda and AMC together account for a significant and growing portion of the Company's revenue and backlog. A deterioration in the Company's relationship with Wanda and/or AMC could materially, adversely affect the Company's business, financial condition or results of operation.

In 2012, Dalian Wanda, the parent company of Wanda, acquired AMC. In December 2013, AMC completed an initial public offering of approximately 20% of its outstanding shares, with Dalian Wanda retaining the approximately 80% remaining. Under common ownership, Wanda and AMC together represent approximately 13.5%, 16.0% and 14.5% of the Company's total revenue in 2016, 2015 and 2014, respectively. On August 2, 2016, Wanda entered into an agreement with the Company for an additional 150 IMAX theater systems to be built over six years, bringing Wanda's total commitment to 360 IMAX theater systems. With the latest expansion of the Company's joint revenue sharing arrangement with Wanda, Wanda and AMC together represented approximately 40.3% of the commercial network and 39.8% of the Company's backlog as of December 31, 2016. The share of the Company's revenue that is generated by Wanda and AMC is expected to continue to grow as the significant number of Wanda theater systems currently in backlog are opened. No assurance can be given that either Wanda and/or AMC will continue to purchase theater systems and/or enter into joint revenue sharing arrangements with the Company and if so, whether contractual terms will be affected. If the Company does business with either Wanda and/or AMC less frequently or on less favorable terms than currently, the Company's business, financial condition or results of operations may be adversely affected. Recent consolidation in the industry, including AMC's acquisition of Carmike Cinemas and Odeon/UCI Cinemas Group, further augments this risk.

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

The Company is undertaking new lines of business. These initiatives represent new areas of growth for the Company and could include the offering of new products and services that may not be accepted by the market. Some areas of potential growth for the Company are in the fields of location-based virtual reality, original content and in-home entertainment technology, all of which are intensively competitive businesses and which are dependent on consumer demand, over which the Company has no control. If any new business in which the Company invests or attempts to develop does not progress as planned, the Company may be adversely affected by investment expenses that have not led to the anticipated results, by write-downs of its equity investments, by the distraction of management from its core business or by damage to its brand or reputation.

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

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

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

The Company owns or licenses patents issued and patent applications pending, including those covering its digital projector, digital conversion technology and laser illumination technology. The Company's patents are filed in the United States, often with corresponding patents or filed applications in other jurisdictions, such as Canada, China, Belgium, Japan, France, Germany and the United Kingdom. The patent applications pending may not be issued or the patents may not provide the Company with any competitive advantage. The patent applications may also be challenged by third parties. Several of the Company's issued patents for improvements to IMAX projectors, IMAX 3D Dome and sound system components expire between 2021 and 2034. Any claims or litigation initiated by the Company to protect its proprietary technology could be time consuming, costly and divert the attention of its technical and management resources.

The IMAX brand stands for the highest quality and most immersive motion picture entertainment. Protecting the IMAX brand is a critical element in maintaining the Company's relationships with studios and its exhibitor clients. Though the Company relies on a combination of trademark and copyright law as well as its contractual provisions to protect the IMAX brand, those protections may not be adequate to prevent erosion of the brand over time, particularly in foreign jurisdictions. Erosion of the brand could threaten the demand for the Company's products and services and impair its ability to grow future revenue streams.

The Company faces cyber-security and similar risks, which could result in the disclosure, theft or loss of confidential or other proprietary information, including intellectual property; damage to the Company's brand and reputation; legal exposure and financial losses.

The nature of the Company's business involves access to and storage of confidential and proprietary content and other information, including intellectual property, as well as information regarding the Company's customers, employees, licensees and suppliers. Although the Company maintains robust procedures to safeguard such content and information, as well as a cyber-security insurance policy, the Company's information technology systems could be penetrated by internal or external parties' intent on extracting information, corrupting information, stealing intellectual property or trade secrets, or disrupting business processes. Information security risks have increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. It is possible that computer hackers could compromise the Company's security measures or the security measures of parties with whom the Company does business, and thereby obtain the confidential or proprietary information of the Company or its customers, employees, licensees and suppliers. Any such breach or unauthorized access could result in a disruption of the Company's operations, the theft, unauthorized use or publication of the Company's intellectual property and other proprietary information, a reduction of the revenues the Company is able to generate from its operations, damage to the Company's brand and reputation, a loss of confidence in the security of the Company's business and products, and significant legal and financial exposure, each of which could potentially have an adverse effect on the Company's business.

General political, social and economic conditions can affect the Company's business by reducing both revenue generated from existing IMAX theater systems and the demand for new IMAX theater systems.

The Company's success depends in part on general political, social and economic conditions and the willingness of consumers to purchase tickets to IMAX movies. If going to the movies becomes less popular, the Company's business could be adversely affected. In addition, the Company's operations could be adversely affected if consumers' discretionary income falls as a result of an economic downturn. In recent years, the majority of the Company's revenue has been directly derived from the box-office revenues of its films. Accordingly, any decline in attendance at commercial IMAX theaters could materially and adversely affect several sources of key revenue streams for the Company.

The Company also depends on the sale and lease of IMAX theater systems to commercial movie exhibitors to generate revenue. Commercial movie exhibitors generate revenues from consumer attendance at their theaters, which depends on the willingness of consumers to visit movie theaters and spend discretionary income at movie theaters. In the event of declining box-office and concession revenues, commercial exhibitors may be less willing to invest capital in new IMAX theaters.

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

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

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

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

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

At December 31, 2016, the Company's sales backlog included 498 theater systems, consisting of 143 systems under sales arrangements and 355 theater systems under joint revenue sharing arrangements. The Company lists signed contracts for theater systems for which revenue has not been recognized as sales backlog prior to the time of revenue recognition. The total value of the sales backlog represents all signed theater system sale or lease agreements that are expected to be recognized as revenue in the future and includes initial fees along with the present value of fixed minimum ongoing fees due over the term, but excludes contingent fees in excess of fixed minimum ongoing fees that might be received in the future and maintenance and extended warranty fees. Notwithstanding the legal obligation to do so, not all of the Company's customers with which it has signed contracts may accept delivery of theater systems that are included in the Company's backlog. This could adversely affect the Company's future revenues and cash flows. In addition, customers with theater system obligations in backlog sometimes request that the Company agree to modify or reduce such obligations, which the Company has agreed to in the past under certain circumstances. Customer requested delays in the installation of theater systems in backlog remain a recurring and unpredictable part of the Company's business.

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

The Company's operating results and cash flow can fluctuate substantially from period to period. In particular, fluctuations in theater system installations and gross box-office performance of IMAX DMR content can materially affect operating results. Factors that have affected the Company's operating results and cash flow in the past, and are likely to affect its operating results and cash flow in the future, include, among other things:

- the timing of signing and installation of new theater systems (particularly for installations in newly-built multiplexes, which can result in delays that are beyond the Company's control);
- the timing and commercial success of films distributed to the Company's theater network;
- the demand for, and acceptance of, its products and services;
- the recognition of revenue of sales and sales-type leases;
- the classification of leases as sales-type versus operating leases;
- the volume of orders received and that can be filled in the quarter;
- the level of its sales backlog;
- the signing of film distribution agreements;
- the financial performance of IMAX theaters operated by the Company's customers and by the Company;

- financial difficulties faced by customers, particularly customers in the commercial exhibition industry;
- the magnitude and timing of spending in relation to the Company's research and development efforts and related investments as well as new business initiatives; and
- the number and timing of joint revenue sharing arrangement installations, related capital expenditures and timing of related cash receipts.

Most of the Company's operating expenses are fixed in the short term. The Company may be unable to rapidly adjust its spending to compensate for any unexpected shortfall in sales, joint revenue sharing arrangements revenue or IMAX DMR revenue which would harm operating results for a particular period, although the results of any particular period are not necessarily indicative of its results for any period.

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

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

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

Initial fees generally make up the vast majority of cash received under theater system sales or lease agreements for a theater arrangement.

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

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

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

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

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

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

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

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

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

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

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

The Company is subject to impairment losses on its inventories.

The Company records write-downs for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, technological developments, signings in negotiation and anticipated market acceptance of the Company's current and pending theater systems.

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company’s principal executive offices are located in Mississauga, Ontario, Canada, New York, New York, and Playa Vista, California. The Company’s principal facilities are as follows:

	Operation	Own/Lease	Expiration
Mississauga, Ontario ⁽¹⁾	Headquarters, Administrative, Assembly and Research and Development	Own	N/A
Playa Vista, California ⁽²⁾	Sales, Marketing, Film Production and Post-Production	Own	N/A
New York, New York	Executive	Lease	2019
Beijing, China	Sales	Lease	2018
Tokyo, Japan	Sales, Marketing and Maintenance	Lease	2018
Shanghai, China	Sales, Marketing, Maintenance and Administrative	Lease	2019
Dublin, Ireland	Sales and Administrative	Lease	2026
Moscow, Russia	Sales	Lease	2017
London, United Kingdom	Sales	Lease	2017

(1) This facility is subject to a charge in favor of Wells Fargo Bank in connection with a secured term and revolving credit facility (see note 11 to the accompanying audited consolidated financial statements in Item 8).

(2) This facility is subject to a charge in favor of Wells Fargo Bank in connection with the Playa Vista Loan (as defined in note 11 to the accompanying audited consolidated financial statements in Item 8).

The Company believes that its existing facilities and equipment are in good operating condition and are suitable for the conduct of its business.

Item 3. Legal Proceedings

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

In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chamber of Commerce (the “ICC”) with respect to the breach by Electronic Media Limited (“EML”) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML’s affiliate, E-City Entertainment (I) PVT Limited (“E-City”). On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, consisting of past and future rents owed to the Company, plus interest and costs, as well as an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. On June 13, 2013, the Bombay High Court ruled that it has jurisdiction over the proceeding but on November 19, 2013, the Supreme Court of India stayed proceedings in the High Court pending Supreme Court review of the High Court’s ruling. On June 24, 2011, the Company commenced a proceeding in the Ontario Superior Court of Justice for recognition of the ICC final award. On December 2, 2011, the Ontario Court issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application. In January 2013, the Company filed an action in the New York Supreme Court seeking to collect the amount owed to the Company by certain entities and individuals affiliated with E-City. On October 16, 2015, the New York Supreme Court denied the Company’s petition, and the Company is appealing that decision. On July 29, 2014, the Company commenced a separate proceeding to have the Canadian judgment against E-City recognized in New York, and on October 2, 2015, the New York Supreme Court granted IMAX’s request, recognizing the Canadian judgment and entering it as a New York judgment. On November 26, 2014, E-City filed a motion in the Bombay High Court seeking to enjoin IMAX from continuing the New York legal proceedings. On February 2, 2015, the Bombay High Court denied E-City’s request for an injunction. On March 16, 2015, E-City filed an appeal of this Bombay High Court decision.

In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd. (“IMAX Shanghai”), the Company’s majority-owned subsidiary in China, 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”). A key issue raised by the Audit is the transfer pricing policy basis for the importation of IMAX theater systems by IMAX Shanghai into the People’s Republic of China and the applicability of customs duties and taxes to the trademark and technology license fees paid by IMAX Shanghai to the Company. In December 2016, the Customs Authority conclusively determined that any trademark, technology and warranty fees paid by IMAX Shanghai on systems revenue directly related to imported theater systems should be included as part of the tax cost base of these systems and subject to applicable duties and taxes. In connection with the conclusion, for the period beginning January 1, 2012 through October 31, 2016, IMAX Shanghai recorded \$2.95 million in duties and taxes on the trademark, technology and warranty fees for applicable to theater systems imported during that period and settled the payment in January 2017. 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 of approximately \$0.1 million. Though IMAX Shanghai’s importation agent accepted responsibility for the error giving rise to the underpayment, the matter has been transferred to the Anti-Smuggling Bureau of the Customs Authority for further review. IMAX Shanghai is unable to assess the potential impact, if any, of this outstanding matter at this time.

On November 11, 2013, Giencourt Investments, S.A. (“Giencourt”) initiated arbitration before the International Centre for Dispute Resolution in Miami, Florida, based on alleged breaches by the Company of its theater agreement and related license agreement with Giencourt. Giencourt submitted its statement of claim in January 2015, the Company submitted its statement of defense and

counterclaim in April 2015 and Giencourt submitted its arbitration reply paper in September 2015. An arbitration hearing for witness testimony was held during the week of December 14, 2015. At the hearing, Giencourt's expert identified monetary damages of up to approximately \$10.4 million, which Giencourt seeks to recover from the Company. The Company has asserted a counterclaim against Giencourt for breach of contract and seeks to recover lost profits in excess of \$24.0 million under the agreements. In addition, on December 10, 2015, Giencourt made a motion to the panel seeking to enforce a purported settlement of the matter based on negotiations between Giencourt and the Company. The panel held a final hearing with closing arguments on October 20 and 21, 2016. On February 7, 2017, the panel issued a Partial Final Award (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. The Company is currently reviewing the Award and assessing its response and potential next steps, including a potential challenge in Florida court on the grounds that the panel exceeded its jurisdiction. 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.

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.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

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

The Company's common shares are listed for trading under the trading symbol "IMAX" on the NYSE. The following table sets forth the range of high and low sales prices per share for the common shares on the NYSE.

	U.S. Dollars	
	High	Low
NYSE		
Year ended December 31, 2016		
Fourth quarter	\$ 34.80	\$ 27.95
Third quarter	\$ 34.47	\$ 28.55
Second quarter	\$ 33.50	\$ 27.63
First quarter	\$ 33.92	\$ 25.99
Year ended December 31, 2015		
Fourth quarter	\$ 39.58	\$ 33.30
Third quarter	\$ 39.37	\$ 29.18
Second quarter	\$ 43.22	\$ 33.53
First quarter	\$ 35.54	\$ 29.49

As at January 31, 2017, the Company had approximately 240 registered holders of record of the Company's common shares.

Over the last two years, the Company has not paid, nor does the Company have any current plans to pay, cash dividends on its common shares. The payment of dividends by the Company is subject to certain restrictions under the terms of the Company's indebtedness (see note 11 to the accompanying audited consolidated financial statements in Item 8 and "Liquidity and Capital Resources" in Item 7). The payment of any future dividends will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board of Directors.

Equity Compensation Plans

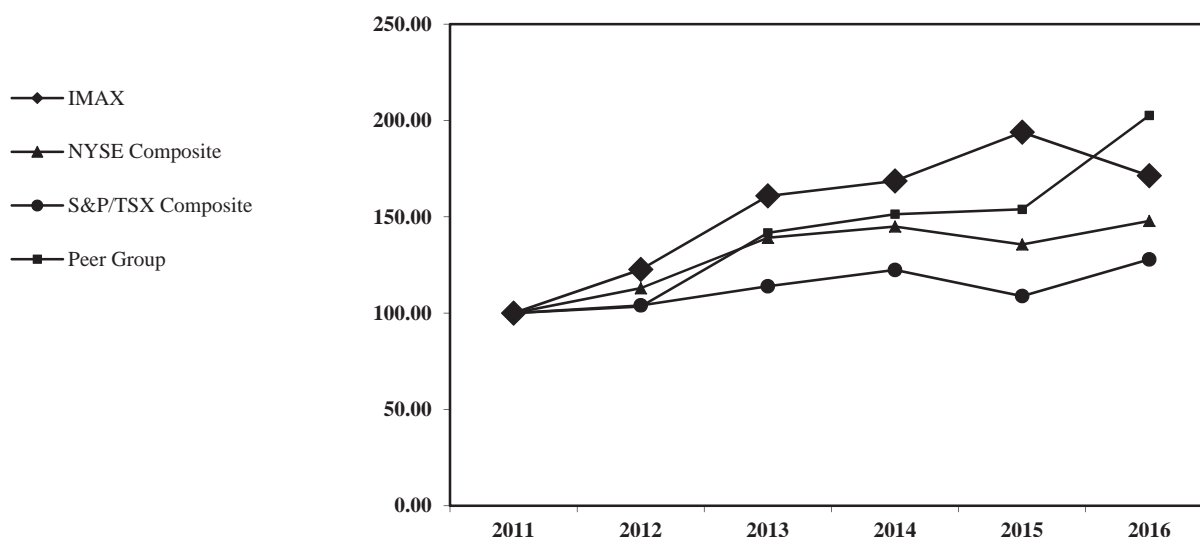
The following table sets forth information regarding the Company's Equity Compensation Plan as at December 31, 2016:

<u>Plan Category</u>	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	6,326,472	\$ 29.18	5,696,100
Equity compensation plans not approved by security holders	nil	nil	nil
Total	6,326,472	\$ 29.18	5,696,100

Performance Graph

The following graph compares the total cumulative shareholder return for \$100 invested on December 31, 2011 (assumes that all dividends were reinvested) in common shares of the Company against the cumulative total return of the NYSE Composite Index, the S&P/TSX Composite Index and the IMAX Peer Group to the end of the most recently completed fiscal year. The IMAX Peer Group consists of DTS, Inc., TIVO Inc., RealD Inc., World Wrestling Entertainment, Inc., Rovi Corporation, DreamWorks Animation SKG, Inc., Corus Entertainment Inc., Take-Two Interactive Software, Inc., Dolby Laboratories, Inc., Six Flags Entertainment Corporation, Lions Gate Entertainment Corp. and Cinemark Holdings, Inc.

CUMULATIVE VALUE OF \$100 INVESTMENT



	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14	31-Dec-15	31-Dec-16
IMAX	100.00	122.64	160.83	168.58	193.89	171.30
NYSE Composite	100.00	112.93	139.10	144.97	135.66	147.88
S&P/TSX Composite	100.00	104.00	113.94	122.40	108.82	127.88
Peer Group	100.00	103.38	141.68	151.37	153.89	202.64

Issuer Purchases of Equity Securities

The Company's common stock repurchase program activity for the three months ended December 31, 2016 was as follows:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program ⁽¹⁾	Maximum value of shares that may yet be purchased under the program
October 1 through October 31, 2016	558,710	\$ 28.87	558,710	\$ 46,262,874
November 1 through November 30, 2016	-	-	-	\$ 46,262,874
December 1 through December 31, 2016	-	-	-	\$ 46,262,874
Total	558,710	\$ 28.87	558,710	

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

The total number of shares purchased during the three months ended December 31, 2016 does not include any shares received in the administration of employee share-based compensation plans. The Company has \$46.3 million available under its approved repurchase program.

CERTAIN INCOME TAX CONSIDERATIONS

United States Federal Income Tax Considerations

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

Distributions on Common Shares

In general, distributions (without reduction for Canadian withholding taxes) paid by the Company with respect to the common shares will be taxed to a U.S. Holder as dividend income to the extent that such distributions do not exceed the current and accumulated earnings and profits of the Company (as determined for U.S. federal income tax purposes). Subject to certain limitations, under current law dividends paid to non-corporate U.S. Holders may be eligible for a reduced rate of taxation as long as the Company is considered to be a "qualified foreign corporation". A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States or a foreign corporation the stock of which is regularly tradable on an established securities market in the United States. The amount of a distribution that exceeds the current and accumulated earnings and profits of the Company will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in the common shares and thereafter as taxable capital gain. Corporate holders generally will not be allowed a deduction for dividends received in respect of distributions on common shares. Subject to the limitations set forth in the U.S. Internal Revenue Code of 1986, as amended, as modified by the U.S.-Canada Income Tax Treaty, U.S. Holders may elect to claim a foreign tax credit against their U.S. federal income tax liability for Canadian income tax withheld from dividends. Alternatively, U.S. Holders may claim a deduction for such amounts of Canadian tax withheld.

Disposition of Common Shares

Upon the sale or other disposition of common shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale or other disposition and such holder's tax basis in the common shares. Gain or loss upon the sale or other disposition of the common shares will be long-term if, at the time of the sale or other disposition, the common

shares have been held for more than one year. Long-term capital gains of non-corporate U.S. Holders may be eligible for a reduced rate of taxation. The deduction of capital losses is subject to limitations for U.S. federal income tax purposes.

Canadian Federal Income Tax Considerations

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

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

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

Dividends on Common Shares

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

Capital Gains and Losses

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

Item 6. Selected Financial Data

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

	Years Ended December 31,				
	2016	2015	2014	2013	2012
<i>(In thousands of U.S. dollars, except per share amounts)</i>					
Statements of Operations Data:					
Revenues					
Equipment and product sales	\$ 122,382	\$ 118,937	\$ 78,705	\$ 78,663	\$ 78,161
Services	166,862	161,964	142,607	139,464	135,071
Rentals	77,315	83,651	60,705	61,293	61,268
Finance income	9,500	9,112	8,524	8,142	7,523
Other ⁽¹⁾	1,275	141	-	375	732
	377,334	373,805	290,541	287,937	282,755
Costs and expenses applicable to revenues					
Equipment and product sales ⁽²⁾⁽³⁾	69,680	63,635	36,997	37,517	37,538
Services ⁽²⁾⁽³⁾	83,780	70,855	62,228	68,844	70,570
Rentals ⁽³⁾	21,086	20,027	17,928	16,973	21,402
Other	110	-	-	-	-
	174,656	154,517	117,153	123,334	129,510
	202,678	219,288	173,388	164,603	153,245
Gross margin					
Selling, general and administrative expenses ⁽⁴⁾	124,745	115,345	93,260	84,854	81,560
Gain on curtailment of postretirement benefit plan ⁽⁵⁾	-	-	-	(2,185)	-
Research and development	16,315	12,730	16,096	14,771	11,411
Amortization of intangibles	2,079	1,860	1,724	1,618	706
Receivable provisions, net of recoveries	954	752	918	445	524
Asset impairments ⁽⁶⁾⁽⁷⁾	417	830	3,520	-	150
	58,168	87,771	57,870	65,100	58,894
Interest income	1,490	968	405	55	85
Interest expense	(1,805)	(1,661)	(924)	(1,345)	(689)
	57,853	87,078	57,351	63,810	58,290
Provision for income taxes	(16,212)	(20,052)	(14,466)	(16,629)	(15,079)
Loss from equity-accounted investments, net of tax	(2,321)	(2,402)	(1,071)	(2,757)	(1,362)
	39,320	64,624	41,814	44,424	41,849
Income (loss) from discontinued operations, net of tax ⁽⁸⁾	-	-	355	(309)	(512)
	39,320	64,624	42,169	44,115	41,337
Less: net income attributable to non-controlling interests ⁽⁹⁾	(10,532)	(8,780)	(2,433)	-	-
	\$ 28,788	\$ 55,844	\$ 39,736	\$ 44,115	\$ 41,337
Net income per share attributable to common shareholders - basic and diluted:					
Net income per share - basic:					
Net income per share from continuing operations	\$ 0.43	\$ 0.79	\$ 0.57	\$ 0.66	\$ 0.64
Net income (loss) per share from discontinued operations	-	-	0.01	-	(0.01)
	\$ 0.43	\$ 0.79	\$ 0.58	\$ 0.66	\$ 0.63
Net income per share - diluted:					
Net income per share from continuing operations	\$ 0.42	\$ 0.78	\$ 0.56	\$ 0.64	\$ 0.62
Net loss per share from discontinued operations	-	-	-	-	(0.01)
	\$ 0.42	\$ 0.78	\$ 0.56	\$ 0.64	\$ 0.61

(1) The Company enters into theater system arrangements with customers that typically contain customer payment obligations prior to the scheduled installation of the theater systems. Each year, during the period of time between signing and theater system installation, certain customers are unable to, or elect not to, proceed with the theater system installation for a number of reasons, including business considerations, or the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the customer and/or the Company may terminate the arrangement by default or by entering into a consensual buyout. In these situations, the parties are released from their future obligations under the arrangement, and the initial payments that the customer previously made to the Company and recognized as revenue are typically not refunded. In addition, the Company enters into agreements with customers to terminate their obligations for a theater system configuration and enter into a new arrangement for a different configuration. Other revenues from settlement arrangements were \$1.3 million, \$0.1 million, \$nil, \$0.4 million, and \$0.7 million in 2016, 2015, 2014, 2013 and 2012, respectively.

(2) In 2016, the Company recognized a charge of \$0.5 million in costs and expenses applicable to revenues for the write-down of certain service parts and theater system inventories. Included for the periods 2012 through 2016 are the following inventory write-downs:

<i>(In thousands of U.S. dollars)</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Equipment and product sales	\$ 227	\$ 537	\$ 209	\$ 274	\$ 795
Services	231	35	150	170	103
	<u>\$ 458</u>	<u>\$ 572</u>	<u>\$ 359</u>	<u>\$ 444</u>	<u>\$ 898</u>

(3) The Company recorded advertising, marketing, and commission costs for the periods 2012 through 2016 as listed below:

<i>(In thousands of U.S. dollars)</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Equipment and product sales	\$ 4,364	\$ 2,985	\$ 3,271	\$ 2,522	\$ 2,690
Services	19,696	13,236	7,701	4,552	4,773
Rentals	2,714	3,040	2,579	3,582	3,382
Advertising, marketing, and commission costs	<u>\$ 26,774</u>	<u>\$ 19,261</u>	<u>\$ 13,551</u>	<u>\$ 10,656</u>	<u>\$ 10,845</u>

(4) Includes share-based compensation expense of \$30.5 million, \$21.9 million, \$15.1 million, \$11.9 million and \$13.1 million for 2016, 2015, 2014, 2013 and 2012, respectively. Also includes consulting and other professional fees associated with the IMAX China IPO of \$1.3 million for 2015.

(5) In 2013, the Company amended its Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this amendment, the Company recognized a pre-tax curtailment gain of \$2.2 million.

(6) In 2016, the Company recorded asset impairment charges of \$0.2 million related to the impairment of property, plant and equipment. Asset impairment charges related to the impairment of property, plant and equipment amounted to \$0.4 million, \$0.3 million, \$nil and \$nil in 2015, 2014, 2013 and 2012, respectively, after the Company assessed the carrying value of certain assets.

(7) In 2016, the Company recognized a \$0.2 million other-than-temporary impairment of its investments as the value is not expected to recover based on the length of time and extent to which the market value has been less than cost. See notes 19(e) of the accompanying audited consolidated financial statements in Item 8 for more information. Charges resulting from the impairment of investments amounted to \$0.4 million, \$3.2 million, \$nil and \$0.2 million in 2015, 2014, 2013 and 2012, respectively.

(8) In 2014, the Company discontinued the operations of its owned and operated Nyack IMAX theater. The net income (loss) from the operation of the theater is reflected as a discontinued operation. In the third quarter of 2016, the Company discontinued the operations of its owned and operated Navy Pier IMAX theater. The net income (loss) from the operation of the theater is not reflected as a discontinued operation in accordance with the amended Presentation of Financial Statements: Discontinued Operations Topic of the FASB ASC.

- (9) The Company's consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and IMAX China IPO. In addition, the Company recognized the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. See note 21 of the accompanying audited consolidated financial statements in Item 8 for more information.

BALANCE SHEET DATA

(in thousands of U.S. dollars)

	As at December 31,				
	2016	2015	2014	2013	2012
Cash and cash equivalents	\$ 204,759	\$ 317,449	\$ 106,503	\$ 29,546	\$ 21,336
Total assets	\$ 857,334	\$ 930,629	\$ 621,106	\$ 481,145	\$ 421,872
Total bank indebtedness	\$ 27,316	\$ 29,276	\$ 4,283	\$ -	\$ 11,000
Total shareholders' equity	\$ 621,574	\$ 673,850	\$ 382,775	\$ 319,585	\$ 253,079

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

GENERAL

IMAX Corporation, together with its consolidated subsidiaries (the "Company"), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as "IMAX theaters". IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as such, IMAX's network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 1,215 IMAX theater systems (1,107 commercial multiplexes, 16 commercial destinations, 92 institutional) operating in 75 countries as of December 31, 2016. This compares to 1,061 theater systems (943 commercial multiplexes, 19 commercial destinations, 99 institutional) operating in 67 countries as of December 31, 2015.

The Company's principal businesses are:

- the design and manufacture of premium theater systems ("IMAX theater systems") and the sale, lease or contribution of those systems to customers under theater system arrangements; and
- the Digital Re-Mastering of films into the IMAX format and the exhibition of those films in the IMAX theater network.

IMAX theater systems combine:

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

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

As a result of the immersiveness and superior image and sound quality of *The IMAX Experience*, the Company's exhibitor customers typically charge a premium for IMAX DMR films over films exhibited in their other auditoriums. The premium pricing, combined with the higher attendance levels associated with IMAX DMR films, generates incremental box-office for the Company's exhibitor customers and for the movie studios releasing their films to the IMAX network. The incremental box-office generated by IMAX DMR films has helped establish IMAX as a key premium distribution and marketing platform for Hollywood blockbuster films. Driven by the advent of digital technology that reduced the IMAX DMR conversion time and with the strengthening of the Company's relationships with the major studios, the number of IMAX DMR films released to the theater network per year has increased to 51 films in 2016, up from six films in 2007. The Company expects to release a similar number of IMAX DMR films in 2017 as compared to 2016.

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. To that end, the Company introduced its next-generation laser-based digital projection system at the end of 2014, which was co-developed with Barco N.V and incorporates exclusive technology developed or otherwise obtained by the Company. The Company believes that the IMAX laser-based projectors present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network. As at December 31, 2016, 39 laser-based digital systems were operational. The Company is in the process of developing a commercial laser-based digital projection system designed for IMAX theaters in multiplexes.

The Company is exploring new lines of business, with a focus on location-based experiences, alternative forms of in-cinema entertainment and in-home entertainment. In the second quarter of 2016, the Company announced its comprehensive virtual reality ("VR") strategy to develop a premium, location-based VR offering that will deliver immersive, multi-dimensional experiences, including entertainment content and games, to branded VR centers ("IMAX VR Centers"). IMAX VR Centers are expected to be

located in both stand-alone venues as well as multiplexes, malls and other commercial destinations, and will be retrofitted with proprietary VR pods that permit interactive, moveable VR experiences. The Company's VR initiative is premised on a unique combination of premium content, proprietary design and best-in-class technology.

In order to deliver high quality content to the IMAX VR Centers, the Company has partnered with Google to design and develop a cinema-grade IMAX VR camera, which will enable filmmakers and content creators to capture and deliver high-quality, 360-degree content experiences to audiences. In addition, the Company recently announced the creation of an approximately \$50.0 million virtual reality fund (the "VR Fund") among the Company, its subsidiary IMAX China Holding Inc. ("IMAX China") and other strategic investors. The VR Fund will help finance the creation of an estimated 25-30 interactive VR content experiences over the next three years for use across all VR platforms, including in the IMAX VR Centers. The VR Fund will target premium productions with its Hollywood studio and filmmaker partners, as well as gaming publishers and other leading content developers.

In January 2017, the Company launched its flagship pilot IMAX VR Center in Los Angeles and has signed agreements for additional IMAX VR center pilots in China, the U.S. and the United Kingdom, which are scheduled to open in the coming months. The Company plans to use these pilot locations to test several factors including the overall customer experience, pricing models, throughput, types of content featured and differences in geographic areas. If successful, the Company's intent is to roll out IMAX VR Centers globally.

Through its VR initiative, the Company sees a unique opportunity to combine premium equipment, more robust computing power, and specially designed spaces to create a highly differentiated, destination-based VR experience that will draw consumers out of their homes, similar to the strategy it has successfully employed in the cinema space.

The Company is also focusing on alternative forms of in-cinema entertainment, including original content. In November 2016, the Company announced an agreement with Marvel Television Inc. ("Marvel") and Disney|ABC Television Group to co-produce and exclusively premiere the new ABC series "*Marvel's Inhumans*" in IMAX theaters. Under the agreement, the first two episodes of the series are expected to run worldwide exclusively in IMAX theaters for two weeks in September 2017. Several weeks later, the series will premiere on the ABC network in the U.S. and across other networks internationally. As a result of the Company's significant financing commitment, the Company will have an equity participation both in the pilot and in the television series. This agreement marks the first time a live-action television series has debuted in this manner, and the first time the Company has an economic interest in a television property.

In 2015, the Company announced the creation of the IMAX China Film Fund (the "China Film Fund") with its subsidiary 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 \$100.0 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.

Also, in 2014, the Company announced the creation of the IMAX Original Film Fund (the "Film Fund") to co-finance a portfolio of 10 original large format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company agreed to contribute \$9.0 million to the Film Fund over five years starting in 2014 and sees the Film Fund as a self-perpetuating vehicle designed to generate a continuous flow of high-quality documentary content. As at December 31, 2016, the Film Fund has invested \$13.4 million toward the development of original films.

With respect to in-home entertainment, the Company has announced home theater initiatives, including a joint venture with TCL Multimedia Technology Holding Limited ("TCL") to design, develop, manufacture and sell a premium home theater system. Since 2013, the joint venture has signed agreements with end users for the sale of more than 140 premium home theater systems, and has signed agreements with distributors for the sale of more than 500 home theater systems. Beyond its premium home theater, the Company is also currently developing other components of broader home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*[®] in their homes.

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

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

The primary revenue sources for the Company can be categorized into two main groups: theater systems and films. On the theater systems side, the Company derives revenues from theater exhibitors primarily through either a sale or sales-type lease arrangement or a joint revenue sharing arrangement. Theater exhibitors also pay for associated maintenance and extended warranty services. Film revenue is derived primarily from film studios for the provision of film production and digital re-mastering services for exhibition on IMAX theater systems around the world. The Company derives other film revenues from the distribution of certain films and the provision of post-production services. The Company also derives a small portion of other revenues from the operation of its own theaters, the provision of aftermarket parts for its system components, and camera rentals.

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

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

IMAX Systems

Sales and Sales-Type Lease Arrangements

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

Joint Revenue Sharing Arrangements

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

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

Under a hybrid joint revenue sharing arrangement, by contrast, the customer is responsible for making upfront payments prior to the delivery and installation of the IMAX theater system in an amount that is typically half of what the Company would receive from a straight sale transaction. As with a traditional joint revenue sharing arrangement, the customer also pays the Company a portion of the customer's IMAX box-office receipts over the term of the arrangement, although the percentage of box-office receipts owing to the Company is typically half that of a traditional joint revenue sharing arrangement. The Company generally retains title to the theater system equipment components, and the equipment is returned to the Company at the conclusion of the arrangement. In limited instances, however, title to the theater system equipment components passes to the customer.

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

The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company's commercial theater network, which has grown by approximately 527% since the beginning of 2008. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box-office. The Company funds its joint revenue sharing arrangements through cash flows from operations. As at December 31, 2016, the Company had 640 theaters in operation under joint revenue sharing arrangements, a 21.0% increase as compared to the 529 joint revenue sharing arrangements open as at December 31, 2015. The Company also had contracts in backlog for an additional 355 theaters under joint revenue sharing arrangements as at December 31, 2016.

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

Theater System Maintenance

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

Other Theater Revenues

The Company derives a small portion of its revenues from other sources. As at December 31, 2016, the Company had two owned and operated IMAX theaters (December 31, 2015 — three owned and operated theaters). In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses and provides management services to three other theaters.

The Company also rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers. Additionally, the Company generates revenues from the sale of after-market parts and 3D glasses.

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

IMAX Theater Network

The following table outlines the breakdown of the theater network by type and geographic location as at December 31:

	2016 Theater Network Base				2015 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	349	5	41	395	342	6	45	393
Canada	37	2	7	46	37	2	8	47
Greater China ⁽¹⁾	407	-	17	424	290	-	17	307
Asia (excluding Greater China)	93	2	3	98	81	3	6	90
Western Europe	76	6	10	92	69	7	10	86
Russia & the CIS	56	-	-	56	49	-	-	49
Latin America ⁽²⁾	38	-	12	50	35	-	11	46
Rest of the World	51	1	2	54	40	1	2	43
Total	1,107	16	92	1,215	943	19	99	1,061

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

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

As of December 31, 2016, 36.3% of IMAX systems in operation were located in the United States and Canada compared to 41.5% as at the end of last year.

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

The Company believes that over time its commercial multiplex theater network could grow to approximately 2,450 IMAX theaters worldwide from 1,107 commercial multiplex IMAX theaters operating as of December 31, 2016. The Company believes that the majority of its future growth will come from international markets. As at December 31, 2016, 63.7% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 58.5% as at December 31, 2015. 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 Part I.

Greater China continues to be the Company’s second-largest and fastest-growing market, measured by revenues. The Company’s Greater China operations have accounted for an increasingly significant portion of its overall revenues, with nearly 31% of overall revenues generated from the Company’s China operations in 2016. As at December 31, 2016, the Company had 424 theaters operating in Greater China with an additional 334 theaters in backlog that are scheduled to be installed in Greater China by 2022. The Company’s backlog in Greater China represents 67.1% of the Company’s current backlog. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. The Company’s largest single international partnership is in China with Wanda Cinema Line Corporation (“Wanda”). In 2016, the Company and Wanda signed an agreement for an additional 150 theater systems under a joint revenue sharing arrangement. This increases Wanda’s total commitment to the Company to 360 theater systems in Greater China, of which 345 theater systems are under the parties’ joint revenue sharing arrangement. Furthermore, the Company has a partnership with CJ CGV Holdings, Ltd., for a commitment of 120 theater systems, of which 100 theater systems will be located in China. In addition, in 2016, the Company and Guangzhou JinYi Media Corporation

("JinYi") expanded its existing commitment to include 40 theater systems under a joint revenue sharing arrangement. With the addition of these theater systems, JinYi's total commitment to the Company is for 60 theater systems, all of which are located in China. See Risk Factors – "The Company faces risks in connection with the continued expansion of its business in China" in Item 1A of Part I.

In 2014, the Company completed the sale and issuance of 20% of the shares of the Company's subsidiary, IMAX China Holding, Inc. ("IMAX China"), to entities owned and controlled by CMC Capital Partners ("CMC"), an investment fund that is focused on media and entertainment, and FountainVest Partners ("FountainVest"), a China-focused private equity firm. The sale price for the interest was \$80.0 million (collectively, the "IMAX China Investment"). On October 8, 2015, IMAX China completed an initial public offering of its ordinary shares on the Main Board of the Hong Kong Stock Exchange Limited (the "IMAX China IPO"). Following the IMAX China IPO, the Company continues to indirectly own approximately 68.2% of IMAX China, which remains a consolidated subsidiary of the Company.

The following table outlines the breakdown of the Commercial Multiplex theater network by arrangement type and geographic location as at December 31:

	2016			2015		
	IMAX Commercial Multiplex Theater Network			IMAX Commercial Multiplex Theater Network		
	JRSA	Sale / Sales-type lease	Total	JRSA	Sale / Sales-type lease	Total
Domestic Total (United States & Canada)	266	120	386	261	118	379
International:						
Greater China	261	146	407	177	113	290
Asia (excluding Greater China)	54	39	93	42	39	81
Western Europe	44	32	76	39	30	69
Russia & the CIS	-	56	56	-	49	49
Latin America	-	38	38	-	35	35
Rest of the World	15	36	51	10	30	40
International Total	374	347	721	268	296	564
Worldwide Total	640	467	1,107	529	414	943

As at December 31, 2016, 266 (2015 – 261) of the 640 (2015 – 529) theaters under joint revenue sharing arrangements in operation, or 41.6% (2015 – 49.3%) were located in the United States and Canada, with the remaining 374 (2015 – 268) or 58.4% (2015 – 50.7%) of arrangements being located in international markets. The Company continues to seek to expand its network of theaters under joint revenue sharing arrangements, particularly in select international markets.

Sales Backlog

The Company's current sales backlog is as follows:

	December 31, 2016		December 31, 2015	
	Number of Systems	Fixed Contractual Dollar Value (in thousands)	Number of Systems	Fixed Contractual Dollar Value (in thousands)
Sales and sales-type lease arrangements	143	\$ 175,331	160	\$ 207,858
Joint revenue sharing arrangements				
Hybrid arrangements	92	48,658 ⁽¹⁾	117	62,606 ⁽¹⁾
Traditional arrangements	263	3,680 ⁽²⁾	95	450 ⁽²⁾
	498 ⁽³⁾	\$ 227,669	372 ⁽⁴⁾	\$ 270,914

- (1) Reflects contractual upfront payments. Future contingent payments are not reflected as these are based on negotiated shares of box-office results.
- (2) No fixed upfront or annual minimum payments. Future contingent payments are not reflected as these are based on negotiated shares of box-office results.
- (3) Includes 20 laser-based digital theater system configurations, including three upgrades. The Company continues to develop and roll out its laser-based digital projection system. See “Research and Development” in Item 1 of Part I for additional information.
- (4) Includes 24 laser-based digital theater system configurations, including 13 upgrades.

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; however, it excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of contractual ongoing fees that may be received in the future. The value of sales backlog does not include revenue from theaters in which the Company has an equity interest, operating leases, letters of intent or long-term conditional theater commitments. The value of theaters under joint revenue sharing arrangements is excluded from the dollar value of sales backlog, although certain theater systems under joint revenue sharing arrangements provide for contracted upfront payments and therefore carry a backlog value based on those payments. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

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

The following table outlines the breakdown of the total backlog by arrangement type and geographic location as at December 31:

	2016			2015		
	IMAX Theater Backlog			IMAX Theater Backlog		
	JRSA	Sale / Lease	Total	JRSA	Sale / Lease	Total
Domestic Total (United States & Canada)	51	10	61	23	21	44
International:						
Greater China	275	59	334	158	57	215
Asia (excluding Greater China)	12	20	32	19	17	36
Western Europe	12	6	18	7	6	13
Russia & the CIS	-	18	18	-	23	23
Latin America	-	15	15	-	20	20
Rest of the World	5	15	20	5	16	21
International Total	304	133	437	189	139	328
Worldwide Total	355	143	498	212	160	372

Approximately 87.8% of IMAX theater system arrangements in backlog as at December 31, 2016 are scheduled to be installed in international markets (2015 – 88.2%).

The following reflects the Company's signings and installations for the years ended December 31:

	Years Ended December 31,	
	2016	2015
Theater System Signings:		
Full new sales and sales-type lease arrangements	61	55 ⁽¹⁾
New joint revenue sharing arrangements	253	78
Total new theaters	314	133
Upgrades of IMAX theater systems	5	5
Total theater signings	319	138
	Years Ended December 31,	
	2016	2015
Theater System Installations:		
Full new sales and sales-type lease arrangements	56 ⁽²⁾	56 ⁽²⁾
New joint revenue sharing arrangements	109	80
Short-term operating lease arrangement	1	-
Total new theaters	166	136
Upgrades of IMAX theater systems	16 ⁽³⁾⁽⁴⁾	18 ⁽³⁾⁽⁴⁾
Total theater installations	182	154

(1) Includes four signings which replaced theaters under an existing arrangement in backlog.

(2) Includes one used theater system (2015 – one used theater system).

(3) Includes 14 installations of an upgrade to a laser-based digital system, 12 under sales and sales-type lease arrangements and two under joint revenue sharing arrangements (2015 – 16 laser-based digital systems, ten under sales and sales-type lease arrangements, one under a short-term operating lease arrangement and five under joint revenue sharing arrangements).

(4) Includes two installations of an upgrade to a xenon-based digital system under sales arrangements (2015 – two xenon-based digital systems, one under a sales and sales-type lease arrangement and one under a short-term operating lease arrangement).

The Company estimates that it will install approximately 150 – 155 new theater systems (excluding upgrades) in 2017. The Company's installation estimates include scheduled systems from backlog, as well as the Company's estimate of installations from arrangements that will sign and install in the same calendar year. The Company cautions, however, that theater system installations may slip from period to period over the course of the Company's business, usually for reasons beyond its control.

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

Digital Re-Mastering (IMAX DMR)

In 2002, the Company developed a proprietary technology to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in IMAX theaters at a modest cost that is incurred by the Company. This system, known as IMAX DMR, digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which *The IMAX Experience* is known. This technology enabled the IMAX theater network to release Hollywood films simultaneously with their broader domestic release. The development of this technology was critical in helping the Company execute its strategy of expanding its commercial theater network by establishing IMAX theaters as a key, premium distribution platform for Hollywood films. In a typical IMAX DMR film arrangement, the Company receives a percentage, which in recent years has averaged approximately 12.5%, of box-office receipts of any commercial films released in the IMAX network from the applicable film studio for the conversion of the film to the IMAX DMR format and for access to the Company's premium distribution platform.

IMAX films benefit from enhancements made by individual filmmakers exclusively for the IMAX release, and filmmakers and studios have sought IMAX-specific enhancements in recent years to generate interest in and excitement for their films. Such enhancements include shooting selected scenes with IMAX cameras to increase the audience's immersion in the film and taking

advantage of the unique dimensions of the IMAX screen by shooting the film in a larger aspect ratio. Certain films also enjoy early release windows in IMAX, including *Everest: An IMAX 3D Experience* and *The Walk: The IMAX Experience*, which were released one week early in IMAX theaters in 2015. Several recent films have featured select sequences shot with IMAX cameras including *Captain America: Civil War: An IMAX 3D Experience*, released in May 2016; *Batman v Superman: Dawn of Justice: An IMAX 3D Experience*, released in March 2016; *Star Wars: The Force Awakens: An IMAX 3D Experience*, released in December 2015; *Interstellar: The IMAX Experience*, released in November 2014; and *Transformers Age of Extinction: An IMAX 3D Experience*, released in June 2014, among others. In addition, Marvel's *Avengers: Infinity War — Part 1: An IMAX 3D Experience* and *Avengers: Infinity War — Part 2: An IMAX 3D Experience* are expected to be shot in their entireties using the IMAX camera, which is the second time a full feature length movie will be filmed with the IMAX cameras. *Sully: The IMAX Experience*, released in August 2016, was shot with IMAX cameras for a majority of the film.

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

The Company believes that the growth in international box-office is an important driver of future growth for the Company. During 2016 61.8% of the Company's gross box-office from IMAX DMR films was generated in international markets, as compared to 60.8% in 2015. To support growth in international markets, the Company continues to bolster its international film strategy, supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. During 2016, the Company released 12 local language IMAX DMR films, including nine in China, two in Russia and one in Japan. In 2015, 11 local language IMAX DMR films were released, including eight in China and three in Japan.

To date, the Company has announced the following 26 DMR titles to be released in 2017 to the IMAX theater network:

- *Your Name: The IMAX Experience* (Toho Co., Ltd., January 2017);
- *xXx: Return of Xander Cage: The IMAX Experience* (Paramount Pictures, January 2017);
- *Resident Evil: The Final Chapter: The IMAX Experience* (Sony Pictures, February 2017);
- *Attraction: The IMAX Experience* (Art Pictures Studio, January 2017, Russia only);
- *Journey to The West: The Demons Strike Back: The IMAX Experience* (Alibaba Pictures Group, January 2017);
- *The Lego Batman Movie: The IMAX Experience* (Warner Bros. Pictures, February 2017);
- *Sing: The IMAX Experience* (Universal Pictures, February 2017, China and Japan only);
- *Logan: The IMAX Experience* (20th Century Fox, March 2017);
- *Kong: Skull Island: The IMAX Experience* (Warner Bros. Pictures, March 2017);
- *Beauty and The Beast: The IMAX Experience* (Walt Disney Studios, March 2017);
- *Ghost in the Shell: The IMAX Experience* (Paramount Pictures, March 2017);
- *The Fate of the Furious: The IMAX Experience* (Universal Pictures, April 2017);
- *Guardians of the Galaxy Vol. 2: The IMAX Experience* (Walt Disney Studios, May 2017);
- *Pirates of the Caribbean: Dead Men Tell No Tales: The IMAX Experience* (Walt Disney Studios, May 2017);
- *Wonder Woman: The IMAX Experience* (Warner Bros. Pictures, June 2017);
- *The Mummy: The IMAX Experience* (Universal Pictures, June 2017);
- *Transformers: The Last Knight: The IMAX Experience* (Paramount Pictures, June 2017);
- *Spider-Man: Homecoming: The IMAX Experience* (Sony Pictures-distributed and Marvel Studios and Sony Pictures-produced, July 2017);
- *Dunkirk: The IMAX Experience* (Warner Bros. Pictures, July 2017);
- *The Solutrean: The IMAX Experience* (Sony Pictures, September 2017);
- *The Lego Ninjago Movie: The IMAX Experience* (Warner Bros. Pictures, September 2017);
- *Blade Runner 2049: The IMAX Experience* (Warner Bros. Pictures, October 2017);
- *Geostorm: The IMAX Experience* (Warner Bros. Pictures, October 2017);
- *Thor: Ragnarök: The IMAX Experience* (Walt Disney Studios, November 2017);
- *Justice League: The IMAX Experience* (Warner Bros. Pictures, November 2017); and
- *Star Wars: The Last Jedi: The IMAX Experience* (Walt Disney Studios, December 2017).

In addition, in conjunction with Marvel and Disney|ABC Television Group, the Company will be co-producing and exclusively premiering the new ABC series "*Marvel's Inhumans*" in IMAX theaters. The first two episodes of the series are expected to run

worldwide exclusively in IMAX theaters for two weeks in September 2017, and several weeks later, the series will premiere on the ABC network. The Company will have an equity participation both in the pilot and in the television series, representing the first time the Company will have an economic interest in a television property.

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

Other Film Revenues: Film Distribution and Post-Production

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

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to selling prices associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; write-downs for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company’s significant accounting policies are discussed in note 2 to its audited consolidated financial statements in Item 8 of the Company’s Annual Report for the Fiscal Year ended December 31, 2016 (this “2016 Form 10-K”).

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

Revenue Recognition

The Company generates revenue from various sources as follows:

- design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 75 countries as at December 31, 2016;
- production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;
- operation of certain IMAX theaters primarily in the United States;
- provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems; and
- other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

Multiple Element Arrangements

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

Theater Systems

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

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

For arrangements entered into or materially modified after January 1, 2011, consideration is allocated to each unit of accounting based on the unit's relative selling prices. The Company uses vendor-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 Deliverable, 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 Deliverable is recognized in accordance with the Revenue Recognition Topic of the FASB ASC, when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed, and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided there is persuasive evidence of an arrangement, the price is fixed or determinable and collectibility is reasonably assured.

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

The Company has also agreed, on occasion, to sell equipment under lease or at the end of a lease term. Consideration agreed to for these lease buyouts is included in revenues from equipment and product sales, when persuasive evidence of an arrangement exists, the

fees are fixed or determinable, collectibility is reasonably assured and title to the theater system passes from the Company to the customer.

Lease Arrangements

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

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

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

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

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

Revenues from joint revenue sharing arrangements with upfront payments that qualify for classification as sales and 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 collectibility is reasonably assured.

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

Finance Income

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

Terminations, Consensual Buyouts and Concessions

The Company enters into theater system arrangements with customers that provide for customer payment obligations prior to the scheduled installation of the theater system. During the period of time between signing and the installation of the theater system,

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

In addition, the Company could agree with customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX digital theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new arrangement for the IMAX digital theater system. For all arrangements entered into or modified prior to the date of adoption of the amended FASB ASC 605-25, the Company continues to defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the selling price of the IMAX digital theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed. Under the amended FASB ASC 605-25, as described in note 2(m) to the accompanying notes to the audited consolidated financial statements, for all arrangements entered into or materially modified after the date of adoption, the total arrangement consideration to be received is allocated on a relative selling price basis to the digital upgrade and the termination of the previous theater system. The arrangement consideration allocated to the termination of the existing arrangement is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed.

The Company may offer certain incentives to customers to complete theater system transactions including payment concessions or free services and products such as film licenses or 3D glasses. Reductions in, and deferral of, payments are taken into account in determining the sales price either by a direct reduction in the sales price or a reduction of payments to be discounted in accordance with the Leases or Interests Topic of the FASB ASC. Free products and services are accounted for as separate units of accounting. Other consideration given by the Company to customers are accounted for in accordance with the Revenue Recognition Topic of the FASB ASC.

Maintenance and Extended Warranty Services

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

Other

The Company recognizes revenue in Services revenue from its owned and operated theaters resulting from box-office ticket and concession sales as tickets are sold, films are shown and upon the sale of various concessions. The sales are cash or credit card transactions with 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 Service 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 revenue over the rental period.

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

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

Film Production and IMAX DMR Services

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

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

Revenues from digitally re-mastering (IMAX DMR) films where third parties own or hold the copyrights and the rights to distribute the film are derived in the form of processing fees and recoupments calculated as a percentage of box-office receipts generated from the re-mastered films. Processing fees are recognized as Service revenues when the performance of the related re-mastering service is completed, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is reasonably assured. Recoupments, calculated as a percentage of box-office receipts, are recognized as Services revenues when box-office receipts are reported by the third party that owns or holds the related film rights, provided collectibility is reasonably assured.

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

Film Distribution

Revenue from the licensing of films is recognized in Services revenues when persuasive evidence of a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed or determinable and collectibility is reasonably assured. When license fees are based on a percentage of box-office receipts, revenue is recognized when box-office receipts are reported by exhibitors, provided collectibility is reasonably assured.

Film Post-Production Services

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

Allowances for Accounts Receivable and Financing Receivables

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

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

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

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

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

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

Inventories

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

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

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

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

Asset Impairments

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

Goodwill impairment is assessed at the reporting unit level by comparing the unit's carrying value, including goodwill, to the fair value of the unit. The Company completed a full quantitative analysis as required by ASC 350 – "Intangibles – Goodwill and Other" (Step 1) in 2014. The carrying values of each unit are subject to allocations of certain assets and liabilities that the Company has applied in a systematic and rational manner. The fair value of the Company's units is assessed using a discounted cash flow model. The model is constructed using the Company's budget and long-range plan as a base. The Company performs a qualitative assessment of its reporting units and certain select quantitative calculations against its current long range plan to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount (Step 0).

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

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

The Company's investment in debt securities classified as an available-for-sale investment has unrealized holding gains and losses which is excluded from earnings and reported in other comprehensive income until realized. Realization occurs upon the sale of a portion of or the entire investment. The investment is impaired if the value is not expected to recover based on the length of time and extent to which the market value has been less than cost. Furthermore, when the Company intends to sell a specifically identified beneficial interest, a write-down for other-than-temporary impairment shall be recognized in earnings.

Pension Plan and Postretirement Benefit Obligations Assumptions

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

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

The discount rate used is a key assumption in the determination of the pension benefit obligation and expense. A 1.0% change in the discount rate used would result in a \$2.5 million reduction or a \$3.0 million increase in the pension benefit obligation with a corresponding benefit or charge recognized in other comprehensive income in the year.

Deferred Tax Asset Valuation

As at December 31, 2016, the Company had net deferred income tax assets of \$20.8 million. The Company's management assesses realization of its deferred tax assets based on all available evidence in order to conclude whether it is more likely than not that the deferred tax assets will be realized. Available evidence considered by the Company includes, but is not limited to, the Company's historical operating results, projected future operating results, reversing temporary differences, contracted sales backlog at December 31, 2016, changing business circumstances, and the ability to realize certain deferred tax assets through loss and tax credit carry-back and carry-forward strategies.

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

Tax Exposures

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

Stock-Based Compensation

The Company's stock-based compensation generally includes stock options and restricted share units ("RSUs").

The Company estimates the fair value of stock option awards on the date of grant using fair value measurement techniques. The fair value of RSU awards is equal to the closing price of the Company's common stock on the date of grant.

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

significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the Binomial Model best provides an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with the Equity topic of the FASB ASC using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Impact of Recently Issued Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations" ("ASU 2016-08"). The purpose of ASU 2016-08 is to clarify the implementation of guidance on principal versus agent considerations.

In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"). The purpose of ASU 2016-10 is to provide more detailed guidance in the following key areas: identifying performance obligations and licenses of intellectual property.

In May 2016, the FASB issued ASU No. 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 pursuant to Staff announcements at the March 3, 2016 EITF Meeting" ("ASU 2016-11"). The purpose of ASU 2016-11 is to rescind from the FASB Accounting Standards Codification certain SEC paragraphs as a result of two SEC Staff Announcements at the March 3, 2016 meeting.

In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"). The purpose of ASU 2016-12 is to clarify certain narrow aspects of Topic 606 such as assessing the collectibility criterion, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition, and technical corrections.

For public companies, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12 and ASU 2016-20, which are all related to Topic 606, are effective for interim and annual reporting periods beginning after December 15, 2017. The Company has performed an analysis of its contracts to determine those in scope of the standard, has performed detailed analyses of those contracts and identified its performance obligations. The Company is currently in the process of determining contract consideration and is determining the appropriate timing for revenue recognition of those performance obligations. Since many of the Company's contracts involve variable payments tied to box-office, the Company is currently assessing an appropriate constraint to variable revenue streams in determining contract consideration under the new standard. The Company is currently considering adopting the new standard using the modified retrospective method and has begun the process of gathering historical information on its contracts in preparation for the standard's expanded disclosure requirements.

Please see note 3 to the audited consolidated financial statements in Item 8 of the Company's 2016 Form 10-K for information regarding the Company's recent changes in accounting policies and the impact of recently issued accounting pronouncements impacting the Company.

DISCONTINUED OPERATIONS and DISPOSAL OF ASSETS AND COMPONENTS

In 2014, the Company's lease with respect to its owned and operated Nyack IMAX theater ended and the Company decided not to renew the lease. In 2014, revenues for the Nyack IMAX theater were less than \$0.1 million and the Company recognized income of \$0.4 million, net of a tax expense of \$0.2 million, from the operation of the theater. The transactions of the Company's owned and operated Nyack theater are reflected as discontinued operations.

In 2016, the Company's lease with respect to its owned and operated Navy Pier IMAX theater ended and the Company decided not to renew the lease. In 2016, revenues for the Navy Pier IMAX theater were \$1.3 million (2015 - \$2.5 million, 2014 - \$2.1 million) and the Company recognized a loss of \$0.2 million (2015 - \$0.6 million, 2014 - \$0.4 million) from the operation of the theater. The remaining assets and liabilities of the Navy Pier IMAX theater are included in the Company's consolidated balance sheet as at December 31, 2016. Under the amended Presentation of Financial Statements: Discontinued Operations Topic of the FASB ASC, the Company has not reflected the closure of its owned and operated Navy Pier IMAX theater as a discontinued operation as it is not considered to be a strategic shift that would have a major effect on the Company's operations and financial results.

ASSET IMPAIRMENTS AND OTHER CHARGES (RECOVERIES)

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

<i>(in thousands of U.S. dollars)</i>	Years Ended December 31,		
	2016	2015	2014
Asset impairments			
Property, plant and equipment	\$ 223	\$ 405	\$ 314
Impairment of investments	194	425	3,206
Other charges (recoveries):			
Accounts receivable	1,029	677	725
Financing receivables	(75)	75	193
Inventories	458	572	359
Film assets	3,020	-	-
Property, plant and equipment	885	1,485	440
Other intangible assets	206	86	57
Total asset impairments and other charges	<u>\$ 5,940</u>	<u>\$ 3,725</u>	<u>\$ 5,294</u>

Asset Impairments

The Company records asset impairment charges for property, plant and equipment after an assessment of the carrying value of certain asset groups in light of their future expected cash flows. During 2016, the Company recorded total asset impairment charges of \$0.2 million (2015 — \$0.4 million; 2014 — \$0.3 million) as the Company recognized that the carrying values for the assets exceeded the expected undiscounted future cash flows. In addition, the Company recognized a \$0.2 million other-than-temporary impairment of its investments in 2016 as the value is not expected to recover based on the length of time and extent to which the market value has been less than cost (2015 — \$0.4 million; 2014 — \$3.2 million).

Other Charges (Recoveries)

The Company recorded a net provision of \$1.0 million in 2016 (2015 — \$0.7 million; 2014 — \$0.7 million) in accounts receivable based on the Company's ongoing assessment of the collectibility of specific customer balances.

In 2016, the Company recorded a net recovery of \$0.1 million in financing receivables (2015 — net provision of \$0.1 million; 2014 — net provision of \$0.2 million). Provisions of the Company's financing receivables is recorded when the collectibility associated with certain financing receivables is uncertain. These provisions are adjusted when there is a significant change in the amount or timing of the expected future cash flows or when actual cash flows differ from cash flows previously expected.

The Company recorded a \$0.5 million provision (2015 — \$0.6 million; 2014 — \$0.4 million) in costs and expenses applicable to revenues due to a reduction in the net realizable value of its inventories. These charges primarily resulted from a reduction in the net realizable value of its theater system equipment inventories and certain service part inventories due to normal operational activity.

In 2016, the Company recorded a charge against film assets of \$3.0 million in 2016, after an assessment of the carrying value of certain documentary films and their estimated future box-office was performed. No such charge was recognized in the prior years.

In 2016, the Company recorded a charge of \$0.3 million (2015 — \$0.4 million; 2014 — \$0.5 million) reflecting property, plant and equipment that were no longer in use. In 2016, the Company also recorded a charge of \$0.6 million (2015 — \$0.6 million) in cost of sales applicable to Equipment and product sales upon the upgrade of xenon-based digital systems under operating lease arrangements to laser-based digital systems under sales or sales-type lease arrangements. In addition, in 2015, the Company recorded a charge of \$0.5 million in cost of sales applicable to Rentals upon the upgrade of certain xenon-based digital systems to laser-based digital systems operating under joint revenue sharing arrangements. No such charge was recorded in 2016.

In 2016, the Company recorded a charge of \$0.2 million (2015 — \$0.1 million; 2014 — \$0.1 million) reflecting other intangible assets that were no longer in use.

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 and adjusted EBITDA.

The Company presents adjusted net income and adjusted net income per diluted share, which excludes stock-based compensation, 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) 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 measure 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 and its stock-based compensation (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.

The Company is required to maintain a minimum level of “EBITDA”, as such term is defined in the Company’s credit agreement (and which is referred to herein as “Adjusted EBITDA”, as the credit agreement includes additional adjustments beyond interest, taxes, depreciation and amortization). EBITDA and Adjusted EBITDA (each as defined below) should not be construed as substitutes for net income or as better measures of liquidity than cash flow from operating activities determined in accordance with U.S. GAAP. EBITDA and Adjusted EBITDA do not represent funds available for management's discretionary use and are not intended to represent cash flow from operations. In addition, EBITDA and Adjusted EBITDA are not terms defined by GAAP and as a result the Company’s measure of EBITDA and Adjusted EBITDA might not be comparable to similarly titled measures used by other companies.

However, EBITDA and Adjusted EBITDA are used by management to evaluate, assess and benchmark the Company’s operational results, as well as meet borrowing requirements, and the Company believes that EBITDA and Adjusted EBITDA are 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, to provide an additional measure of performance and liquidity and to provide additional information with respect to the Company’s ability to meet future debt service, capital expenditure and working capital requirements.

EBITDA is defined as net income with adjustments for depreciation and amortization, interest income (expense)-net, and income tax provision (benefit). Adjusted EBITDA used by the Company is defined as EBITDA plus adjustments for loss from equity accounted investments, stock and other non-cash compensation and adjusted EBITDA attributable to non-controlling interests.

RESULTS OF OPERATIONS

Management, including the Company's CEO, who is the Company's Chief Operating Decision Maker (as defined in the Segment Reporting Topic of the FASB ASC), assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), write-downs net of recoveries, interest income, interest expense and tax (provision) recovery are not allocated to the segments. As identified in note 18 to the audited consolidated financial statements in Item 8 of the Company's 2016 Form 10-K, the Company has the following seven reportable segments identified by category of product sold or service provided:

- **IMAX Theater Systems**
 - The IMAX systems segment, which is comprised of the design, manufacture, sale or lease of IMAX theater projection system equipment.
 - The theater system maintenance segment, which is comprised of the maintenance of IMAX theater projection system equipment in the IMAX theater network.
 - The joint revenue sharing arrangements segment, which is comprised of the provision of IMAX theater projection system equipment to exhibitors in exchange for a certain percentage of box-office receipts, and in some cases, concession revenue and/or a small upfront or initial payment.
 - The other segment, which includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items.
- **Film**
 - The film production and IMAX DMR segment, which is comprised of the production of films and performance of film re-mastering services.
 - The film distribution segment, which includes the distribution of films for which the Company has distribution rights.
 - The film post-production segment, which includes the provision of film post-production and film print services.

The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements in Item 8 of the Company's 2016 Form 10-K.

The Company's Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations has been organized by the Company into two primary reporting groups – IMAX Theater Systems and Film. Each of the Company's reportable segments, as identified above, has been classified into one of these broader reporting groups for purposes of MD&A discussion. The Company believes that this approach is consistent with how management historically has evaluated the business and is not expected to have an impact on the readers' ability to understand the Company's business. Management feels that a discussion and analysis based on its reporting groups presents a clearer view of the business as the Company's consolidated statements of operations captions combine results from several segments.

Following recent changes in senior management, the Company is in the process of re-evaluating how it assesses the performance of the business. As a result of this process, modifications are being made to the CEO's reporting package to support a revised reporting structure which will move away from the Company's historical two primary reporting groups – IMAX Theater Systems and Film. The changes being contemplated will result in four primary reporting groups, comprising (1) Network Business, representing revenue generated by box-office results and which will include the reportable segments of DMR and JRSAs excluding hybrid fixed payments; (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 which will also include the fixed hybrid payments from the JRSA segment; (3) New Business, which will include VR, IMAX Shift and IMAX Home Entertainment and (4) Other. The new reporting groups are expected to be implemented in the first quarter of 2017. The new reporting structure is expected to assist users of the financial statements with an enhanced understanding of how management views the business.

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

<i>(In thousands of U.S. dollars)</i>	Revenue			Gross Margin		
	Years Ended December 31,			Years Ended December 31,		
	2016	2015	2014	2016	2015	2014
IMAX Theater Systems						
IMAX systems						
Sales and sales-type leases ⁽¹⁾	\$ 89,524	\$ 86,935	\$ 58,875	\$ 44,786	\$ 44,790	\$ 34,483
Ongoing rent, fees, and finance income ⁽²⁾	16,003	15,193	14,117	15,304	14,378	13,445
Other	19,434	17,579	12,154	76	279	129
	<u>124,961</u>	<u>119,707</u>	<u>85,146</u>	<u>60,166</u>	<u>59,447</u>	<u>48,057</u>
Theater System Maintenance	<u>40,430</u>	<u>36,944</u>	<u>34,042</u>	<u>13,659</u>	<u>12,702</u>	<u>12,375</u>
Joint Revenue Sharing Arrangements	<u>91,413</u>	<u>99,120</u>	<u>68,418</u>	<u>59,837</u>	<u>68,372</u>	<u>44,714</u>
Film						
Production and IMAX DMR	106,403	107,089	83,172	69,196	77,645	62,922
Film distribution and post-production	14,127	10,945	19,763	(180)	1,122	5,320
	<u>120,530</u>	<u>118,034</u>	<u>102,935</u>	<u>69,016</u>	<u>78,767</u>	<u>68,242</u>
	<u>\$ 377,334</u>	<u>\$ 373,805</u>	<u>\$ 290,541</u>	<u>\$ 202,678</u>	<u>\$ 219,288</u>	<u>\$ 173,388</u>

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

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

Year Ended December 31, 2016 Versus Year Ended December 31, 2015

The Company reported net income of \$39.3 million, or \$0.58 per basic and diluted share, for the year ended December 31, 2016, as compared to net income of \$64.6 million, or \$0.92 per basic share and \$0.90 per diluted share, for the year ended December 31, 2015. Net income for the year ended December 31, 2016 includes a \$30.5 million charge, or \$0.45 per diluted share (2015 — \$21.9 million, or \$0.31 per diluted share), for stock-based compensation. Adjusted net income, which consists of net income excluding the impact of stock-based compensation and the related tax impact, was \$61.1 million, or \$0.90 per diluted share, for the year ended December 31, 2016 as compared to adjusted net income of \$82.4 million, or \$1.15 per diluted share, for the year ended December 31, 2015. The Company reported net income attributable to common shareholders of \$28.8 million, or \$0.43 per basic share and \$0.42 per diluted share for the year ended December 31, 2016 (2015 — \$55.8 million, or \$0.79 per basic share and \$0.78 per 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 and the related tax impact, was \$50.0 million, or \$0.73 per diluted share, for the year ended December 31, 2016 as compared to adjusted net income attributable to common shareholders of \$73.0 million, or \$1.02 per diluted share, for the year ended December 31, 2015. A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

	Years Ended December 31,			
	2016		2015	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 39,320	\$ 0.58	\$ 64,624	\$ 0.90 ⁽¹⁾
Adjustments:				
Stock-based compensation	30,523	0.45	21,880	0.31
Tax impact on items listed above	(8,783)	(0.13)	(4,056)	(0.06)
Adjusted net income	61,060	0.90	82,448	1.15 ⁽¹⁾
Net income attributable to non-controlling interests	(10,532)	(0.16)	(8,780)	(0.12)
Stock-based compensation (net of tax of \$0.2 million and \$0.2 million, respectively) attributable to non-controlling interests	(533)	(0.01)	(703)	(0.01)
Adjusted net income attributable to common shareholders	\$ 49,995	\$ 0.73	\$ 72,965	\$ 1.02 ⁽¹⁾
Weighted average diluted shares outstanding		68,263		71,058

(1) Includes impact of \$0.8 million of accretion charges associated with redeemable Class C shares of IMAX China.

Revenues and Gross Margin

The Company's revenues for the year ended December 31, 2016 increased to \$377.3 million from \$373.8 million in 2015, largely due to an increase in revenues from the Company's IMAX systems and theater system maintenance segments. The gross margin across all segments in 2016 was \$202.7 million, or 53.7% of total revenue, compared to \$219.3 million, or 58.7% of total revenue in 2015. Impacting the gross margin in 2016 was the lower revenues experienced in the Company's joint revenue sharing and film segments as a result of weaker box-office performance, particularly in the China region. Gross box-office is a significant driver of the Company's business as the impact of film performance affects multiple reporting segments. Film performance is impacted by the timing of a release to the IMAX theater network and customer reaction to the film, among other factors that may be outside of the Company's direct control, including fluctuations in the value of foreign currencies versus the U.S. dollar and potential currency devaluations. The distribution window for the release of films in theaters has been compressing and may continue to change in the future. A further reduction in timing between film releases could adversely affect box-office performance and consequently future revenues and gross margin.

IMAX Systems

IMAX systems revenue increased 4.4% to \$125.0 million in 2016 as compared to \$119.7 million in 2015, primarily due to the mix of theater system configurations installed and respective consideration available as per the Company's arrangements within each year. The Company installed 70 theater systems under sales or sales-type lease arrangements in 2016 versus 67 theater systems in 2015.

Revenue from sales and sales-type leases increased 3.0% to \$89.5 million in 2016 from \$86.9 million in 2015. The Company recognized revenue on 55 full, new theater systems which qualified as either sales or sales-type leases in 2016, with a total value of \$69.4 million, versus 55 full, new theater systems in 2015 with a total value of \$68.6 million. The Company also recognized revenue on the installation of 14 theater system upgrades in 2016, of which 12 were laser-based and two were xenon-based, with a total value of \$18.0 million, as compared to 11 theater system upgrades in 2015, of which 10 were laser-based and one was xenon-based, with a total value of \$15.0 million. Theater system upgrades typically have lower selling prices and gross margin than full, new theater system installations. One used xenon-based digital system was installed in the year ended December 31, 2016, with a total value of \$0.3 million, as compared to one used xenon-based digital system installed and recognized 2015 with a total value of \$0.2 million.

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

The installation of theater systems in newly-built theaters or multiplexes, which make up a large portion of the Company's theater system backlog, depends primarily on the timing of the construction of those projects, which is not under the Company's control. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system configuration for 2016 and 2015 is outlined in the table below:

	<u>2016</u>	<u>2015</u>
New IMAX digital theater systems - installed and recognized		
Sales and sales-types lease arrangements	56 ⁽¹⁾	56 ⁽²⁾
Short-term operating lease arrangement	1	-
Joint revenue sharing arrangements	109 ⁽¹⁾	80
Total new theater systems	<u>166</u>	<u>136</u>
IMAX digital theater system upgrades - installed and recognized		
Sales and sales-types lease arrangements	14 ⁽¹⁾	11 ⁽²⁾
Short-term operating lease arrangements	-	2 ⁽²⁾
Joint revenue sharing arrangements	2 ⁽¹⁾	5 ⁽²⁾
Total upgraded theater systems	<u>16</u>	<u>18</u>
Total theater systems installed	<u>182</u>	<u>154</u>

(1) Includes 21 laser-based digital system configurations (seven new laser-based digital systems, five under sales arrangements and two under joint revenue sharing arrangements and 14 laser-based digital system upgrades, 12 under sales arrangements and two under joint revenue sharing arrangements).

(2) Includes 17 laser-based digital system configurations (one new laser-based digital system under sales arrangement and 16 laser-based digital system upgrades, 10 under sales arrangements, one under a short-term operating lease arrangement and five under joint revenue sharing arrangements).

IMAX theater system margin from full, new sales and sales-type lease systems was 63.7% in 2016, which was lower than the 65.9% experienced in 2015. On average, the Company experiences lower margins from the installation of laser-based digital systems. The Company expects these margins to improve through further development of its commercial laser-based projection system. Gross margin from theater system upgrades was \$1.7 million in 2016, as compared to \$0.8 million in 2015, primarily due to the nature of the theater system components required for each respective upgrade. In addition, the Company recorded a charge of \$0.6 million upon the upgrade of xenon-based digital systems under operating lease arrangements to laser-based digital systems under sales or sales-type lease arrangements in IMAX Systems margin, as compared to a charge of \$0.7 million in 2015 for components there were not used in the upgrade and cannot be used for future installations. Furthermore, in 2016 the Company incurred a charge of \$0.2 million, as compared to \$0.1 million in 2015, due to a reduction in the net realizable value of its inventories. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

Revenues from sales and sales-type leases includes settlement revenue of \$1.3 million in 2016 as compared to \$0.1 million in 2015. Costs associated with settlements consist primarily of commission costs. Gross margin from sales and sales-type leases include settlement margin of \$1.2 million in 2016, as compared to \$0.1 million in 2015.

Ongoing rent revenue and finance income increased to \$16.0 million in 2016 compared to \$15.2 million in 2015, due to continued growth in the Company's theater network. Gross margin for ongoing rent and finance income increased to \$15.3 million in 2016 compared to \$14.4 million in 2015. Contingent fees included in this caption amounted to \$4.3 million and \$3.8 million in 2016 and 2015, respectively.

Other revenue increased to \$19.4 million in 2016 as compared to \$17.6 million in 2015. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental business and after-market sales of projection system parts and 3D glasses. The growth in revenue is primarily the result of an increase in revenue from after-market sales of 3D glasses and camera rentals, as compared to the prior year.

The gross margin recognized from other revenue decreased to less than \$0.1 million in 2016 as compared to \$0.3 million in 2015, primarily due to new business initiatives which are in development and/or the start-up phase, offset by an increase in camera rentals gross margin compared to the prior year.

Theater System Maintenance

Theater system maintenance revenue increased 9.4% to \$40.4 million in 2016 from \$36.9 million in 2015. Theater system maintenance gross margin increased to \$13.7 million in 2016 from \$12.7 million in 2015. The Company recorded a write-down of \$0.2 million and less than \$0.1 million for certain service parts inventories in 2016 and 2015, respectively. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

Joint Revenue Sharing Arrangements

Revenues from joint revenue sharing arrangements decreased 7.8% to \$91.4 million in 2016 from \$99.1 million in 2015. The Company ended the year with 640 theaters operating under joint revenue sharing arrangements, as compared to 529 theaters at the end of 2015, an increase of 21.0%. The decrease in revenues from joint revenue sharing arrangements was due to weaker film performance in 2016, partly a result of unfavourable exchange rates between applicable local currencies and the U.S. dollar, partially offset by an increase in the number of theaters under joint revenue sharing arrangements in operation as compared to the prior year. During 2016, the Company installed 109 full, new theaters under joint revenue sharing arrangements, as compared to 80 full new theaters during 2015.

The gross margin from joint revenue sharing arrangements was \$59.8 million in 2016, as compared to \$68.4 million in 2015. Included in the calculation of the 2016 gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$4.1 million, as compared to \$4.3 million for such expenses in 2015. The lower gross margin experienced in 2016 is primarily a result of the weaker film performance (as discussed above) over the prior year comparative period, as well as higher depreciation expense resulting from continuous growth in the number of operational theaters under joint revenue sharing arrangements.

Film

Revenue from the Company's film segments increased to \$120.5 million in 2016 from \$118.0 million in 2015, primarily due to an increase in film distribution revenue from IMAX original films. Film production and IMAX DMR revenues decreased to \$106.4 million in 2016 from \$107.1 million in 2015. Gross box-office generated by IMAX DMR films decreased 2.1% to \$965.6 million in 2016 from \$985.3 million in 2015, which has a direct correlation with revenue. The Company experienced weaker gross box-office particularly in the China region resulting from both film performance and unfavourable exchange rates. Gross box-office per screen for 2016 averaged \$963,800, in comparison to \$1,155,800 in 2015. In 2016, gross box-office was generated primarily from the exhibition of 58 films (51 new and 7 carryovers), as compared to 57 films (44 new and 13 carryover) exhibited in 2015.

Other revenues attributable to the film segment increased 29.1% to \$14.1 million in 2016 from \$10.9 million in 2015, primarily due to an increase in film distribution revenue from IMAX original films. The year ended December 31, 2016, includes the release of two IMAX original productions, *A Beautiful Planet* and *Voyage of Time*, whereas no original films were released in 2015.

The Company's gross margin from its film segments decreased 12.4% in 2016 to \$69.0 million from \$78.8 million in 2015. Film production and IMAX DMR gross margins decreased to \$69.2 million from \$77.6 million primarily due to higher costs, including marketing and post-production. Other gross margin attributable to the film segment was a loss of \$0.2 million in 2016 as compared to \$1.1 million in 2015, primarily due to a charge against film assets of \$3.0 million in 2016, to reflect the carrying value of certain documentary film assets that exceeded the expected revenues generated from estimated future box-office. No similar charge was recorded in 2015. This was partially offset by revenue earned from the release of two IMAX original productions, *A Beautiful Planet* and *Voyage of Time*, in the current year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$124.7 million in 2016, as compared to \$115.3 million in 2015. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$94.2 million in 2016, as compared to \$93.4 million in 2015. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

- an \$8.6 million increase in the Company's stock-based compensation;
- a \$3.6 million increase in staff costs related to the core business, including salaries and benefits; partially offset by
- a \$1.5 million decrease due to a change in foreign exchange rates. During the year ended December 31, 2016, the Company recorded a foreign exchange loss of \$0.9 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of \$2.4 million recorded in 2015. See note 15(b) of the audited consolidated financial statements in Item 8 of the Company's 2016 Form 10-K for more information; and
- a \$1.3 million net decrease in other general corporate expenditures including 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 increased to \$16.3 million in 2016 compared to \$12.7 million in 2015 and are primarily attributable to the continued development of the Company's new commercial laser-based digital projection system and other new business initiatives which commenced in 2016, including the Google camera and virtual reality. In 2014, the Company developed its next-generation laser-based digital projector, which provides greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. As of December 31, 2016, the Company had 39 laser-based digital theater systems in operation and 20 laser-based digital theater systems in backlog.

The Company intends for additional research and development to continue throughout 2017 as the Company supports further development of the commercial laser-based projection system.

In addition to continued research and development with respect to its core business, the Company intends to continue research and development in connection with the previously-announced cinema-grade VR camera to be developed in partnership with Google. In 2016, the Company began research and development in connection with its exploration of a comprehensive VR strategy to deliver immersive and interactive experiences to consumers through pilot IMAX VR Centers, which the Company expects to continue in 2017. The Company also plans to conduct research and development activity in the future in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing and manufacturing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology, developing IMAX theater systems' capabilities in both home and live entertainment, improvements to the DMR process and the ability to deliver DMR releases digitally to its theater network, without the requirement for hard drives.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$1.0 million in 2016, as compared to \$0.8 million in 2015.

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.

Asset Impairments and Other Charges

The Company recorded a charge related to property, plant and equipment of \$0.2 million and \$0.4 million in 2016 and 2015, respectively, reflecting assets that no longer meet the capitalization requirements.

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

Interest Income and Expense

Interest income was \$1.5 million in 2016, as compared to \$1.0 million in 2015.

Interest expense was \$1.8 million in 2016, as compared to \$1.7 million in 2015. Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its consolidated statements of operations rather than income tax expense. In 2016 and 2015, the Company recovered less than \$0.1 million, respectively, in potential interest and penalties associated with its provision for uncertain tax positions. Also included in interest expense is the amortization of deferred finance costs in the amount of \$0.5 million and \$1.0 million in 2016 and 2015, respectively. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Income Taxes

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

The Company's effective tax rate increased in 2016 due to changes in the mix of income in foreign jurisdictions and an increase in permanent differences as compared to 2015.

The Company recorded an income tax provision of \$16.2 million for 2016, of which \$1.6 million is related to a decrease in its provision for uncertain tax positions. For 2015, the Company recorded an income tax provision of \$20.1 million, of which \$0.5 million was related to an increase in its provision for uncertain tax positions.

The provision for income taxes in the year ended December 31, 2016 includes a net income tax recovery of \$0.1 million (2015 – less than \$0.1 million provision) in continuing operations related to a decrease in the valuation allowance for the Company's deferred tax assets and other tax adjustments. In 2015, the Company recorded an adjustment of \$14.0 million to the deferred tax assets, \$5.9 million to the income tax provision and \$8.1 million to shareholders' equity related to tax benefits generated on the exercise of certain employee stock options. In conjunction with this, a provision for uncertain tax positions of \$3.9 million was also recorded to the income tax provision and \$7.9 million was recorded against shareholders' equity.

During the year ended December 31, 2016, after considering all available evidence, both positive (including recent profits, projected future profitability, backlog, carry forward periods for, and utilization of net operating loss carryovers and tax credits, discretionary deductions and other factors) and negative (including cumulative losses in past years and other factors), the Company

concluded that the valuation allowance against the Company's deferred tax assets should decrease by \$0.1 million. The remaining \$0.2 million balance in the valuation allowance as at December 31, 2016 is primarily attributable to certain U.S. state net operating loss carryovers that may expire without being utilized.

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

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. At December 31, 2016, the equity method of accounting is being utilized for investments with a total carrying value of \$nil (December 31, 2015 — \$1.0 million). The Company's accumulated losses in excess of its equity investment were \$0.5 million as at December 31, 2016, and are classified in Accrued and other liabilities. For the year ended December 31, 2016, gross revenues, cost of revenue and net loss for these investments were \$0.6 million, \$6.8 million and \$6.2 million, respectively (2015 — \$nil, \$9.3 million and \$9.1 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$2.3 million for 2016 as compared to \$2.4 million in 2015.

Non-Controlling Interests

The Company's consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the IMAX China IPO as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the year ended December 31, 2016, the net income attributable to non-controlling interests of the Company's subsidiaries was \$10.5 million (2015 — \$8.8 million).

Pension Plan

The Company has an unfunded defined benefit pension plan, the Supplemental Executive Retirement Plan (the "SERP"), covering the Company's CEO, Mr. Gelfond. As at December 31, 2016, the Company had an unfunded and accrued projected benefit obligation of approximately \$19.6 million (December 31, 2015 — \$19.5 million) in respect of the SERP.

The net periodic benefit cost was \$0.3 million in 2016 and 2015, respectively. The components of net periodic benefit cost were as follows:

	Years ended December 31	
	2016	2015
Interest cost	\$ 261	\$ 253
Pension expense	\$ 261	\$ 253

The plan experienced an actuarial gain of \$0.2 million during 2016 and 2015, respectively, resulting primarily from the continuing change in the Pension Benefit Guaranty Corporation ("PBGC") published annuity interest rates year-over-year used to determine the lump sum payment under the plan.

Under the terms of the SERP, if Mr. Gelfond's employment is terminated other than for cause (as defined in his employment agreement), he is entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. 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 this 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 December 31, 2016, the Company had an unfunded benefit obligation of \$1.7 million (December 31, 2015 — \$1.8 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 December 31, 2016, the Company had an unfunded benefit obligation recorded of \$0.6 million (December 31, 2015 — \$0.8 million).

In September 2016, the Company entered into a new employment agreement with Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company, which provides for an employment term from July 2, 2016 through July 2, 2019. Under the agreement, the Company agreed to create a deferred compensation retirement plan (the "Retirement Plan") covering Mr. Foster, and to make a total contribution of \$3.2 million over the three-year employment term. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, such that 25% will vest July 2019; 50% will vest July 2022; 75% will vest July 2025; and Mr. Foster will be 100% vested in July 2027. As at December 31, 2016, the Company had an unfunded benefit obligation recorded of \$0.5 million.

Stock-Based Compensation

The Company estimates the fair value of stock option awards on the date of grant using fair value measurement techniques. The fair value of RSU awards is equal to the closing price of the Company's common stock on the date of grant.

Stock-based compensation expense recognized under FASB ASC 718, "Compensation – Stock Compensation" ("ASC 718") for 2016 and 2015 was \$30.5 million and \$21.9 million, respectively.

Year Ended December 31, 2015 versus Year Ended December 31, 2014

The Company reported net income of \$64.6 million, or \$0.92 per basic share and \$0.90 per diluted share, for the year ended December 31, 2015 as compared to net income of \$42.2 million, or \$0.61 per basic share and \$0.59 per diluted share, for the year ended December 31, 2014. Net income for the year ended December 31, 2015 includes a \$21.9 million charge, or \$0.31 per diluted share (2014 — \$15.1 million, or \$0.22 per diluted share), for stock-based compensation. Adjusted net income, which consists of net income excluding the impact of stock-based compensation and the related tax impact, was \$82.4 million, or \$1.15 per diluted share, for the year ended December 31, 2015 as compared to adjusted net income of \$54.9 million, or \$0.78 per diluted share, for the year ended December 31, 2014. The Company reported net income attributable to common shareholders of \$55.8 million, or \$0.79 per basic share and \$0.78 per diluted share for the year ended December 31, 2015 (2014 — \$39.7 million, or \$0.57 per basic share and \$0.56 per 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 and the related tax impact, was \$73.0 million, or \$1.02 per diluted share, for the year ended December 31, 2015 as compared to adjusted net income attributable to common shareholders of \$52.5 million, or \$0.75 per diluted share, for the year ended December 31, 2014. 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:

	Years Ended December 31,			
	2015		2014	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 64,624	\$ 0.90 ⁽¹⁾	\$ 42,169	\$ 0.59 ⁽¹⁾
Adjustments:				
Stock-based compensation	21,880	0.31	15,128	0.22
Tax impact on items listed above	(4,056)	(0.06)	(2,370)	(0.03)
Adjusted net income	82,448	1.15 ⁽¹⁾	54,927	0.78 ⁽¹⁾
Net income attributable to non-controlling interests	(8,780)	(0.12)	(2,433)	(0.03)
Stock-based compensation (net of tax of \$0.2 million) attributable to non-controlling interests	(703)	(0.01)	-	-
Adjusted net income attributable to common shareholders	\$ 72,965	\$ 1.02 ⁽¹⁾	\$ 52,494	\$ 0.75 ⁽¹⁾
Weighted average diluted shares outstanding		71,058		69,754

(1) Includes impact of \$0.8 million (2014 — \$0.4 million) of accretion charges associated with redeemable Class C shares of IMAX China.

Revenues and Gross Margin

The Company's revenues for the year ended December 31, 2015 increased 28.7% to \$373.8 million from \$290.5 million in 2014, primarily due to an increase in revenues from the Company's IMAX systems, joint revenue sharing arrangements and film production and IMAX DMR segments. The gross margin across all segments in 2015 was \$219.3 million, or 58.7% of total revenue, compared to \$173.4 million, or 59.7% of total revenue in 2014. Impacting the gross margin in 2015 was the installation of 10 laser-based digital upgrades under sales or sales-type lease arrangements which had lower margins. Gross margin, excluding the impact of these laser-based digital upgrades, was 60.9% of total revenue in 2015.

IMAX Systems

IMAX systems revenue increased 40.6% to \$119.7 million in 2015 as compared to \$85.1 million in 2014 resulting primarily from the installation in 2015 of nine additional full, new theater systems and 11 digital upgrades including 10 laser-based digital upgrades and one xenon-based digital upgrade under sales or sales-type lease arrangements versus the prior year.

Revenue from sales and sales-type leases increased 47.7% to \$86.9 million in 2015 from \$58.9 million in 2014. The Company recognized revenue on 55 full, new theater systems which qualified as either sales or sales-type leases in 2015, with a total value of \$68.6 million, versus 46 full, new theater systems in 2014 with a total value of \$55.6 million. The Company also recognized revenue on the installation of 11 theater system upgrades in 2015, of which 10 were laser-based and one was xenon-based, with a total value of

\$15.0 million, as compared to three xenon-based digital upgrades in 2014, with a total value of \$2.3 million. Theater system upgrades typically have lower sales prices and gross margin than full, new theater system installations. One used xenon-based digital system was installed in the year ended December 31, 2015 with a total value of \$0.2 million while no used systems were installed and recognized in 2014.

Average revenue per full, new sales and sales-type lease systems was \$1.2 million in 2015, which was consistent with the prior year. The average revenue per full, new sales and sales-type lease systems varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors. Average revenue per theater system upgrade was \$1.4 million in 2015, as compared to \$0.8 million in 2014. For 2015, the average revenue per upgrade was higher as 10 of the 11 system upgrades were for laser-based digital system configurations which are priced higher than xenon-based digital upgrades.

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 2015 and 2014 is outlined in the table below:

	<u>2015</u>	<u>2014</u>
New IMAX xenon-based digital theater systems - installed and recognized		
Sales and sales-types lease arrangements	56 ⁽¹⁾	46
Joint revenue sharing arrangements	80	67
Total new theater systems	<u>136</u>	<u>113</u>
IMAX xenon-based digital theater system upgrades - installed and recognized		
Sales and sales-types lease arrangements	11 ⁽¹⁾	3
Short-term operating lease arrangements	2 ⁽¹⁾	3 ⁽²⁾
Joint revenue sharing arrangements	5 ⁽¹⁾	2
Total upgraded theater systems	<u>18</u>	<u>8</u>
Total theater systems installed	<u><u>154</u></u>	<u><u>121</u></u>

(1) Includes 17 laser-based digital system configurations (one new laser-based digital system under a sales arrangement and 16 laser-based digital system upgrades, 10 under sales arrangements, one under a short-term operating lease arrangement and five under joint revenue sharing arrangements).

(2) Reflects xenon-based digital system configurations under short-term operating lease arrangements, which will be upgraded to a laser-based digital system configuration at a future date.

Revenues from sales and sales-type leases include settlement revenue of \$0.1 million in 2015 as compared to \$nil in 2014.

IMAX theater system margin from full, new sales and sales-type lease systems, excluding the impact of settlements, was 65.9% in 2015, which was higher than the 63.4% experienced in 2014. Gross margin from theater system upgrades was \$0.8 million in 2015, as compared to \$1.2 million in 2014. In addition, the Company recorded a charge of \$0.7 million upon the upgrade of xenon-based digital systems under operating lease arrangements to laser-based digital systems under sales or sales-type lease arrangements in IMAX Systems margin. Furthermore, included in IMAX systems margin is a charge of \$0.1 million and \$0.2 million in 2015 and 2014, respectively, due to a reduction in the net realizable value of its inventories. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors. Gross margin from the sale of a used system was a loss of \$0.2 million in 2015 as compared to \$nil in 2014.

In 2015, due to change in agreement terms, an IMAX theater that had been operating under a joint revenue sharing arrangement became a sales-type lease arrangement. As a result of this transaction, the Company recorded revenue and margin of \$1.2 million and \$0.9 million, respectively. Furthermore, one of the Company's customers acquired an IMAX theater from another customer that had been operating under an operating lease arrangement. This theater was purchased from the Company under a sale arrangement. As result of this sale transaction, the Company recorded revenue and margin of \$0.8 million and \$0.4 million, respectively. The above-referenced theaters were included in the Company's 2014 network total.

In 2014, the Company donated, and recognized the associated costs, of a full, new xenon-based digital theater system to the University of Southern California's School of Cinematic Arts. The theater, which is the first teaching lab of its kind in a collegiate setting, will give students the opportunity to learn about the latest innovations in filmmaking, set design, sound and post-production.

Ongoing rent revenue and finance income increased to \$15.2 million in 2015 compared to \$14.1 million in 2014. Gross margin for ongoing rent and finance income increased to \$14.4 million in 2015 compared to \$13.4 million in 2014. Contingent fees included in this caption amounted to \$3.8 million and \$3.0 million in 2015 and 2014, respectively.

Other revenue increased to \$17.6 million in 2015 as compared to \$12.2 million in 2014. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental business and after-market sales of projection system parts and 3D glasses. The growth in revenue is primarily the result of an increase in revenue from 3D glasses and higher box-office generated by the films exhibited in the IMAX owned and operated theaters during 2015 as compared to the prior year period.

The gross margin recognized from other revenue increased to \$0.3 million 2015, as compared to \$0.1 million in 2014.

Theater System Maintenance

Theater system maintenance revenue increased 8.5% to \$36.9 million in 2015 from \$34.0 million in 2014. Theater system maintenance gross margin increased to \$12.7 million in 2015 from \$12.4 million in 2014. The Company recorded a write-down of less than \$0.1 million and \$0.2 million for certain service parts inventories in 2015 and 2014, respectively. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

Joint Revenue Sharing Arrangements

Revenues from joint revenue sharing arrangements increased 44.9% to \$99.1 million in 2015 from \$68.4 million in 2014. The Company ended the year with 529 theaters operating under joint revenue sharing arrangements, as compared to 451 theaters at the end of 2014, an increase of 17.3%. The increase in revenues from joint revenue sharing arrangements was largely due to the greater number of theaters under joint revenue sharing arrangements in operation as compared to the prior year and stronger film performance. During 2015, the Company installed 80 full, new theaters under joint revenue sharing arrangements, as compared to 67 full new theaters during 2014.

The gross margin from joint revenue sharing arrangements was \$68.4 million in 2015 as compared to \$44.7 million in 2014. Included in the calculation of the 2015 gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$4.3 million, as compared to \$3.2 million for such expenses in 2014.

Film

Revenue from the Company's film segments increased \$118.0 million in 2015 and \$102.9 million in 2014 primarily due to stronger film performance and continued network growth. Gross box-office generated by IMAX DMR films increased 31.3% to \$985.3 million in 2015 from \$750.2 million in 2014. With the addition of gross box-office from IMAX original films, the Company's gross box-office exceeded \$1 billion in 2015. Film production and IMAX DMR revenues increased 28.8% to \$107.1 million in 2015 from \$83.2 million in 2014. Gross box-office per screen for 2015 averaged \$1,155,800 in comparison to \$1,020,600 in 2014. In 2015, gross box-office was generated primarily from the exhibition of 57 films (44 new and 13 carryovers), as compared to 50 films (40 new and 10 carryover) exhibited in 2014.

Other revenues attributable to the film segment decreased 44.6% to \$10.9 million in 2015 from \$19.8 million in 2014. This decrease was attributable to the wide release of two IMAX original productions, *Journey to the South Pacific* and *Island of Lemurs: Madagascar*, in 2014, whereas in 2015, the Company did not release any IMAX original productions as well as a decrease in post-production revenues as compared to the prior year.

The Company's gross margin from its film segments increased 15.4% in 2015 to \$78.8 million from \$68.2 million in 2014. Film production and IMAX DMR gross margins increased to \$77.6 million from \$62.9 million primarily due to continued network growth and stronger film performance. Other gross margin attributable to the film segment was \$1.1 million in 2015 as compared to \$5.3 million in 2014, since no original productions were released in 2015, as described above, and a decrease in post-production business.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$115.3 million in 2015, as compared to \$93.3 million in 2014. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$93.4 million in 2015, as compared to \$78.1 million in 2014. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

- an \$8.8 million increase in staff costs related to the core business, including salaries and benefits and certain incentive awards based on the Company's performance, the completion of the IMAX China IPO, and the achievement of pre-determined performance metrics;
- a \$6.8 million increase in the Company's stock-based compensation;
- a \$2.6 million net increase in staff costs and other expenses associated with new business initiatives, from \$0.7 million in 2014 to \$3.3 million in 2015;
- a \$0.9 million increase due to a change in foreign exchange rates. During the year ended December 31, 2015, the Company recorded a foreign exchange loss of \$2.4 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of \$1.5 million recorded in 2014.
- a \$0.8 million net increase in advertising and promotion related activities; and
- a \$2.1 million net increase in other general corporate expenditures including an increase in consulting and other professional fees and costs associated with the IMAX China IPO.

Research and Development

Research and development expenses decreased to \$12.7 million in 2015 compared to \$16.1 million in 2014 and are primarily attributable to the development of the Company's new laser-based digital projection system and its new private home theater. In 2014, the Company developed its next-generation laser-based digital projector, which provides greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the company continues to provide the highest quality, premier movie going experience available to consumers. As of December 31, 2015, the Company had 18 laser-based digital theater systems in operation.

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 2015, as compared to \$0.9 million in 2014.

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

Asset Impairments and Other Charges

The Company recorded an asset impairment charge of \$0.4 million and \$0.3 million in 2015 and 2014, respectively, against property, plant and equipment after the Company assessed the carrying value of certain assets in light of their future expected cash flows.

In 2015, the Company recognized a \$0.4 million other-than-temporary impairment of its investments as the value is not expected to recover based on the length of time and extent to which the market value has been less than cost as compared to \$3.2 million in 2014.

In 2015 and 2014, the Company recorded a charge of \$0.3 million and \$0.5 million, respectively, reflecting assets that no longer meet capitalization requirements as the assets were no longer in use.

Interest Income and Expense

Interest income was \$1.0 million in 2015, as compared to \$0.4 million in 2014.

Interest expense was \$1.7 million in 2015, as compared to \$0.9 million in 2014. Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its consolidated statements of operations rather than income tax expense. In 2015 and 2014, the Company recovered less than \$0.1 million, respectively, in potential interest and penalties associated with its provision for uncertain tax positions. Also included in interest expense is the amortization of deferred finance costs in the amount of \$1.0 million and \$0.5 million in 2015 and 2014, respectively. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Income Taxes

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

The Company recorded an income tax provision of \$20.1 million for 2015, of which \$0.5 million is related to an increase in its provision for uncertain tax positions. For 2014, the Company recorded an income tax provision of \$14.5 million, of which \$0.2 million was related to a decrease in its provision for uncertain tax positions.

The provision for income taxes in the year ended December 31, 2015 includes a net income tax charge of less than \$0.1 million (2014 — \$0.4 million recovery) in continuing operations related to an increase in the valuation allowance for the Company's deferred tax assets and other tax adjustments. In 2015, the Company recorded an adjustment of \$14.0 million to the deferred tax assets, \$5.9 million to the income tax provision and \$8.1 million to shareholders' equity related to tax benefits generated on the exercise of certain employee stock options. In conjunction with this, a provision for uncertain tax positions of \$3.9 million was also recorded to the income tax provision and \$7.9 million was recorded against shareholders' equity.

During the year ended December 31, 2015, after considering all available evidence, both positive (including recent profits, projected future profitability, backlog, carry forward periods for, and utilization of net operating loss carryovers and tax credits, discretionary deductions and other factors) and negative (including cumulative losses in past years and other factors), the Company concluded that the valuation allowance against the Company's deferred tax assets should increase by less than \$0.1 million. The remaining \$0.3 million balance in the valuation allowance as at December 31, 2015 is primarily attributable to certain U.S. state net operating loss carryovers that may expire without being utilized.

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. At December 31, 2015, the equity method of accounting is being utilized for investments with a total carrying value of \$1.0 million (December 31, 2014 — \$2.8 million). For the year ended December 31, 2015, gross revenues, cost of revenue and net loss for these investments were \$nil, \$9.3 million and \$9.1 million, respectively (2014 — \$3.1 million, \$5.9 million and \$4.9 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$2.4 million for 2015 compared to \$1.1 million in 2014. In 2014, the Company recognized a gain of \$0.1 million resulting from the sale of its interest in an equity-accounted investment. No such transactions were recorded in 2015.

Discontinued Operations

On January 30, 2014, the Company's lease with respect to its owned and operated Nyack IMAX theater ended and the Company decided not to renew the lease. In 2014, revenues for the Nyack IMAX theater were less than \$0.1 million and the Company recognized income of \$0.4 million, net of a tax expense of \$0.2 million from the operation of the theater. The transactions of the Company's owned and operated Nyack theater are reflected as discontinued operations.

Non-Controlling Interests

The Company's consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the IMAX China IPO as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the year ended December 31, 2015, the net income attributable to non-controlling interests of the Company's subsidiaries was \$8.8 million (2014 — \$2.4 million).

Pension Plan

The Company has an unfunded defined benefit pension plan, the SERP, covering Messrs. Gelfond and Bradley J. Wechsler, the Company's former Co-CEO and Chairman of its Board of Directors. As at December 31, 2015, the Company had an unfunded and accrued projected benefit obligation of approximately \$19.5 million (December 31, 2014 — \$19.4 million) in respect of the SERP.

The net periodic benefit cost was \$0.3 million in 2015 and 2014, respectively. The components of net periodic benefit cost were as follows:

	Years ended December 31	
	2015	2014
Interest cost	\$ 253	\$ 264
Pension expense	\$ 253	\$ 264

The plan experienced an actuarial gain of \$0.2 million and an actuarial loss of \$0.9 million during 2015 and 2014, respectively, resulting primarily from the continuing change in the Pension Benefit Guaranty Corporation ("PBGC") published annuity interest rates year-over-year used to determine the lump sum payment under the plan.

Under the terms of the SERP, if Mr. Gelfond's employment is terminated other than for cause (as defined in his employment agreement), he is entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. 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 this 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 December 31, 2015, the Company had an unfunded benefit obligation of \$1.8 million (December 31, 2014 — \$2.1 million).

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler upon retirement. As at December 31, 2015, the Company had an unfunded benefit obligation recorded of \$0.8 million (December 31, 2014 — \$0.8 million).

Stock-Based Compensation

The Company estimates the fair value of stock option and SAR awards on the date of grant using fair value measurement techniques. The fair value of RSU awards is equal to the closing price of the Company's common stock on the date of grant.

Stock-based compensation expense recognized under FASB ASC 718, "Compensation – Stock Compensation" ("ASC 718") for 2015 and 2014 was \$21.9 million and \$15.1 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility

The Company maintains a senior secured credit facility (the “Credit Facility”) with a maximum borrowing capacity of \$200.0 million and a scheduled maturity of March 3, 2020. The Credit Facility is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the Guarantors. Certain of the Company’s subsidiaries serve as guarantors (the “Guarantors”) of the Company’s obligations under the Credit Facility.

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

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

Under the Credit Facility, the effective interest rate for the year ended December 31, 2016 was nil, as no amounts were outstanding during the period (2015 – nil).

The Credit Agreement provides that the Company is required at all times to satisfy a Minimum Liquidity Test (as defined in the Credit Agreement) of at least \$50.0 million. The Company is also required to maintain minimum Adjusted EBITDA (as defined in the Credit Agreement as EBITDA and referred to herein as Adjusted EBITDA) of \$100.0 million. The Company is also required to maintain a Maximum Total Leverage Ratio (as defined in the Credit Agreement) of 2.0:1.0, which requirement decreases to 1.75:1.0 on December 31, 2017. The Company was in compliance with all of these requirements at December 31, 2016. The Maximum Total Leverage Ratio was 0.23:1 as at December 31, 2016, where Total Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments and was \$27.7 million. Adjusted EBITDA is calculated as follows:

Adjusted EBITDA per Credit Facility:

(In thousands of U.S. Dollars)

Net income	\$ 39,320
Add (subtract):	
Provision for income taxes	16,212
Interest expense, net of interest income	315
Depreciation and amortization, including film asset amortization ⁽¹⁾	45,953
EBITDA	<u>\$ 101,800</u>
Write-downs, net of recoveries including asset impairments and receivable provisions ⁽¹⁾	5,940
Loss from equity accounted investments	2,321
Stock and other non-cash compensation	31,586
Adjusted EBITDA attributable to non-controlling interests ⁽²⁾	(19,743)
	<u>\$ 121,904</u>

(1) See note 17 to the audited consolidated financial statements in Item 8 of the Company’s 2016 Form 10-K.

(2) The Adjusted EBITDA calculation specified for purposes of the minimum Adjusted EBITDA covenant excludes the reduction in Adjusted EBITDA from the Company’s non-controlling interests.

Playa Vista Financing

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

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

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

Total amount drawn under the Playa Vista Loan as at December 31, 2016 was \$27.7 million (December 31, 2015 – \$29.7 million). Under the Playa Vista Loan, the effective interest rate for December 31, 2016 was 2.52% (December 31, 2015 — 2.40%).

Letters of Credit and Other Commitments

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

The Company also has a \$10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by Export Development Canada (the “Bank of Montreal Facility”). The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews. As at December 31, 2016, the Company had letters of credit and advance payment guarantees outstanding of \$0.1 million under the Bank of Montreal Facility as compared to \$0.3 million as at December 31, 2015.

Cash and Cash Equivalents

As at December 31, 2016, the Company’s principal sources of liquidity included cash and cash equivalents of \$204.8 million, the Credit Facility, anticipated collection from trade accounts receivable of \$96.3 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of \$23.3 million and payments expected in the next 12 months on existing backlog deals. As at December 31, 2016, the Company did not have any amount drawn on the Credit Facility (remaining availability of \$200.0 million). As at December 31, 2016, the Company had \$27.7 million drawn on the Playa Vista Loan. There were \$nil letters of credit and advance payment guarantees outstanding under the Credit Facility and \$0.1 million under the Bank of Montreal Facility. Cash held outside of Canada as at December 31, 2016 was \$148.0 million (December 31, 2015 — \$122.2 million), of which \$31.5 million was held in the People’s Republic of China (“PRC”) (December 31, 2015 — \$24.4 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 \$4.9 million.

During the year ended December 31, 2016, the Company’s operations provided cash of \$77.9 million. The Company used cash of \$64.9 million to fund capital expenditures, to build equipment for use in joint revenue sharing arrangements, to purchase other

intangible assets, to invest in new business ventures such as its VR initiatives and to purchase property, plant and equipment. Based on management's current operating plan for 2017, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements, to fund DMR agreements with studios, invest in new business ventures and continued 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 109 new theater systems under joint revenue sharing arrangements in 2016, of which 77 new theater systems were capitalized by the Company.

In 2014, the Company's Board of Directors approved a \$150.0 million share repurchase program for shares of the Company's common stock, which program was amended on April 20, 2016 to increase the aggregate purchase allowance to \$200.0 million. Purchases under the program commenced in 2014, and the program expires June 30, 2017. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares, and the share repurchase program may be suspended or discontinued by the Company at any time. In 2016, the Company repurchased 3,849,222 common shares under the repurchase program at an average price of \$30.25 per share. The retired shares were purchased for \$116.5 million. The Company has \$46.3 million available under its approved repurchase program.

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

The Company's operating cash flow will be adversely affected if management's projections of future signings for theater systems and film performance, theater installations and film productions are not realized. The Company forecasts its short-term liquidity requirements on a quarterly and annual basis. Since the Company's future cash flows are based on estimates and there may be factors that are outside of the Company's control (see "Risk Factors" in Item 1A in the Company's 2016 Form 10-K), there is no guarantee that the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company's typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

Operating Activities

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

Cash provided by operating activities amounted to \$77.9 million in 2016. Changes in other non-cash operating assets as compared to 2015 include:

- an increase of \$1.4 million in accounts receivable resulting from amounts billed in the year offset by cash receipts;
- an increase of \$4.6 million in financing receivables primarily due to 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 \$3.8 million in inventories;
- an increase of \$0.1 million in prepaid expenses; and
- an increase of \$6.7 million in other assets which includes a decrease of \$0.2 million in commissions and other deferred selling expenses, a decrease of \$0.1 million in insurance recoveries, an increase of \$5.7 million in prepaid tax and an increase of \$1.3 million in other assets.

Changes in other operating liabilities as compared to December 31, 2015 include: a decrease in deferred revenue of \$14.7 million related to amounts relieved from deferred revenue due to theater system installations, offset partially by payments received in the current year related to theater systems not yet installed; a decrease in accounts payable of \$3.4 million; and an increase of \$3.9 million in accrued liabilities.

Investing Activities

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, net of sales proceeds, other intangible assets and investments in film assets were \$85.3 million in 2016 as compared to \$91.9 million in 2015. 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 \$64.9 million in 2016, which includes purchases of \$15.3 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$42.9 million, an investment in new business ventures of \$1.9 million and an investment in other intangible assets of \$4.8 million, primarily related to expanding the functionality of the Company's enterprise resource planning system and deploying it throughout the organization.

Financing Activities

Net cash used in financing activities in 2016 amounted to \$125.8 million as compared to \$204.7 million provided in 2015. In 2016, the Company paid \$116.5 million for the repurchase of common shares under the Company's share repurchase program and \$19.9 million to purchase treasury stock for the settlement of restricted share units and options. In addition, the Company paid \$2.4 million of taxes relating to secondary sales and repatriation dividends and \$0.5 million of taxes relating to employee stock award vesting. Furthermore, the Company also made \$2.0 million in repayments under the Playa Vista Loan. These cash outlays were offset by \$13.1 million received from the issuance of common shares resulting from stock option exercises, and \$2.5 million received from a capital contribution to the Film Fund made by third parties.

Prior Year Cash Flow Activities

Net cash provided by operating activities amounted to \$84.2 million in the year ended December 31, 2015. Changes in other non-cash operating assets as compared to 2014 included: an increase of \$22.5 million in accounts receivable; an increase of less than \$13.6 million in financing receivables; an increase of \$21.1 million in inventories; an increase of \$1.6 million in prepaid expenses; and an increase of \$0.7 million in other assets which includes an increase of \$0.2 million in commissions and other deferred selling expenses and an increase of \$0.5 million in other assets. Changes in other operating liabilities as compared to December 31, 2014 included: an increase in deferred revenue of \$16.2 million related to backlog payments received in 2015, offset partially by amounts relieved from deferred revenue related to theater system installations; an increase in accounts payable of \$9.2 million; and a decrease of \$2.1 million in accrued liabilities.

Net cash used in investing activities amounted to \$78.8 million in 2015, which included purchases of \$43.3 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$28.5 million, net investment in new business ventures of \$2.0 million and an increase in other intangible assets of \$5.1 million. Included in the Company's purchase of property, plant and equipment for 2015 was \$27.7 million for the construction of the Playa Vista Project. Net cash used in investment activities amounted to \$61.9 million in 2014.

Net cash provided by financing activities in 2015 amounted to \$204.7 million as compared to cash used in financing activities of \$52.0 million in 2014. In 2015, the Company received cash proceeds for the issuance of common shares net of related issuance costs of \$38.0 million related to the IMAX China Investment by CMC and Fountain Vest, which represented a non-controlling interest in the Company's subsidiary. The Company also received \$35.6 million from the issuance of common shares resulting from stock option exercises offset by \$34.3 million paid for the repurchase of common shares under the Company's share repurchase program. The Company spent \$10.0 million to purchase treasury stock for the settlement of restricted share units and stock options and paid \$9.5 million in dividends to the non-controlling interest shareholders of IMAX China as a result of the IMAX China IPO. The Company also borrowed \$25.3 million under the Playa Vista Loan.

Capital expenditures including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment net of sales proceeds and investments in film assets were \$91.9 million in the year ended December 31, 2015.

CONTRACTUAL OBLIGATIONS

Payments to be made by the Company under contractual obligations as of December 31, 2016 are as follows:

	Payments Due by Fiscal Year						
	Total Obligations	2017	2018	2019	2020	2021	Thereafter
Purchase obligations ⁽¹⁾	\$ 25,283	\$ 25,283	\$ -	\$ -	\$ -	\$ -	\$ -
Pension obligations ⁽²⁾	21,115	-	-	-	21,115	-	-
Operating lease obligations ⁽³⁾	18,670	6,203	5,033	2,831	674	498	3,431
Playa Vista Loan ⁽⁴⁾	27,667	2,000	2,000	2,000	2,000	2,000	17,667
Postretirement benefits obligations	5,042	1,138	1,197	680	140	145	1,742
Other financial commitments ⁽⁵⁾	39,173	39,173	-	-	-	-	-
	<u>\$ 136,950</u>	<u>\$ 73,797</u>	<u>\$ 8,230</u>	<u>\$ 5,511</u>	<u>\$ 23,929</u>	<u>\$ 2,643</u>	<u>\$ 22,840</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 is fully due and payable on October 19, 2025. The Company is required to make monthly payments of combined principal and interest.
- (5) Other financial commitments include the Company's total minimum commitment toward the development, production, post-production and marketing, related to certain film and new content initiatives.

Subsequent to December 31, 2016, the Company entered into a premises lease arrangement, related to the New York corporate office, with a commitment of approximately \$17.1 million over a 12-year term. The term is expected to begin in January 2018.

Pension and Postretirement Obligations

The Company has an unfunded defined benefit pension plan, the SERP, covering Mr. Gelfond. As at December 31, 2016, the Company had an unfunded and accrued projected benefit obligation of approximately \$19.6 million (December 31, 2015 — \$19.5 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 December 31, 2016, the Company had an unfunded benefit obligation of \$1.7 million (December 31, 2015 — \$1.8 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 December 31, 2016, the Company had an unfunded benefit obligation of \$0.6 million (December 31, 2015 — \$0.8 million).

In September 2016, the Company entered into a new employment agreement with Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company, which provides for an employment term from July 2, 2016 through July 2, 2019. Under the agreement, the Company agreed to create a deferred compensation retirement plan (the “Retirement Plan”) covering Mr. Foster, and to make a total contribution of \$3.2 million over the three-year employment term. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, such that 25% will vest July 2019; 50% will vest July 2022; 75% will vest July 2025; and Mr. Foster will be 100% vested in July 2027. As at December 31, 2016, the Company had an unfunded benefit obligation recorded of \$0.5 million.

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 7A. *Quantitative and Qualitative 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. 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. In addition, because IMAX films generate box-office in 74 different countries, unfavourable exchange rates between applicable local currencies, and the U.S. dollar could affect the Company’s reported gross box-office and revenues, further impacting the Company’s results of operations.

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.

The Company’s subsidiaries, IMAX (Shanghai) Multimedia Technology Co., Ltd. and IMAX (Shanghai) Theatre Technology Services Co. Ltd., held approximately 218.2 million Renminbi (\$31.5 million U.S. dollars) in cash and cash equivalents in the PRC as at December 31, 2016 (December 31, 2015 – 158.0 million Renminbi or \$24.4 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 year ended December 31, 2016, the Company recorded a foreign exchange net loss of \$0.9 million as compared to a foreign exchange net loss of \$2.4 million in 2015, associated with the translation of foreign currency denominated monetary assets and liabilities.

The Company has entered into a series of foreign currency forward contracts to manage the Company’s risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 2016 and 2017. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. All foreign currency forward contracts held by the Company as at December 31, 2016, are designated and qualify as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the consolidated statement of operations when the forecasted

transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations. The notional value of foreign currency hedging instruments at December 31, 2016 was \$37.8 million (December 31, 2015 — \$30.7 million). A gain of \$1.0 million was recorded to Other Comprehensive Income with respect to the depreciation/appreciation in the value of these contracts in 2016 (2015 — loss of \$5.9 million). A loss of \$3.1 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses in 2016 (2015 — loss of \$3.2 million). 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 December 31, 2016, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros translated into U.S. dollars was \$52.4 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2016, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$5.2 million. A significant portion of the Company's selling, general, and administrative expenses is denominated in Canadian dollars. Assuming a 1% change appreciation or depreciation in foreign currency exchange rates at December 31, 2016, the potential change in the amount of selling, general, and administrative expenses would be \$0.1 million for every \$10.0 million in Canadian denominated expenditures.

Interest Rate Risk Management

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

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

As at December 31, 2016, the Company had drawn down \$27.7 million on its Playa Vista Loan (December 31, 2015 — \$29.7 million).

The Company's largest exposure with respect to variable rate debt comes from changes in LIBOR. The Company had variable rate debt instruments representing 12.0% and 11.7% of its total liabilities at December 31, 2016 and 2015, respectively. If the interest rates available to the Company increased by 10%, the Company's interest expense would increase by approximately \$0.1 million and interest income from cash would increase by approximately \$0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable rate debt and cash balances at December 31, 2016.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Shareholders of IMAX Corporation

We have audited the accompanying consolidated balance sheets of IMAX Corporation and its subsidiaries as of December 31, 2016 and December 31, 2015 and the related consolidated statements of operations, comprehensive income, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2016. In addition, we have audited the financial statements schedule listed in the index appearing under item 15 (a) (2). We also have audited IMAX Corporation's and its subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements, the financial statements schedule and the company's internal control over financial reporting based on our integrated audits.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IMAX Corporation and its subsidiaries as of December 31, 2016 and December 31, 2015 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements schedule listed in the index appearing under item 15 (a) (2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also, in our opinion, IMAX Corporation and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it accounts for Stock Compensation in 2016.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
February 23, 2017

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

	As at December 31,	
	2016	2015
Assets		
Cash and cash equivalents	\$ 204,759	\$ 317,449
Accounts receivable, net of allowance for doubtful accounts of \$1,250 (December 31, 2015 — \$1,146)	96,349	97,981
Financing receivables (notes 4 and 19(c))	122,125	117,231
Inventories (note 5)	42,121	38,753
Prepaid expenses	6,626	6,498
Film assets (note 6)	16,522	14,571
Property, plant and equipment (note 7)	245,415	218,267
Other assets (notes 8 and 19(e))	33,195	26,136
Deferred income taxes (note 9)	20,779	25,766
Other intangible assets (note 10)	30,416	28,950
Goodwill	39,027	39,027
Total assets	\$ 857,334	\$ 930,629
Liabilities		
Bank indebtedness (note 11)	\$ 27,316	\$ 29,276
Accounts payable	19,990	23,455
Accrued and other liabilities (notes 6, 12, 13, 14(c), 19(b), 19(d), 20 and 22)	93,208	95,748
Deferred revenue	90,266	104,993
Total liabilities	230,780	253,472
Commitments and contingencies (notes 12 and 13)		
Non-controlling interests (note 21)	4,980	3,307
Shareholders' equity		
Capital stock (note 14) common shares — no par value. Authorized — unlimited number. 66,224,467 — issued and 66,159,902 — outstanding (December 31, 2015 — 69,673,244 — issued and outstanding)	439,213	448,310
Less: Treasury stock, 64,565 shares at cost (December 31, 2015 — nil)	(1,939)	-
Other equity	177,304	163,094
Accumulated (deficit) earnings	(47,366)	19,930
Accumulated other comprehensive loss	(5,200)	(7,443)
Total shareholders' equity attributable to common shareholders	562,012	623,891
Non-controlling interests (note 21)	59,562	49,959
Total shareholders' equity	621,574	673,850
Total liabilities and shareholders' equity	\$ 857,334	\$ 930,629

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

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

	Years Ended December 31,		
	2016	2015	2014
Revenues			
Equipment and product sales (note 15(c))	\$ 122,382	\$ 118,937	\$ 78,705
Services (note 15(c))	166,862	161,964	142,607
Rentals (note 15(c))	77,315	83,651	60,705
Finance income	9,500	9,112	8,524
Other (note 15(a))	1,275	141	-
	377,334	373,805	290,541
Costs and expenses applicable to revenues (note 2(m))			
Equipment and product sales	69,680	63,635	36,997
Services (note 15(c))	83,780	70,855	62,228
Rentals	21,086	20,027	17,928
Other	110	-	-
	174,656	154,517	117,153
	202,678	219,288	173,388
Gross margin			
Selling, general and administrative expenses (note 15(b)) (including share-based compensation expense of \$30.5 million, \$21.9 million and \$15.1 million for 2016, 2015 and 2014, respectively)	124,745	115,345	93,260
Research and development	16,315	12,730	16,096
Amortization of intangibles	2,079	1,860	1,724
Receivable provisions, net of recoveries (note 16)	954	752	918
Asset impairments (notes 7 and 19(e))	417	830	3,520
	58,168	87,771	57,870
Income from operations			
Interest income	1,490	968	405
Interest expense (note 9(g))	(1,805)	(1,661)	(924)
	57,853	87,078	57,351
Income from operations before income taxes			
Provision for income taxes	(16,212)	(20,052)	(14,466)
Loss from equity-accounted investments, net of tax	(2,321)	(2,402)	(1,071)
	39,320	64,624	41,814
Income from continuing operations			
Income from discontinued operations, net of tax	-	-	355
	39,320	64,624	42,169
Net income			
Less: net income attributable to non-controlling interests (note 21)	(10,532)	(8,780)	(2,433)
	\$ 28,788	\$ 55,844	\$ 39,736
Net income per share attributable to common shareholders - basic and diluted: (note 14(d))			
Net income per share - basic:			
Net income per share from continuing operations	\$ 0.43	\$ 0.79	\$ 0.57
Net income per share from discontinued operations	-	-	0.01
	\$ 0.43	\$ 0.79	\$ 0.58
Net income per share - diluted:			
Net income per share from continuing operations	\$ 0.42	\$ 0.78	\$ 0.56
Net income per share from discontinued operations	-	-	-
	\$ 0.42	\$ 0.78	\$ 0.56

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

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

	Years Ended December 31,		
	2016	2015	2014
Net income	\$ 39,320	\$ 64,624	\$ 42,169
Unrealized defined benefit plan actuarial gain (loss) (note 20(a))	159	180	(857)
Unrealized postretirement benefit plans actuarial gain (loss) (notes 20(c) and 20(d))	184	79	(574)
Amortization of postretirement benefit plan actuarial loss (gain) (note 20(c))	69	135	(32)
Unrealized net gain (loss) from cash flow hedging instruments (note 19(d))	1,049	(5,881)	(2,524)
Realization of cash flow hedging net loss upon settlement (note 19(d))	3,078	3,217	1,186
Foreign currency translation adjustments (note 2)	(2,851)	(2,121)	(259)
Other-than-temporary impairment of available-for-sale investment	-	-	350
Other comprehensive income (loss), before tax	1,688	(4,391)	(2,710)
Income tax (expense) benefit related to other comprehensive (loss) income (note 9(h))	(1,180)	511	750
Other comprehensive income (loss), net of tax	508	(3,880)	(1,960)
Comprehensive income	39,828	60,744	40,209
Less: Comprehensive income attributable to non-controlling interests	(8,797)	(9,196)	(2,491)
Comprehensive income attributable to common shareholders	\$ 31,031	\$ 51,548	\$ 37,718

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

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

	Years Ended December 31,		
	2016	2015	2014
Cash provided by (used in):			
Operating Activities			
Net income	\$ 39,320	\$ 64,624	\$ 42,169
Income from discontinued operations, net of tax	-	-	(355)
Adjustments to reconcile net income to cash from operations:			
Depreciation and amortization (notes 17(c) and 18(a))	46,485	42,803	33,756
Write-downs, net of recoveries (notes 17(d) and 18(a))	5,940	3,725	5,294
Change in deferred income taxes	4,940	(1,336)	627
Stock and other non-cash compensation	31,586	22,379	15,467
Unrealized foreign currency exchange loss	462	785	1,180
Loss from equity-accounted investments	2,685	3,838	1,774
Gain on non-cash contribution to equity-accounted investees	(364)	(1,436)	(703)
Investment in film assets	(22,308)	(15,119)	(19,233)
Changes in other non-cash operating assets and liabilities (note 17(a))	(30,874)	(36,058)	6,357
Net cash provided by operating activities from discontinued operations	-	-	572
Net cash provided by operating activities	77,872	84,205	86,905
Investing Activities			
Purchase of property, plant and equipment	(15,278)	(43,257)	(40,104)
Investment in joint revenue sharing equipment	(42,910)	(28,474)	(16,838)
Investment in new business ventures	(1,911)	(2,000)	(2,500)
Proceeds from sale of business venture	-	-	507
Acquisition of other intangible assets	(4,787)	(5,065)	(2,918)
Net cash used in investing activities	(64,886)	(78,796)	(61,853)
Financing Activities			
Increase in bank indebtedness (note 11)	-	25,290	4,710
Repayment of bank indebtedness (note 11)	(2,000)	(333)	-
Repurchase of common shares	(116,518)	(34,276)	(3,063)
Settlement of restricted share units and options	(17,889)	(10,000)	(790)
Exercise of stock options (note 14(b))	13,113	35,609	10,834
Taxes paid on secondary sales and repatriation dividend	(2,443)	-	-
Treasury stock repurchased for future settlement of restricted share units	(1,996)	-	-
Taxes withheld and paid on employee stock awards vested	(528)	(520)	(300)
Issuance of subsidiary shares to non-controlling interests - private offering	2,479	40,000	44,551
Share issuance costs from the issuance of subsidiary shares to non-controlling interests - private offering	-	(2,000)	(3,556)
Issuance of subsidiary shares to non-controlling interests - public offering	-	178,226	-
Share issuance expenses - public offering	-	(16,257)	-
Dividends paid to non-controlling interests	-	(9,511)	-
Credit facility amendment fees paid	-	(1,533)	(427)
Net cash (used in) provided by financing activities	(125,782)	204,695	51,959
Effects of exchange rate changes on cash	106	842	(54)
(Decrease) increase in cash and cash equivalents during year	(112,690)	210,946	76,957
Cash and cash equivalents, beginning of year	317,449	106,503	29,546
Cash and cash equivalents, end of year	\$ 204,759	\$ 317,449	\$ 106,503

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

IMAX CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of U.S. dollars)

	Common Shares Issued and Outstanding	Capital Stock	Other Equity	Accumulated (Deficit) Earnings	Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Shareholders' Equity
Balance as at December 31, 2013	67,841,233	\$ 327,313	\$ 36,452	\$ (43,051)	\$ (1,129)	\$ -	\$ 319,585
Net income	-	-	-	42,169	-	-	42,169
Other comprehensive loss, net of tax	-	-	-	-	(1,960)	-	(1,960)
Other comprehensive loss attributable to a non-controlling interest (note 21(a))	-	-	-	-	(58)	-	(58)
Net income attributable to non-controlling interests	-	-	-	(2,433)	-	-	(2,433)
Paid-in capital for non-employee stock options granted (note 14(c))	-	-	149	-	-	-	149
Employee stock options exercised (note 14(b))	1,116,586	14,810	(4,260)	-	-	-	10,550
Non-employee stock options exercised	33,001	448	(165)	-	-	-	283
Paid-in capital for employee stock options granted (note 14(c))	-	-	9,275	-	-	-	9,275
Paid-in capital for restricted share units granted (note 14(c))	-	-	5,780	-	-	-	5,780
Restricted share units vested (net of shares withheld for tax) (note 14(c))	109,264	2,836	(3,148)	-	-	-	(312)
Restricted share units vested and issued to employees purchased on open market	-	-	(790)	-	-	-	(790)
Repurchase of common shares	(112,034)	(545)	-	(2,518)	-	-	(3,063)
Accretion charges associated with redeemable common stock	-	-	-	(426)	-	-	(426)
Utilization of windfall tax benefits from vested restricted share units and expensed stock options (note 9(f))	-	-	4,026	-	-	-	4,026
Balance as at December 31, 2014	68,988,050	\$ 344,862	\$ 47,319	\$ (6,259)	\$ (3,147)	\$ -	\$ 382,775
Net income	-	-	-	64,624	-	-	64,624
Other comprehensive loss, net of tax	-	-	-	-	(4,296)	416	(3,880)
Net income attributable to non-controlling interests	-	-	-	(8,780)	-	9,113	333
Paid-in capital for non-employee stock options granted (note 14(c))	-	-	81	-	-	-	81
Employee stock options exercised (note 14(b))	1,650,643	49,756	(14,278)	-	-	-	35,478
Non-employee stock options exercised	9,000	206	(75)	-	-	-	131
Paid-in capital for employee stock options granted (note 14(c))	-	-	12,225	-	-	-	12,225
Paid-in capital for restricted share units granted (note 14(c))	-	-	8,075	-	-	-	8,075
Restricted share units vested (net of shares withheld for tax) (note 14(c))	25,551	626	(1,151)	-	-	-	(525)
Restricted share units vested and issued to employees purchased on open market	-	-	(6,203)	-	-	-	(6,203)
Stock options exercises settled from treasury shares purchased on open market	-	-	(3,797)	-	-	-	(3,797)
Repurchase of common shares	(1,000,000)	(5,390)	-	(28,886)	-	-	(34,276)
Accretion charges associated with redeemable common stock	-	-	-	(769)	-	-	(769)
Utilization of windfall tax benefits from vested restricted share units and expensed stock options (note 9(f))	-	-	529	-	-	-	529
Issuance of subsidiary shares, initial public offering	-	71,291	106,935	-	-	-	178,226
Share issuance expenses, initial public offering	-	(13,041)	(3,216)	-	-	-	(16,257)
Dividends paid (note 21)	-	-	-	-	-	(9,511)	(9,511)
Tax impact of sale of subsidiary shares in initial public offering	-	-	(12,450)	-	-	-	(12,450)
Reduction in non-controlling interest value upon qualified initial public offering	-	-	29,100	-	-	(29,100)	-
Conversion of Class C Shares upon initial public offering	-	-	-	-	-	79,041	79,041
Balance as at December 31, 2015	69,673,244	\$ 448,310	\$ 163,094	\$ 19,930	\$ (7,443)	\$ 49,959	\$ 673,850
Retrospective adjustment related to forfeiture rates (note 3)	-	-	5,331	(4,431)	-	-	900
Net income	-	-	-	39,320	-	-	39,320
Other comprehensive income, net of tax	-	-	-	-	2,243	(1,735)	508
Net income attributable to non-controlling interests	-	-	-	(10,532)	-	11,338	806
Paid-in capital for non-employee stock options granted (note 14(c))	-	-	30	-	-	-	30
Employee stock options exercised (note 14(b))	347,814	11,431	(3,139)	-	-	-	8,292
Fair value of stock options exercised at the grant date	-	3,139	-	-	-	-	3,139
Paid-in capital for employee stock options granted (note 14(c))	-	-	13,766	-	-	-	13,766
Paid-in capital for restricted share units granted (note 14(c))	-	-	16,493	-	-	-	16,493
Restricted share units vested (net of shares withheld for tax) (note 14(c))	52,631	1,198	(14,731)	-	-	-	(13,533)
Stock options exercises settled from treasury shares purchased on open market	-	-	(5,224)	-	-	-	(5,224)
Cash received from the issuance of common shares in excess of par value	-	-	1,684	-	-	-	1,684
Repurchase of common shares	(3,849,222)	(24,865)	-	(91,653)	-	-	(116,518)
Shares held in treasury	(64,565)	(1,939)	-	-	-	-	(1,939)
Balance as at December 31, 2016	66,159,902	\$ 437,274	\$ 177,304	\$ (47,366)	\$ (5,200)	\$ 59,562	\$ 621,574

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

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

1. Description of the Business

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

- design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 75 countries as at December 31, 2016;
- production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;
- provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems;
- operation of certain theaters primarily in the United States; and
- other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

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

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

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

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

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

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

2. Summary of Significant Accounting Policies

Significant accounting policies are summarized as follows:

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

(a) Basis of Consolidation

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

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

The Company has 11 film production companies that are VIEs. For five of the Company’s film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the

respective VIE that most significantly impact the respective VIE's economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. These consolidated production companies have total assets of \$10.3 million (December 31, 2015 — \$7.2 million) and total liabilities of \$6.4 million as at December 31, 2016 (December 31, 2015 — \$4.1 million). The majority of these consolidated assets are held by the IMAX Original Film Fund (the "Film Fund") as described in note 21(b). For the other six film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at December 31, 2016, these six VIEs have total assets and total liabilities of \$0.4 million (December 31, 2015 — \$0.4 million). Earnings of the investees included in the Company's consolidated statement of operations amounted to \$nil in 2016 (2015 — \$nil). The carrying value of these investments in VIEs that are not consolidated is \$nil at December 31, 2016 (December 31, 2015 — \$nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the consolidated statement of operations. The Company's exposure, which is determined based on the level of funding contributed by the Company and the development stage of the respective film, is \$nil at December 31, 2016 (2015 — \$nil).

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 "Investments – Equity Method and Joint Ventures" ("ASC 323") and 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.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could be materially different from these estimates. Significant estimates made by management include, but are not limited to: selling prices associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; provisions for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value of stock-based payment awards.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments convertible to a known amount of cash and with an original maturity to the Company of three months or less to be cash equivalents.

(d) Accounts Receivable and Financing Receivables

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

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

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

When the net investment in lease or the financing receivable is impaired, the Company will recognize a provision for the difference between the carrying value in the investment and the present value of expected future cash flows discounted using the effective

interest rate for the net investment in the lease or the financing receivable. If the Company expects to recover the theater system, the provision is equal to the excess of the carrying value of the investment over the fair value of the equipment.

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

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

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

(e) Inventories

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

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

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

Finished goods inventories can contain theater systems for which title has passed to the Company's customer (as the theater system has been delivered to the customer) but the revenue recognition criteria as discussed in note 2(m) have not been met.

(f) Film Assets

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

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

Costs, including labor and allocated overhead, of digitally re-mastering films where the copyright is owned by a third party and the Company shares in the revenue of the third party are included in film assets. These costs are amortized using the individual-film-forecast method in the same ratio that current gross revenues bear to current and anticipated future ultimate revenues from the re-mastered film.

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

(g) Property, Plant and Equipment

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

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

(1) Includes equipment under joint revenue sharing arrangements.

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

The Company reviews the carrying values of its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group might not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent when testing for, and measuring for, impairment. In performing its review of recoverability, the Company estimates the future cash flows expected to result from the use of the asset or asset group and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is recognized in the consolidated statements of operations. Measurement of the impairment loss is based on the excess of the carrying amount of the asset or asset group over the fair value calculated using discounted expected future cash flows.

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

(h) Other Assets

Other assets include prepaid taxes, insurance recoverable, deferred charges on debt financing, deferred selling costs that are direct and incremental to the acquisition of sales contracts, foreign currency derivatives, lease incentives and various investments.

Costs of debt financing are deferred and amortized over the term of the debt using the effective interest method.

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

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

The Company may provide lease incentives to certain exhibitors which are essential to entering into the respective lease arrangement. Lease incentives include payments made to or on behalf of the exhibitor. These lease incentives are recognized as a reduction in rental revenue on a straight-line basis over the term of the lease.

Investments in new business ventures are accounted for using ASC 323 as described in note 2(a). The Company currently accounts for its joint venture investment with TCL Multimedia Technology Holdings Limited ("TCL"), using the equity method of accounting. The Company accounts for in-kind contributions to its equity investment in accordance with ASC 845 "Non-Monetary Transactions" ("ASC 845") whereby if the fair value of the asset or assets contributed is greater than the carrying value a partial gain shall be recognized.

The Company's investment in debt securities is classified as an available-for-sale investment in accordance with ASC 320. Unrealized holding gains and losses for this investment is excluded from earnings and reported in other comprehensive income until realized. Realization occurs upon sale of a portion of or the entire investment. The investment is impaired if the fair value is less than cost, which is assessed in each reporting period. When the Company intends to sell a specifically identified beneficial interest, a write-down for other-than-temporary impairment shall be recognized in earnings.

The Company's investment in preferred shares, which meets the criteria for classification as an equity security in accordance with ASC 325, is accounted for at cost. The Company records the related warrants at fair value upon recognition date. Warrants are recognized over the term of the agreement.

(i) Goodwill

Goodwill represents the excess of purchase price over the fair value of net identifiable assets acquired in a purchase business combination. Goodwill is not subject to amortization and is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. The Company performs a qualitative assessment of its reporting units and certain select quantitative calculations against its current long range plan to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. The Company first assesses certain qualitative factors to determine whether the existence of events or circumstances leads to determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carry amount, then performing the two-step impairment test is unnecessary. When necessary, impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting unit is estimated using a discounted cash flow approach. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to measure the amount of impairment loss, if any, by comparing the fair value of each identifiable asset and liability in the reporting unit to the total fair value of the reporting unit. Any impairment loss is expensed in the consolidated statement of operations and is not reversed if the fair value subsequently increases.

(j) Other Intangible Assets

Patents, trademarks and other intangibles are recorded at cost and are amortized on a straight-line basis over estimated useful lives ranging from 4 to 10 years except for intangible assets that have an identifiable pattern of consumption of the economic benefit of the asset, which are amortized over the consumption pattern.

The Company reviews the carrying values of its other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group might not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent when testing for, and measuring for, impairment. In performing its review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset or asset group and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is recognized in the consolidated statement of operations. Measurement of the impairment loss is based on the excess of the carrying amount of the asset or asset group over the fair value calculated using discounted expected future cash flows.

(k) Deferred Revenue

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

(l) Income Taxes

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

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

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

(m) Revenue Recognition

Multiple Element Arrangements

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

Theater Systems

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

The Company's System Deliverable arrangements involve either a lease or a sale of the theater system. Consideration for the System Deliverable, 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.

For arrangements entered into or materially modified after January 1, 2011, 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 Deliverable, 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 Deliverable is recognized in accordance with the Revenue Recognition Topic of the FASB ASC, when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided there is persuasive evidence of an arrangement, the price is fixed or determinable and collectibility is reasonably assured.

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

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

Lease Arrangements

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

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

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

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

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

Revenues from joint revenue sharing arrangements with upfront payments that qualify for classification as sales and 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 collectibility is reasonably assured.

Finance Income

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

Improvements and Modifications

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

Cost of Equipment and Product Sales

Theater systems and other equipment subject to sales-type leases 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. These costs included in costs and expenses applicable to revenues-equipment and product sales, totaled \$3.3 million in 2016 (2015 – \$3.4 million, 2014 – \$2.5 million). The cost of equipment and product sales prior to direct selling costs was \$66.5 million in 2016 (2015 – \$60.2 million, 2014 – \$34.5 million). The Company may have warranty obligations at or after the time revenue is recognized which require replacement of certain parts that do not affect the functionality of the theater system or services. The costs for warranty obligations for known issues are accrued as charges to costs and expenses applicable to revenues-equipment and product sales at the time revenue is recognized based on the Company's past historical experience and cost estimates.

Cost of Rentals

For theater systems and other equipment subject to an operating lease or placed in a theater operators' venue under a joint revenue sharing arrangement, the cost of equipment 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). Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned, which is typically the month of installation. These costs totaled \$1.8 million in 2016 (2015 – \$1.1 million, 2014 – \$1.1 million). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled \$0.9 million in 2016 (2015 – \$1.9 million, 2014 – \$1.5 million).

Terminations, Consensual Buyouts and Concessions

The Company enters into theater system arrangements with customers that contain customer payment obligations prior to the scheduled installation of the theater system. During the period of time between signing and the installation of the theater system, which may extend several years, certain customers may be unable to, or 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 the Leases or Interests Topic of the FASB ASC. Free products and services are accounted for as separate units of accounting. Other consideration given by the Company to customers are accounted for in accordance with the Revenue Recognition Topic of the FASB ASC.

Maintenance and Extended Warranty Services

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

Film Production and IMAX DMR Services

In certain film arrangements, the Company produces a film financed by third parties whereby the third party retains the copyright and the Company obtains exclusive distribution rights. Under these arrangements, the Company is entitled to receive a fixed fee or to retain as a fee the excess of funding over cost of production (the "production fee"). The third parties receive a portion of the revenues received by the Company from distributing the film, which is charged to costs and expenses applicable to revenues-services. The production fees are deferred, and recognized as a reduction in the cost of the film based on the ratio of the Company's distribution revenues recognized in the current period to the ultimate distribution revenues expected from the film. Film exploitation costs, including advertising and marketing totaled \$17.5 million in 2016 (2015 — \$13.3 million, 2014 — \$7.1 million) and are recorded in costs and expenses applicable to revenues-services as incurred.

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

Revenues from digitally re-mastering (IMAX DMR) films where third parties own or hold the copyrights and the rights to distribute the film are derived in the form of processing fees and recoupments calculated as a percentage of box-office receipts generated from the re-mastered films. Processing fees are recognized as Services revenues when the performance of the related re-mastering service is completed provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is reasonably assured. Recoupments, calculated as a percentage of box-office receipts, are recognized as Services revenue when box-office receipts are reported by the third party that owns or holds the related film rights, provided collectibility is reasonably assured.

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

Film Distribution

Revenue from the licensing of films is recognized in Services revenues when persuasive evidence of a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed or determinable and collectibility is

reasonably assured. When license fees are based on a percentage of box-office receipts, revenue is recognized when box-office receipts are reported by exhibitors, provided collectibility is reasonably assured. Film exploitation costs, including advertising and marketing, totaled an expense of \$2.2 million in 2016 (2015 — recovery of \$0.1 million, 2014 — expense of \$0.6 million) and are recorded in costs and expenses applicable to revenues-services as incurred.

Film Post-Production Services

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

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.

(n) *Research and Development*

Research and development costs are expensed as incurred and primarily include projector and sound parts, labor, consulting fees, allocation of overheads and other related materials which pertain to the Company's development of ongoing product and services. Research and development costs pertaining to fixed and intangible assets that have alternative future uses are capitalized and amortized under their related policies.

(o) *Foreign Currency Translation*

Monetary assets and liabilities of the Company's operations which are denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the end of the period. In 2013, the Company determined that the functional currency of one of its consolidated subsidiaries had changed from the Company's reporting currency to the currency of the nation in which it is domiciled. As a result, in accordance with the FASB ASC 830 "Foreign Currency Matters", the adjustment attributable to current-rate translation of non-monetary assets as of the date of the change was reported in other comprehensive income ("OCI"). The functional currency of its other consolidated subsidiaries continues to be the United States dollar. Foreign exchange translation gains and losses are included in the determination of earnings in the period in which they arise.

Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations.

(p) *Stock-Based Compensation*

The Company's stock-based compensation generally includes stock options and restricted share units ("RSUs"). Stock-based compensation is recognized in accordance with the FASB ASC Topic 505, "Equity" and Topic 718, "Compensation-Stock Compensation."

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

The Company utilizes a lattice-binomial option-pricing model ("Binomial Model") to determine the fair value of stock option awards. The fair value determined by the Binomial Model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The Binomial Model also considers the expected exercise multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the Binomial Model best provides a fair measure of the fair value of the Company's employee stock options. See note 14(c) for the assumptions used to determine the fair value of stock-based payment awards.

Stock-based compensation expense includes compensation cost for employee stock-based payment awards granted and all modified, repurchased or cancelled employee awards. In addition, compensation expense includes the compensation cost, based on the grant-date fair value calculated for pro forma disclosures under ASC 718-10-55, for the portion of awards for which required service had not been rendered that were outstanding. Compensation expense for these employee awards is recognized using the straight-line single-option method. Stock-based compensation expense is not adjusted for estimated forfeitures, but instead adjusted upon an actual forfeiture of a stock option or RSU award. The Company utilizes the market yield on U.S. treasury securities (also known as nominal rate) over the contractual term of the instrument being issued.

Stock Options

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

The Company's policy is to issue new common shares from treasury or shares purchased in the open market to satisfy stock options which are exercised.

Restricted Share Units

The Company's RSUs have been classified as equity in accordance with Topic 505. The fair value of RSU awards is equal to the closing price of the Company's common stock on the date of grant.

Awards to Non-Employees

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

(q) Pension Plans and Postretirement Benefits

The Company has a defined benefit pension plan, the Supplemental Executive Retirement Plan (the "SERP"). As the Company's SERP is unfunded, as at December 31, 2016, a liability is recognized for the projected benefit obligation.

Assumptions used in computing the defined benefit obligations are reviewed annually by management in consultation with its actuaries and adjusted for current conditions. Actuarial gains or losses and prior service costs or credits that arise during the period but

are not recognized as components of net periodic benefits cost are recognized as a component of other comprehensive income. Amounts recognized in accumulated other comprehensive income including unrecognized actuarial gains or losses and prior service costs are adjusted as they are subsequently recognized in the consolidated statement of operations as components of net periodic benefit cost. Prior service costs resulting from the pension plan inception or amendments are amortized over the expected future service life of the employees, cumulative actuarial gains and losses in excess of 10% of the projected benefit obligation are amortized over the expected average remaining service life of the employees, and current service costs are expensed when earned. The remaining weighted average future service life of the employee used in computing the defined benefit obligation for the year ended December 31, 2016 was 3.0 years.

For defined contribution pension plans, required contributions by the Company are recorded as an expense.

A liability is recognized for the unfunded accumulated benefit obligation of the postretirement benefits plan. Assumptions used in computing the accumulated benefit obligation are reviewed by management in consultation with its actuaries and adjusted for current conditions. Current service cost is recognized as incurred and actuarial gains and losses are recognized as a component of other comprehensive income (loss). Amounts recognized in accumulated other comprehensive income (loss) including unrecognized actuarial gains or losses are adjusted as they are subsequently recognized in the consolidated statement of operations as components of net periodic benefit cost.

(r) Guarantees

The FASB ASC Guarantees Topic requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of certain guarantees. Disclosures as required under the accounting guidance have been included in note 13(f).

3. New Accounting Standards and Accounting Changes

Adoption of New Accounting Policies

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items" ("ASU 2015-01"). Prior to the changes under ASU 2015-01, an entity was required to separately classify, present and disclose extraordinary events and transactions under the disclosure requirements of Subtopic 225-20, "Income Statement – Extraordinary and Unusual Items" ("Subtopic 225-20"). ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items therefore such separate disclosure is no longer required in the Income Statement of an entity. For public companies, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments can be applied prospectively or retrospectively. The Company prospectively adopted the amendments under ASU 2015-01 on January 1, 2016. The adoption of the standard did not have an impact on the disclosures presented in the consolidated statements of operations for the years ended December 31, 2016 and 2015, respectively.

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

In April 2015, the FASB issued ASU No. 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), and in August 2015 issued ASU No. 2015-15, "Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" ("ASU 2015-15"). Under ASU 2015-03, debt issuance costs reported on the balance sheet will be reflected as a direct deduction from the related debt liability rather than as an asset. While ASU 2015-03 addresses costs related to term debt, ASU 2015-15 provides clarification regarding costs to secure revolving lines of credit, which are, at the outset, not associated with an outstanding borrowing. ASU 2015-15 provides commentary that the U.S. Securities and Exchange Commission ("SEC") staff would not object to

an entity deferring and presenting costs associated with line-of-credit arrangements as an asset and subsequently amortizing them ratably over the term of the revolving debt arrangement. For public companies, the amendments apply to annual periods beginning on or after December 15, 2015, and interim periods within those years and are to be applied retrospectively. The Company adopted these standards on January 1, 2016. As at December 31, 2015, \$0.4 million of unamortized debt issuance costs related to the Company's loan to finance the construction of its Playa Vista facility were reclassified in the consolidated balance sheet from Other assets to Bank indebtedness. The Company will continue to defer and present the debt issuance cost related to its senior secured revolving credit facility in Other assets and amortize it ratably over the term of the agreement.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). The amendment is to simplify several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, the amendments in ASU 2016-09 are effective for interim and annual reporting periods beginning after December 15, 2016. ASU 2016-09 requires that the Company elect to account for forfeitures based on an estimate of the number of awards for which the requisite service period will not be rendered or to account for forfeitures as they occur. The Company elected to early adopt ASU 2016-09 in 2016 and to account for forfeitures as they occur. The impact from the adoption of the provisions related to forfeiture rates was reflected in the Company's consolidated financial statements on a modified retrospective basis resulting in a \$4.4 million decrease to Accumulated earnings, \$0.9 million increase to Deferred income taxes and \$5.3 million increase to Other equity. A recovery of stock-based compensation expense of \$2.7 million for the year ended December 31, 2016 was also recorded. Amendments related to accounting for excess tax benefits have been adopted prospectively resulting in a tax benefit of \$0.1 million for the year ended December 31, 2016, and amendments related to the consolidated statement of cash flows have been adopted retrospectively. See notes 9 and 14 for further discussion of the impact on the Company's consolidated financial statements from the adoption of ASU 2016-09.

In May 2016, the FASB issued ASU No. 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 pursuant to Staff announcements at the March 3, 2016 EITF Meeting" ("ASU 2016-11"). The purpose of ASU 2016-11 is to rescind from the FASB Accounting Standards Codification certain SEC paragraphs as a result of two SEC Staff Announcements at the March 3, 2016 meeting. For public entities, the amendments in ASU 2016-11 related to Topic 605 are effective for interim and annual reporting periods beginning after December 15, 2017 and amendments related to Topic 815 are effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of ASU 2016-11 related to Topic 815, on January 1, 2016, did not have an impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). The purpose of ASU 2016-15 is to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flow (Topic 230)". The purpose of ASU 2016-18 is to require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. For public entities, the amendments in ASU 2016-15 and ASU 2016-18 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company has elected to early adopt this standard, which did not have an impact on the Company's consolidated statements of cash flows.

In December 2016, the FASB issued ASU No. 2016-19, "Technical Corrections and Improvements". The amendments in ASU 2016-19 represent changes to clarify the accounting standard codification, correct unintended application of guidance, or make minor improvements to the accounting standards codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. For public companies, the standard is effective immediately for amendments that do not have transition guidance. Amendments that are subject to transition guidance, the effective date is interim and annual reporting periods beginning after December 15, 2016. The Company adopted the standard immediately upon issuance for amendments that do not have transition guidance. The adoption of the standard did not have an impact on the Company's consolidated financial statements.

Recently Issued FASB Accounting Standard Codification Updates

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements – Going Concern (Subtopic 205-40)” (“ASU 2014-15”). This amendment requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern, which is currently performed by the external auditors. Management will be required to perform this assessment for both interim and annual reporting periods and must make certain disclosures if it concludes that substantial doubt exists. The amendments in ASU 2014-15 are effective for annual periods ending after December 31, 2016, and for annual and interim periods thereafter. The adoption of this standard did not have any effect on the consolidated financial statements as no substantial doubt exists about the Company’s ability to continue as a going concern.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). The purpose of the amendment is to more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards. The clarifications are not intended to result in any changes in practice and to reduce the complexity in guidance on the subsequent measurement of inventory. This standard only applies to inventory being measured using the first-in, first-out or average cost methods of accounting for inventory. For public entities, the amendments are effective for interim and annual reporting periods beginning after December 15, 2016. The adoption of ASU 2015-11 will not have a material impact to the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The purpose of the amendment is intended to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. For public entities, the amendments in ASU 2016-01 are effective for interim and annual reporting periods beginning after December 15, 2017. While the Company continues to evaluate the effect of the standard on its ongoing financial reporting, it anticipates that the adoption of ASU 2016-01 may have an effect on the Company’s consolidated financial statements.

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

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

In March 2016, the FASB issued ASU No. 2016-07, “Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting” (“ASU 2016-07”). The purpose of the amendment is to eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by step basis as if the equity method had been in effect during all previous periods that the investment had been held. For public entities, the amendments in ASU 2016-07 are effective for interim and annual reporting periods beginning after December 15, 2016. The adoption of ASU 2016-07 will not have a material impact to the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations” (“ASU 2016-08”). The purpose of ASU 2016-08 is to clarify the implementation of guidance on principal versus agent considerations.

In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”). The purpose of ASU 2016-10 is to provide more detailed guidance in the following key areas: identifying performance obligations and licenses of intellectual property.

In May 2016, the FASB issued ASU No. 2016-11, to rescind from the FASB Accounting Standards Codification certain SEC paragraphs as a result of two SEC Staff Announcements at the March 3, 2016 meeting.

In May 2016, the FASB issued ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”). The purpose of ASU 2016-12 is to clarify certain narrow aspects of Topic 606 such as assessing the collectibility criterion, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition, and technical corrections.

In December 2016, the FASB issued ASU No. 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers”. The amendments in ASU 2016-20 represent changes to clarify the accounting standard codification, correct unintended application of guidance, or make minor improvements to the accounting standards codification that are related to Topic 606, Revenue from Contracts with Customers.

For public companies, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12 and ASU 2016-20, which are all related to Topic 606, are effective for interim and annual reporting periods beginning after December 15, 2017. The Company has performed an analysis of its contracts to determine those in scope of the standard, has performed detailed analyses of those contracts and identified its performance obligations. The Company is currently in the process of determining contract consideration and is determining the appropriate timing for revenue recognition of those performance obligations. Since many of the Company’s contracts involve variable payments tied to box-office, the Company is currently assessing an appropriate constraint to variable revenue streams in determining contract consideration under the new standard. The Company is currently considering adopting the new standard using the modified retrospective method and has begun the process of gathering historical information on its contracts in preparation for the standard’s expanded disclosure requirements.

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 consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740)”. The purpose of ASU 2016-16 is to eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments require the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. For public entities, the amendments in ASU 2016-16 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2016-16 on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, “Consolidation (Topic 810)”. The purpose of ASU 2016-17 is to update the requirement of the reporting entity, in determining whether it satisfies the second characteristic of a primary beneficiary, to include all of its direct variable interests in a VIE and, on a proportionate basis, its indirect variable interests in a VIE held through related parties, including related parties that are under common control with the reporting entity. For public entities, the amendments in ASU 2016-17 are effective for interim and annual reporting periods beginning after December 15, 2016. While the Company continues to evaluate the effect of the standard on its ongoing financial reporting, the adoption of this guidance will not have any effect on the Company’s consolidated financial statements.

Recently issued FASB accounting standard codification updates, except for the above noted standards, were not material to the Company’s consolidated financial statements for the year ended December 31, 2016.

4. Lease Arrangements

(a) General Terms of Lease Arrangements

A number of the Company's leases are classified as sales-type leases. Certain arrangements that are legal sales are also classified as sales-type leases as certain clauses within the arrangements limit transfer of title or provide the Company with conditional rights to the system. The customer's rights under the Company's lease arrangements are described in note 2(m). The Company classifies its lease arrangements at inception of the arrangement and, if required, after a modification of the lease arrangement, to determine whether they are sales-type leases or operating leases. Under the Company's lease arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer. The Company's lease portfolio terms are typically non-cancellable for 10 to 20 years with renewal provisions from inception. Except for those sales arrangements that are classified as sales-type leases, the Company's leases generally do not contain an automatic transfer of title at the end of the lease term. The Company's lease arrangements do not contain a guarantee of residual value at the end of the lease term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Company for maintenance and extended warranty generally after the first year of the lease until the end of the lease term. The customer is responsible for obtaining insurance coverage for the theater systems commencing on the date specified in the arrangement's shipping terms and ending on the date the theater systems are delivered back to the Company.

The Company has assessed the nature of its joint revenue sharing arrangements and concluded that, based on the guidance in the Revenue Recognition Topic of the ASC, the arrangements contain a lease. Under joint revenue sharing arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer. The Company's joint revenue sharing arrangements are typically non-cancellable for 10 years or longer with renewal provisions. Title to equipment under joint revenue sharing arrangements does not transfer to the customer. The Company's joint revenue sharing arrangements do not contain a guarantee of residual value at the end of the term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Company for maintenance and extended warranty throughout the term. The customer is responsible for obtaining insurance coverage for the theater systems commencing on the date specified in the arrangement's shipping terms and ending on the date the theater systems are delivered back to the Company. See additional details regarding the Company's traditional and hybrid joint revenue sharing arrangements as described in note 2(m).

(b) Financing Receivables

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

	As at December 31,	
	2016	2015
Gross minimum lease payments receivable	\$ 10,466	\$ 13,998
Unearned finance income	(1,710)	(2,381)
Minimum lease payments receivable	8,756	11,617
Accumulated allowance for uncollectible amounts	(672)	(672)
Net investment in leases	8,084	10,945
Gross financed sales receivables	154,301	146,232
Unearned finance income	(39,766)	(39,378)
Financed sales receivables	114,535	106,854
Accumulated allowance for uncollectible amounts	(494)	(568)
Net financed sales receivables	114,041	106,286
Total financing receivables	\$ 122,125	\$ 117,231
Net financed sales receivables due within one year	\$ 21,980	\$ 19,068
Net financed sales receivables due after one year	\$ 92,061	\$ 87,218

In 2016, the financed sales receivables had a weighted average effective interest rate of 9.3% (2015 — 9.4%).

(c) Contingent Fees

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

	Years Ended December 31,		
	2016	2015	2014
Sales	\$ 3,308	\$ 2,492	\$ 2,058
Sales-type leases	375	363	102
Operating leases	602	901	886
Subtotal - sales, sales-type leases and operating leases	4,285	3,756	3,046
Joint revenue sharing arrangements	73,976	82,016	57,973
	<u>\$ 78,261</u>	<u>\$ 85,772</u>	<u>\$ 61,019</u>

(d) Future Minimum Rental Payments

Future minimum rental payments receivable from operating and sales-type leases at December 31, 2016, for each of the next five years are as follows:

	Operating Leases	Sales-Type Leases
2017	\$ 614	\$ 1,513
2018	335	1,522
2019	166	1,499
2020	69	1,314
2021	69	1,118
Thereafter	286	1,999
Total	<u>\$ 1,539</u>	<u>\$ 8,965</u>

Total future minimum rental payments receivable from sales-type leases at December 31, 2016 exclude \$1.5 million which represents amounts billed but not yet received.

5. Inventories

	As at December 31,	
	2016	2015
Raw materials	\$ 28,000	\$ 25,750
Work-in-process	3,818	2,628
Finished goods	10,303	10,375
	<u>\$ 42,121</u>	<u>\$ 38,753</u>

At December 31, 2016, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$2.3 million (December 31, 2015 — \$5.4 million).

Inventories at December 31, 2016 include impairments and write-downs for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of \$0.5 million (December 31, 2015 — \$0.6 million).

6. Film Assets

	As at December 31,	
	2016	2015
Completed and released films, net of accumulated amortization of \$128,650 (2015 — \$112,571)	\$ 10,643	\$ 6,445
Films in production	325	1,538
Films in development	5,554	6,588
	<u>\$ 16,522</u>	<u>\$ 14,571</u>

The Company expects to amortize film costs of \$4.8 million for released films within three years from December 31, 2016 (December 31, 2015 — \$6.3 million), including \$2.4 million, which reflects the portion of the costs of the Company's completed films that are expected to be amortized within the next year. The amount of participation payments to third parties related to these films that the Company expects to pay during 2017, which is included in accrued liabilities at December 31, 2016, is \$4.2 million (2015 — \$3.9 million).

The Company recorded a charge of \$3.0 million (2015 - \$nil) in costs and expenses applicable to revenues – services, after an assessment of the carrying value of certain documentary films and their estimated future box-office was performed.

7. Property, Plant and Equipment

	As at December 31, 2016		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$ 224,890	\$ 89,218	\$ 135,672
Camera equipment	5,739	3,732	2,007
	<u>230,629</u>	<u>92,950</u>	<u>137,679</u>
Assets under construction ⁽⁵⁾	18,315	-	18,315
Other property, plant and equipment			
Land	8,203	-	8,203
Buildings	69,861	14,877	54,984
Office and production equipment ⁽⁶⁾	41,128	21,935	19,193
Leasehold improvements	10,067	3,026	7,041
	<u>129,259</u>	<u>39,838</u>	<u>89,421</u>
	<u>\$ 378,203</u>	<u>\$ 132,788</u>	<u>\$ 245,415</u>
	As at December 31, 2015		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾⁽³⁾	\$ 199,974	\$ 74,568	\$ 125,406
Camera equipment	5,393	3,368	2,025
	<u>205,367</u>	<u>77,936</u>	<u>127,431</u>
Assets under construction ⁽⁵⁾	9,616	-	9,616
Other property, plant and equipment			
Land	8,203	-	8,203
Buildings	67,150	12,679	54,471
Office and production equipment ⁽⁶⁾	34,396	17,035	17,361
Leasehold improvements	3,512	2,327	1,185
	<u>113,261</u>	<u>32,041</u>	<u>81,220</u>
	<u>\$ 328,244</u>	<u>\$ 109,977</u>	<u>\$ 218,267</u>

The Company recognized asset impairment charges of \$0.2 million (2015 — \$0.4 million, 2014 — \$0.3 million) against property, plant and equipment after an assessment of the carrying value of certain assets in light of their future expected cash flows.

- (1) Included in theater system components are assets with costs of \$10.3 million (2015 — \$11.5 million) and accumulated depreciation of \$8.1 million (2015 — \$7.3 million) that are leased to customers under operating leases.
- (2) Included in theater system components are assets with costs of \$205.2 million (2015 — \$178.0 million) and accumulated depreciation of \$75.7 million (2015 — \$62.2 million) that are used in joint revenue sharing arrangements.
- (3) In 2016, the Company identified and wrote off \$0.6 million (2015 — \$1.1 million) of theater system components upon the upgrade of xenon-based digital systems under operating lease arrangements to laser-based digital systems under sales or sales-type lease arrangements. In 2016, the Company recorded \$nil (2015 — \$2.2 million) related to theater system components that are no longer in use and fully amortized.
- (4) During 2016, the Company signed certain amending agreements which increased the length of the term for all applicable existing and future theaters under joint revenue sharing arrangement. As a result, the Company adjusted the estimated useful life of its theater system components in use for those respective joint revenue sharing theaters, on a prospective basis, to reflect the change in term. This resulted in decreased depreciation expense of \$0.1 million in 2016 and \$1.0 million in each of the next 5 years since the Systems will now be depreciated over a longer useful life.
- (5) Included in assets under construction are components with costs of \$8.6 million (2015 — \$6.0 million) that will be utilized to construct assets to be used in joint revenue sharing arrangements.
- (6) Fully amortized office and production equipment is still in use by the Company. In 2016, the Company identified and wrote off \$0.7 million (2015 — \$3.1 million) of office and production equipment that is no longer in use and fully amortized.

8. Other Assets

	As at December 31,	
	2016	2015
Prepaid taxes (note 9)	\$ 14,728	\$ 9,064
Lease incentives provided to theaters	5,632	5,852
Commissions and other deferred selling expenses	3,352	3,933
Insurance recoverable	2,708	2,842
Deferred charges on debt financing	1,713	2,247
Investment in film business	1,389	-
Other investments	2,000	1,193
Foreign currency derivatives	480	-
Equity-accounted investments	-	1,005
Other	1,193	-
	<u>\$ 33,195</u>	<u>\$ 26,136</u>

9. Income Taxes

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

	Years Ended December 31,		
	2016	2015	2014
Canada	\$ 21,002	\$ 41,099	\$ 15,453
United States	505	4,504	10,350
China	41,224	45,818	26,327
Ireland	(9,768)	(10,581)	-
Other	4,890	6,238	5,221
	<u>\$ 57,853</u>	<u>\$ 87,078</u>	<u>\$ 57,351</u>

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

	Years Ended December 31,		
	2016	2015	2014
Current:			
Canada	\$ (1,396)	\$ (10,862)	\$ (3,495)
United States	1,756	985	(4,072)
China	(10,131)	(10,591)	(6,023)
Ireland	(405)	-	-
Other	(1,093)	(920)	(249)
	<u>(11,269)</u>	<u>(21,388)</u>	<u>(13,839)</u>
Deferred: ⁽¹⁾			
Canada	(3,583)	(518)	433
United States	(4,359)	147	(791)
China	776	(83)	(216)
Ireland	2,352	1,840	-
Other	(129)	(50)	(53)
	<u>(4,943)</u>	<u>1,336</u>	<u>(627)</u>
	<u>\$ (16,212)</u>	<u>\$ (20,052)</u>	<u>\$ (14,466)</u>

(1) For the year ended December 31, 2016, the Company has decreased the valuation allowance by \$0.1 million (2015 — less than \$0.1 million increase) relating to the future utilization of deductible temporary differences, tax credits, and certain net operating loss carryforwards. Also included in the provision for income taxes is the deferred tax related to amounts recorded in and reclassified from other comprehensive income in the year of \$1.2 million.

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

	Years Ended December 31,		
	2016	2015	2014
Income tax provision at combined statutory rates	\$ (15,330)	\$ (23,081)	\$ (15,189)
Adjustments resulting from:			
Stock based compensation	(565)	2,387	(2,244)
Other non-deductible/non-includable items	(1,254)	(439)	1,257
Decrease (increase) in valuation allowance relating to current year temporary differences	129	(16)	429
Changes to tax reserves	1,628	(453)	230
U.S. federal and state taxes	(767)	(27)	(200)
Withholding taxes	(786)	(716)	(200)
Income tax at different rates in foreign and other provincial jurisdictions	50	961	516
Investment and other tax credits (non-refundable)	2,190	1,597	1,973
Changes to deferred tax assets and liabilities resulting from audit and other tax return adjustments	(1,612)	(242)	(1,013)
Windfall tax benefit	57	-	-
Tax effect of loss from equity-accounted investments	-	-	(41)
Other	48	(23)	16
Provision for income taxes, as reported	<u>\$ (16,212)</u>	<u>\$ (20,052)</u>	<u>\$ (14,466)</u>

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

	As at December 31,	
	2016	2015
Net operating loss carryforwards	\$ 2,893	\$ 1,158
Write-downs of other assets	759	720
Excess tax over accounting basis in property, plant and equipment, inventories and other assets	-	9,577
Accrued pension liability	6,571	6,626
Accrued stock-based compensation	12,352	9,261
Other accrued reserves	3,754	559
Total deferred income tax assets	<u>26,329</u>	<u>27,901</u>
Income recognition on net investment in leases	(3,985)	(1,809)
Excess accounting over tax basis in property, plant and equipment, inventories and other assets	(1,368)	-
	<u>20,976</u>	<u>26,092</u>
Valuation allowance	(197)	(326)
Net deferred income tax asset	<u>\$ 20,779</u>	<u>\$ 25,766</u>

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

ASU 2016-09, related to stock-based compensation, was issued in March 2016 and early adopted by the Company in June 2016. ASU 2016-09 eliminates additional paid in capital ("APIC") pools and requires excess tax benefits and tax deficiencies to be recorded in the consolidated statements of operations when the awards vest or are settled. Amendments related to accounting for excess tax benefits have been adopted prospectively resulting in a tax benefit of \$0.1 million for the year ended December 31, 2016. In addition, modified retrospective adoption of ASC 2016-09 eliminates the requirement that excess tax benefits be realized before they can be recognized. The Company has also recorded a cumulative-effect adjustment of \$0.9 million to Accumulated earnings and Deferred income taxes related to the impact from adoption of the provisions related to forfeiture rates. See notes 3 and 14 for further discussion of the impact from the adoption of ASU 2016-09.

In 2015, the Company recorded an adjustment of \$14.0 million to deferred tax assets, \$5.9 million to the income tax provision and \$8.1 million to shareholders' equity related to excess tax benefits generated on the exercise of certain employee stock options. In conjunction with this, a provision for uncertain tax positions of \$3.9 million was recorded to income tax provision and \$7.9 million was recorded against shareholders' equity.

During the year, the Company and its subsidiaries completed a number of intra-entity sales of assets. The Company has deferred or eliminated the related tax expense and deferred taxes specifically associated with such intra-entity transfers, and is included in Other Assets as disclosed in note 8.

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

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

	Investment Tax Credits and Other Tax Credit Carryforwards	Net Operating Loss Carryforwards
2017	\$ -	\$ -
2018	-	-
2019	-	-
2020	-	-
2021	-	-
Thereafter	2,194	37,664
	<u>\$ 2,194</u>	<u>\$ 37,664</u>

Estimated net operating loss carryforwards of \$17.6 million can be carried forward to reduce taxable income through to 2037 and the remaining \$20.1 million can be carried forward indefinitely. Investment tax credits and other tax credits can be carried forward to reduce income taxes payable through to 2037.

(f) Valuation allowance

The provision for income taxes in the year ended December 31, 2016 includes a net income tax recovery of \$0.1 million (2015 — less than \$0.1 million expense) in continuing operations related to a decrease in the valuation allowance for the Company's deferred tax assets and other tax adjustments. During the year ended December 31, 2016, after considering all available evidence, both positive (including recent and historical profits, projected future profitability, backlog, carryforward periods for, and utilization of net operating loss carryovers and tax credits, discretionary deductions and other factors) and negative (including cumulative losses in past years and other factors), it was concluded that the valuation allowance against the Company's deferred tax assets should be decreased by \$0.1 million (2015 — less than \$0.1 million increase). The remaining \$0.2 million (2015 — \$0.3 million) balance in the valuation allowance as at December 31, 2016 is primarily attributable to certain U.S. state net operating loss carryovers that may expire unutilized.

(g) Uncertain tax positions

The Company recorded a net decrease of \$1.6 million related to the measurement of potential international withholding tax requirements and a decrease in reserves for income taxes. As at December 31, 2016 and December 31, 2015, the Company had total unrecognized tax benefits (including interest and penalties) of \$12.6 million and \$14.6 million, respectively, for deductibility of stock based compensation, international withholding taxes and other items. Approximately \$12.6 million of the unrecognized tax benefits could impact the Company's effective tax rate if recognized. While the Company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could differ from the Company's accrued position. Accordingly, additional provisions on federal, provincial, state and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and penalties) for the years ended December 31 is as follows:

(In thousands of U.S. Dollars)

	2016	2015	2014
Balance at beginning of the year	\$ 14,221	\$ 1,972	\$ 2,202
Additions based on tax positions related to the current year	314	12,694	237
Reductions for tax positions of prior years	(500)	-	-
Reductions resulting from lapse of applicable statute of limitations and administrative practices	(1,442)	(445)	(467)
Balance at the end of the year	<u>\$ 12,593</u>	<u>\$ 14,221</u>	<u>\$ 1,972</u>

Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its consolidated statements of operations rather than income tax expense. The Company recovered less than \$0.1 million in potential interest and penalties associated with its provision for uncertain tax positions for the years ended December 31, 2016 (2015 — less than \$0.1 million recovery, 2014 — \$0.2 million recovery).

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

The Company's 2011 through 2016 tax years remain subject to examination by the IRS for U.S. federal tax purposes, and the 2006 through 2016 tax years remain subject to examination by the appropriate governmental agencies for Canadian federal tax purposes. There are other on-going audits in various other jurisdictions that are not material to the financial statements.

(h) Income Tax Effect on Comprehensive Income

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

	Years Ended December 31,		
	2016	2015	2014
Unrecognized actuarial gain or loss on defined benefit plan	\$ (41)	\$ (47)	\$ 225
Unrecognized actuarial gain or loss on postretirement benefit plans	(48)	(21)	151
Amortization of actuarial gain or loss on postretirement benefit plan	(18)	(35)	8
Other-than-temporary impairment of available-for-sale investment	-	-	(45)
Unrealized change in cash flow hedging instruments	(271)	1,543	658
Realized change in cash flow hedging instruments upon settlement	(802)	(844)	(306)
Foreign currency translation adjustments	-	(85)	59
	<u>\$ (1,180)</u>	<u>\$ 511</u>	<u>\$ 750</u>

10. Other Intangible Assets

	As at December 31, 2016		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 11,395	\$ 7,046	\$ 4,349
Licenses and intellectual property	22,490	7,620	14,870
Other	15,352	4,155	11,197
	<u>\$ 49,237</u>	<u>\$ 18,821</u>	<u>\$ 30,416</u>

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

Other intangible assets of \$15.4 million are comprised mainly of the Company's investment in a new enterprise resource planning system. Fully amortized other intangible assets are still in use by the Company. In 2016, the Company identified and wrote off \$0.2 million (2015 — \$0.1 million) of patents and trademarks that are no longer in use.

During 2016, the Company acquired \$4.8 million in other intangible assets. The net book value of these other intangible assets was \$4.3 million as at December 31, 2016. The weighted average amortization period for these additions is 10 years.

During 2016, the Company incurred costs of \$0.2 million to renew or extend the term of acquired patents and trademarks which were recorded in selling, general and administrative expenses (2015 — less than \$0.1 million).

The estimated amortization expense for each of the years ended December 31, are as follows:

2017	\$ 3,470
2018	3,470
2019	3,470
2020	3,470
2021	3,470

11. Credit Facility and Playa Vista Loan

The Company maintains a senior secured credit facility (the “Credit Facility”) with a maximum borrowing capacity of \$200.0 million and a scheduled maturity of March 3, 2020. The Credit Facility is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the Guarantors. Certain of the Company’s subsidiaries serve as guarantors (the “Guarantors”) of the Company’s obligations under the Credit Facility.

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

The Company was in compliance with all of its requirements at December 31, 2016.

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

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

Playa Vista Financing

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

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

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

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

Bank indebtedness includes the following:

	As at December 31,	
	2016	2015
Playa Vista Loan	27,667	29,667
Deferred charges on debt financing	(351)	(391)
	<u>\$ 27,316</u>	<u>\$ 29,276</u>

Total amounts drawn under the Playa Vista Loan at December 31, 2016 was \$27.7 million (December 31, 2015 — \$29.7 million) at an effective interest rate of 2.52% (December 31, 2015 — 2.40%).

In accordance with the Playa Vista Loan Documents, the Company is obligated to make principal payments on the loan as follows:

2017	\$	2,000
2018		2,000
2019		2,000
2020		2,000
2021		2,000
Thereafter		17,667
	<u>\$</u>	<u>27,667</u>

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 \$0.3 million at December 31, 2016 as the notional value exceeded the fair value of the forward contracts. As at December 31, 2016, the Company has \$37.8 million in notional value of such arrangements outstanding.

Bank of Montreal Facility

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

12. Commitments

In the ordinary course of business, the Company enters into contractual agreements with third parties that include non-cancelable 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 following table presents a summary of the Company's contractual obligations and commitments as at December 31, 2016:

<i>(In thousands of U.S. Dollars)</i>	Payments Due by Fiscal Year						
	Total Obligations	2017	2018	2019	2020	2021	Thereafter
Purchase obligations	\$ 25,283	\$ 25,283	\$ -	\$ -	\$ -	\$ -	\$ -
Pension obligations	21,115	-	-	-	21,115	-	-
Operating lease obligations	18,670	6,203	5,033	2,831	674	498	3,431
Playa Vista Loan	27,667	2,000	2,000	2,000	2,000	2,000	17,667
Postretirement benefits obligations	5,042	1,138	1,197	680	140	145	1,742
Other financial commitments	39,173	39,173	-	-	-	-	-
	<u>\$ 136,950</u>	<u>\$ 73,797</u>	<u>\$ 8,230</u>	<u>\$ 5,511</u>	<u>\$ 23,929</u>	<u>\$ 2,643</u>	<u>\$ 22,840</u>

Operating Lease Obligations

The Company's lease commitments consist of rent and equipment under operating leases. The Company accounts for any incentives provided over the term of the lease. The following table summarizes information about the Company's total rental expenses under operating leases:

	Years Ended December 31,		
	2016	2015	2014
Total rent expense	\$ 5,106	\$ 4,766	\$ 6,567

Recorded in the accrued liabilities balance as at December 31, 2016 is \$1.6 million (December 31, 2015 — \$1.1 million) related to accrued rent and lease inducements being recognized as an offset to rent expense over the term of the respective leases.

Subsequent to December 31, 2016, the Company entered into a premises lease arrangement, related to the New York corporate office, with a commitment of approximately \$17.1 million over a 12-year term. The term is expected to begin in January 2018.

Purchase Obligations

Purchase obligations primarily consist of the Company's commitments made under long-term supplier contracts.

Pension and Postretirement Benefits Obligations

The Company has an unfunded defined benefit pension plan, covering certain individuals and a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. See note 20 for further information.

Playa Vista Loan

The Company is required to make monthly payments of combined principal and interest over a 10-year term with a lump sum payment at the end of year 10. The Playa Vista Loan will be fully due and payable on October 19, 2025. See note 11 for further information.

Other Financial Commitments

Other financial commitments include the Company's total minimum commitment toward the development, production, post-production and marketing, related to certain film and new content initiatives.

As at December 31, 2016 the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2015 — \$nil), under the Credit Facility. As at December 31, 2016 the Company had letters of credit and advance payment guarantees outstanding of \$0.1 million as compared to \$0.3 million as at December 31, 2015, under the Bank of Montreal Facility.

The Company compensates its sales force with both fixed and variable compensation. Commissions on the sale or lease of the Company's theater systems are payable in graduated amounts from the time of collection of the customer's first payment to the Company up to the collection of the customer's last initial payment. At December 31, 2016, \$2.0 million (December 31, 2015 — \$1.7 million) of commissions have been accrued and will be payable in future periods.

13. Contingencies and Guarantees

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

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

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

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chamber of Commerce (the "ICC") with respect to the breach by Electronic Media Limited ("EML") of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-City Entertainment (I) PVT Limited ("E-City"). On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, consisting of past and future rents owed to the Company, plus interest and costs, as well as an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. On June 13, 2013, the Bombay High Court ruled that it has jurisdiction over the proceeding but on November 19, 2013, the Supreme Court of India stayed proceedings in the High Court pending Supreme Court review of the High Court's ruling. On June 24, 2011, the Company commenced a proceeding in the Ontario Superior Court of Justice for recognition of the ICC final award. On December 2, 2011, the Ontario Court issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application. In January 2013, the Company filed an action in the New York Supreme Court seeking to collect the amount owed to the Company by certain entities and individuals affiliated with E-City. On October 16, 2015, the New York Supreme Court denied the Company's petition, and the Company is appealing that decision. On July 29, 2014, the Company commenced a separate proceeding to have the Canadian judgment against E-City recognized in New York, and on October 2, 2015, the New York Supreme Court granted IMAX's request, recognizing the Canadian judgment and entering it as a New York judgment.

On November 26, 2014, E-City filed a motion in the Bombay High Court seeking to enjoin IMAX from continuing the New York legal proceedings. On February 2, 2015, the Bombay High Court denied E-City's request for an injunction. On March 16, 2015, E-City filed an appeal of this Bombay High Court decision.

(c) In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd. ("IMAX Shanghai"), the Company's majority-owned subsidiary in China, 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"). A key issue raised by the Audit is the transfer pricing policy basis for the importation of IMAX theater systems by IMAX Shanghai into the People's Republic of China and the applicability of customs duties and taxes to the trademark and technology license fees paid by IMAX Shanghai to the Company. In December 2016, the Customs Authority conclusively determined that any trademark, technology and warranty fees paid by IMAX Shanghai on systems revenue directly related to imported theater systems should be included as part of the tax cost base of these systems and subject to applicable duties and taxes. In connection with the conclusion, for the period beginning January 1, 2012 through October 31, 2016, IMAX Shanghai recorded \$2.95 million in duties and taxes on the trademark, technology and warranty fees for applicable to theater systems imported during that period and settled the payment in January 2017. 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 of approximately \$0.1 million. Though IMAX Shanghai's importation agent accepted responsibility for the error giving rise to the underpayment, the matter has been transferred to the Anti-Smuggling Bureau of the Customs Authority for further review. IMAX Shanghai is unable to assess the potential impact, if any, of this outstanding matter at this time.

(d) On November 11, 2013, Giencourt Investments, S.A. ("Giencourt") initiated arbitration before the International Centre for Dispute Resolution in Miami, Florida, based on alleged breaches by the Company of its theater agreement and related license agreement with Giencourt. Giencourt submitted its statement of claim in January 2015, the Company submitted its statement of defense and counterclaim in April 2015 and Giencourt submitted its arbitration reply paper in September 2015. An arbitration hearing for witness testimony was held during the week of December 14, 2015. At the hearing, Giencourt's expert identified monetary damages of up to approximately \$10.4 million, which Giencourt seeks to recover from the Company. The Company has asserted a counterclaim against Giencourt for breach of contract and seeks to recover lost profits in excess of \$24.0 million under the agreements. In addition, on December 10, 2015, Giencourt made a motion to the panel seeking to enforce a purported settlement of the matter based on negotiations between Giencourt and the Company. The panel held a final hearing with closing arguments on October 20 and 21, 2016. On February 7, 2017, the panel issued a Partial Final Award (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. The Company is currently reviewing the Award and assessing its response and potential next steps, including a potential challenge in Florida court on the grounds that the panel exceeded its jurisdiction. 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.

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

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

Financial Guarantees

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

Product Warranties

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

	As at December 31,	
	2016	2015
Balance at the beginning of the year	\$ -	\$ 6
Warranty redemptions	-	(6)
Warranties issued	30	-
Revisions	-	-
Balance at the end of the year	<u>\$ 30</u>	<u>\$ -</u>

Director/Officer Indemnifications

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

14. Capital Stock

(a) Authorized

Common Shares

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

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

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

(b) Changes during the Year

During 2016, the Company settled 518,018 (2015 — 1,761,675, 2014 — 1,149,587) common shares pursuant to the exercise of stock options for cash proceeds of \$11.4 million (2015 — \$35.6 million, 2014 — \$10.8 million). 347,814 (2015 — 1,659,643, 2014 — 1,149,587) common shares were newly issued from treasury and 170,204 (2015 — 102,032, 2014 — nil) common shares were purchased in the open market by the IMAX Long-Term Incentive Plan trustee.

In addition, during 2016, in connection with the vesting of RSUs, the Company settled 466,918 (2015 — 207,371, 2014 — 148,001) common shares to IMAX LTIP participants, of which 54,159 (2015 — 25,551, 2014 — 109,264) common shares, net of shares withheld for tax withholdings of 18,336 (2015 — 14,351, 2014 — 10,921) were issued as new shares from treasury, and 394,423 (2015 — 167,469, 2014 — 27,816) common shares were purchased in the open market by the IMAX Long-Term Incentive Plan trustee.

(c) Stock-Based Compensation

The Company issues stock-based compensation to eligible employees, directors and consultants under the IMAX Corporation Amended and Restated Long-Term Incentive Plan and the China Long-Term Incentive Plan, as described below.

On June 11, 2013, the Company's shareholders approved the IMAX 2013 Long-Term Incentive Plan (the "2013 IMAX LTIP"). On June 6, 2016, the Company's shareholders approved the amendment and restatement of the 2013 IMAX LTIP at the Company's Annual and Special Meeting, such that the IMAX Corporation Amended and Restated Long-Term Incentive Plan (the "IMAX LTIP") is now the governing document. Awards to employees, directors and consultants under the IMAX LTIP may consist of stock options, RSUs and other awards.

The Company's Stock Option Plan ("SOP"), which shareholders approved in June 2008, permitted the grant of stock options to employees, directors and consultants. Following the implementation of the 2013 IMAX LTIP on June 11, 2013, stock options are no longer granted under the SOP.

A separate stock option plan, the China Long-Term Incentive Plan (the "China LTIP") was adopted by a subsidiary of the Company in October 2012.

The compensation costs recorded in the consolidated statement of operations for these plans were \$30.5 million in 2016 (2015 — \$21.9 million, 2014 — \$15.1 million).

As at December 31, 2016, the Company has reserved a total of 12,012,572 (December 31, 2015 — 7,023,258) common shares for future issuance under the SOP and IMAX LTIP. Of the common shares reserved for issuance, there are options in respect of 5,190,542 common shares and RSUs in respect of 1,124,180 common shares outstanding at December 31, 2016. At December 31, 2016 options in respect of 4,001,078 common shares were vested and exercisable.

Stock Option Plan

The Company's policy is to issue new common shares from treasury or shares purchased in the open market to satisfy stock options which are exercised.

The Company utilizes a Binomial Model to determine the fair value of stock-based payment awards. The fair value determined by the Binomial Model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and employee stock option exercise behaviors. The Binomial Model also considers the expected exercise multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the Binomial Model best provides a fair measure of the fair value of the Company's employee stock options.

All awards of stock options are made at fair market value of the Company's common shares on the date of grant. The fair market value of a common share on a given date means the higher of the closing price of a common share on the grant date (or the most recent trading date if the grant date is not a trading date) on the New York Stock Exchange ("NYSE") or such national exchange as may be designated by the Company's Board of Directors (the "Fair Market Value"). The stock options vest within 5 years and expire 10 years or less from the date granted. The SOP and IMAX LTIP provide for double-trigger accelerated vesting in the event of a change in control, as defined in each plan.

The Company recorded an expense of \$12.8 million in 2016 (2015 — \$10.7 million, 2014 — \$8.9 million) related to stock option grants issued to employees and directors in the IMAX LTIP and SOP plans. An income tax benefit is recorded in the consolidated statement of operations of \$3.8 million for these costs. Total stock-based compensation expense related to non-vested employee stock options not yet recognized at December 31, 2016 and the weighted average period over which the awards are expected to be recognized is \$5.9 million and 2.3 years respectively (2015 — \$12.6 million and 1.7 years, 2014 — \$14.8 million and 2.3 years).

The weighted average fair value of all stock options granted to employees and directors in 2016 at the measurement date was \$8.16 per share (2015 — \$8.07 per share, 2014 — \$8.25 per share). For the years ended December 31, the following assumptions were used to estimate the average fair value of the stock options:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Average risk-free interest rate	1.67%	1.97%	2.46%
Expected option life (in years)	4.44 - 5.24	3.55 - 5.76	4.15 - 5.82
Expected volatility	30%	30%	32.5% - 37.5%
Dividend yield	0%	0%	0%

Stock options to Non-Employees

There were no common share options issued to non-employees in 2016 or 2015. During 2014, an aggregate of 10,000 stock options to purchase the Company's common stock with an average exercise price of \$26.47 were granted to certain advisors and strategic partners of the Company. These stock options granted have a maximum contractual life of 7 years. The stock options granted in 2014 were granted under the IMAX LTIP.

As at December 31, 2016 non-employee options outstanding amounted to 17,000 stock options (2015 — 38,750, 2014 — 31,500) with a weighted average exercise price of \$29.64 (2015 — \$26.79, 2014 — \$21.75). 15,200 stock options (2015 — 21,525, 2014 — 16,100) were exercisable with an average weighted exercise price of \$30.10 (2015 — \$26.34, 2014 — \$18.14) and the vested options have an aggregate intrinsic value of \$0.1 million (2015 — \$0.2 million, 2014 — \$0.2 million). The weighted average fair value of stock options granted to non-employees during 2014 at the measurement date was \$4.84 per share, utilizing a Binomial Model with the following underlying assumptions:

	Years Ended December 31		
	2016	2015	2014
Average risk-free interest rate	n/a	n/a	0.53%
Contractual option life	n/a	n/a	2 years
Average expected volatility	n/a	n/a	32.5%
Dividend yield	n/a	n/a	0%

In 2016, the Company recorded a charge of less than \$0.1 million, (2015 — \$0.1 million, 2014 — \$0.1 million) to selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is an accrual of less than \$0.1 million for non-employee stock options (December 31, 2015 — less than \$0.1 million).

China Long-Term Incentive Plan (“China LTIP”)

The China LTIP was adopted by IMAX China Holding, Inc. (“IMAX China”), a subsidiary of the Company, in October 2012. Each stock option (“China Option”), RSU or cash settled share-based payment (“CSSBP”) issued under the China LTIP represents an opportunity to participate economically in the future growth and value creation of IMAX China. Prior to the initial public offering of IMAX China on October 8, 2015 (the “IMAX China IPO”), the China Options and CSSBPs issued by IMAX China operated in tandem with options granted to certain employees of IMAX China under the Company’s SOP and the IMAX LTIP (“Tandem Options”).

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

Pursuant to their terms, upon the occurrence of a qualified initial public offering, the 186,446 Tandem Options issued would forfeit immediately and the related charge would be reversed. As a result of the IMAX China IPO on October 8, 2015, the 186,446 Tandem Options with an average price of \$23.70 per share were forfeited immediately. The Company recorded a recovery of \$0.6 million in 2015 (2014 - \$0.3 million expense) related to the forfeiture of Tandem Options issued under the Company’s SOP and IMAX LTIP.

The Company subsequently recognized an immediate charge related to the vesting of China Options and certain CSSBPs for China employees. The total fair value of the China Options and CSSBP awards granted with respect to the China LTIP was \$3.9 million and \$2.1 million, respectively. During the fourth quarter of 2015, a charge of \$2.1 million and \$1.4 million was recorded relating to the China Options and CSSBPs, respectively. The remaining charge will be recognized over the related requisite period. The CSSBPs represent the right to receive cash payments in an amount equal to a certain percentage of the excess of the total equity value of IMAX China based on the per share price in the IMAX China IPO over the strike price of the CSSBPs. The CSSBPs were issued in conjunction with the China LTIP, with similar terms and conditions as the China Options. The CSSBP awards are accounted as liability awards, however the fair value of the liability is fixed at the time of the initial public offering. During the fourth quarter of 2016, a portion of the CSSBPs vested and were settled in cash for \$0.5 million (2015 — \$1.0 million).

In connection with the IMAX China IPO and in accordance with the China LTIP, IMAX China adopted a post-IPO share option plan and a post-IPO restricted stock unit plan. Pursuant to these plans, IMAX China issued additional China Options and China LTIP Restricted Share Units (“China RSUs”) during the year ended December 31, 2016.

In 2016, the Company recorded an expense related to the China Options, China RSUs and CSSBPs of \$1.0 million, \$0.5 million and \$0.4 million, respectively. The liability recognized with respect to the CSSBPs as at December 31, 2016 was \$0.3 million (December 31, 2015 — \$0.4 million).

Stock Option Summary

The following table summarizes certain information in respect of option activity under the SOP and IMAX LTIP:

	Number of Shares			Weighted Average Exercise Price Per Share		
	2016	2015	2014	2016	2015	2014
Options outstanding, beginning of year	4,805,244	5,925,660	6,263,121	\$ 27.03	\$ 24.24	\$ 21.11
Granted	984,452	873,929	872,155	31.49	31.59	27.48
Exercised	(518,018)	(1,761,675)	(1,149,587)	22.07	20.21	9.42
Forfeited	(66,903)	(232,670)	(36,242)	29.28	24.60	24.63
Cancelled	(14,233)	-	(23,787)	24.82	-	33.60
Options outstanding, end of year	<u>5,190,542</u>	<u>4,805,244</u>	<u>5,925,660</u>	28.35	27.03	24.24
Options exercisable, end of year	<u>4,001,078</u>	<u>2,800,723</u>	<u>3,368,558</u>	27.79	25.83	22.69

In 2016, the Company cancelled 14,233 stock options from its IMAX LTIP surrendered by Company employees (2015 — nil, 2014 — nil). In 2016 and 2015, the Company did not cancel any stock options from its SOP. In 2014 the Company cancelled 23,787 stock options from its SOP surrendered by Company employees.

As at December 31, 2016, 5,190,542 options included both fully vested and unvested options with a weighted average exercise price of \$28.35, aggregate intrinsic value of \$17.6 million and weighted average remaining contractual life of 4.3 years. As at December 31, 2016, options that are exercisable have an intrinsic value of \$15.4 million and a weighted average remaining contractual life of 4.2 years. The intrinsic value of options exercised in 2016 was \$5.4 million (2015 — \$29.8 million, 2014 — \$21.8 million).

As at December 31, 2016, the IMAX LTIP trustee held 66,093 shares purchased for \$2.0 million in the open market to be issued upon the settlement of stock options. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock on the consolidated balance sheet.

Restricted Share Units

RSUs have been granted to employees, consultants and directors under the IMAX LTIP. Each RSU represents a contingent right to receive one common share and is the economic equivalent of one common share. The grant date fair value of each RSU is equal to the share price of the Company's stock at the grant date. The Company recorded an expense of \$15.8 million for the year ended December 31, 2016 (2015 — \$8.2 million, 2014 — \$5.8 million), related to RSU grants issued to employees and directors in the plan. The Company did not issue any RSU grants to advisors or strategic partners of the Company for the year ended December 31, 2016. The Company recorded an expense of \$nil for the year ended December 31, 2016 (2015 — less than \$0.1 million, 2014 — less than \$0.1 million), related to RSU grants issued to certain advisors and strategic partners of the Company.

Total stock-based compensation expense related to non-vested RSUs not yet recognized at December 31, 2016 and the weighted average period over which the awards are expected to be recognized is \$29.0 million and 2.4 years (2015 — \$24.4 million and 3.0 years, 2014 — \$11.0 million and 2.9 years). The Company's actual tax benefits realized for the tax deductions related to the vesting of RSUs was \$4.6 million for the year ended December 31, 2016 (2015 — \$2.0 million, 2014 — \$0.4 million).

Historically, RSUs granted under the IMAX LTIP have vested between immediately and four years from the grant date. In connection with the amendment and restatement of the IMAX LTIP at the Company's annual and special meeting of shareholders on June 6, 2016, the IMAX LTIP plan was amended to impose a minimum one-year vesting period on future RSU grants, with a carve-out for 300,000 RSUs that may vest on a shorter schedule. During 2016, 39,726 RSUs with a vesting period of less than one year were issued from the carve-out of 300,000 RSUs under the amended IMAX LTIP plan. Vesting of the RSUs is subject to continued employment or service with the Company.

The following table summarizes certain information in respect of RSU activity under the IMAX LTIP:

	Number of Awards			Weighted Average Grant Date Fair Value Per Share		
	2016	2015	2014	2016	2015	2014
RSUs outstanding, beginning of year	973,637	595,834	264,140	\$ 32.27	\$ 27.13	\$ 26.14
Granted	664,278	605,349	484,088	32.29	36.04	27.42
Vested and settled	(466,918)	(207,371)	(148,001)	30.63	28.81	26.29
Forfeited	(46,817)	(20,175)	(4,393)	31.16	29.27	26.88
RSUs outstanding, end of year	<u>1,124,180</u>	<u>973,637</u>	<u>595,834</u>	33.01	32.27	27.13

Issuer Purchases of Equity Securities

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

In 2016, the Company repurchased 3,849,222 (2015 — 1,000,000) common shares at an average price of \$30.25 per share (2015 — \$34.25 per share). The retired shares were purchased for \$116.5 million (2015 — \$34.3 million). The average carrying value of the stock retired was deducted from common stock and the remaining excess over the average carrying value of stock was charged to accumulated deficit. Since the inception of the program, the Company has repurchased 4,961,256 common shares at an average price of \$30.99 per share. The Company has \$46.3 million available under its approved repurchase program.

The total number of shares purchased during the year ended December 31, 2016 and 2015 does not include any shares purchased in the administration of employee share-based compensation plans (which amounted to 630,720 (2015 – 269,501) common shares, at an average price of \$31.52 (2015 – \$37.11) per share).

Impact of Stock-based Compensation Accounting Standard Update

ASU 2016-09, related to stock-based compensation, was issued in March 2016 and early adopted in June 2016. ASU 2016-09 eliminates the requirement to estimate and apply a forfeiture rate to reduce stock compensation expense during the vesting period and, instead, account for forfeitures as they occur. ASU 2016-09 requires that this change be adopted using the modified retrospective approach. The impact from the adoption of the provisions related to forfeiture rates was reflected on a modified retrospective basis resulting in a \$4.4 million decrease to Accumulated earnings, \$0.9 million increase to Deferred income taxes and \$5.3 million increase to Other equity. An increase in APIC and a reduction in stock-based compensation expense of \$2.7 million for the year ended December 31, 2016 was also recorded. Additionally, ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the consolidated statement of cash flows. The Company is required to present excess tax benefits as an operating activity on the consolidated statement of cash flows, which is where the Company previously classified these items. ASU 2016-09 also requires the presentation of employee taxes as a financing activity on the consolidated statement of cash flows. This change was reflected in the consolidated statement of cash flows retrospectively. See notes 3 and 9 for further discussion of the impact from the adoption of ASU 2016-09.

(d) Income per share

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

	Years Ended December 31,		
	2016	2015	2014
Net income attributable to common shareholders	\$ 28,788	\$ 55,844	\$ 39,736
Less: Accretion charges associated with redeemable common stock	-	(769)	(426)
Net income applicable to common shareholders	<u>\$ 28,788</u>	<u>\$ 55,075</u>	<u>\$ 39,310</u>
Weighted average number of common shares (000's):			
Issued and outstanding, beginning of period	69,673	68,988	67,841
Weighted average number of shares (repurchased) issued during the period, net	<u>(2,098)</u>	<u>538</u>	<u>505</u>
Weighted average number of shares used in computing basic earnings per share	67,575	69,526	68,346
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	<u>688</u>	<u>1,532</u>	<u>1,408</u>
Weighted average number of shares used in computing diluted earnings per share	<u>68,263</u>	<u>71,058</u>	<u>69,754</u>

The calculation of diluted earnings per share exclude 2,814,907 (2015 — 1,249,343) shares that are issuable upon exercise of 377,048 (2015 — 313,645) RSUs and 2,437,859 (2015 — 935,698) stock options for the years ended December 31, 2016 and 2015, as the impact of these exercises would be antidilutive.

15. Consolidated Statements of Operations Supplemental Information

(a) *Other Revenues*

The Company enters into theater system arrangements with customers that typically contain customer payment obligations prior to the scheduled installation of the theater systems. During the period of time between signing and theater system installation, certain customers each year are unable to, or elect not to, proceed with the theater system installation for a number of reasons, including business considerations, or the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the customer and/or the Company may terminate the arrangement by default or by entering into a consensual buyout. In these situations, the parties are released from their future obligations under the arrangement, and the initial payments that the customer previously made to the Company are typically not refunded and are recognized as Other Revenues. In addition, the Company enters into agreements with customers to terminate their obligations for additional theater system configurations, which were in the Company's backlog. Other revenues from settlement arrangements were \$1.3 million, \$0.1 million and \$nil in 2016, 2015 and 2014, respectively.

(b) *Foreign Exchange*

Included in selling, general and administrative expenses for the year ended December 31, 2016 is \$0.9 million for a net foreign exchange loss related to the translation of foreign currency denominated monetary assets and liabilities as compared to a net loss of \$2.4 million and a net loss of \$1.5 million for the year ended December 31, 2015 and 2014, respectively. See note 19(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 48 exhibitors (2015 — 43) for a total of 995 theater systems (2015 — 741), of which 640 theaters (2015 — 529) were operating as at December 31, 2016. The terms of the Company's joint revenue sharing arrangements are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m).

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Equipment and Product Sales and Rentals revenue and for the year ended December 31, 2016 amounted to \$91.4 million (2015 — \$99.1 million, 2014 — \$68.4 million).

IMAX DMR

In an IMAX DMR arrangement, the Company transforms conventional motion pictures into the Company's large screen format, allowing the release of Hollywood content to the 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.

In 2016, the majority of IMAX DMR revenue was earned from the exhibition of 51 IMAX DMR films (2015 — 44) throughout the IMAX theater network. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m).

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenues and for December 31, 2016 amounted to \$106.4 million (2015 — \$107.1 million, 2014 — \$83.2 million).

Co-Produced Film Arrangements

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

As at December 31, 2016, the Company has one significant co-produced film arrangement which primarily represents the VIE total assets and liabilities balance of \$0.4 million and five 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) and 2(m).

In 2016, amounts totaling \$1.4 million (2015 — \$1.5 million, 2014 — \$3.5 million) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to revenues-services.

16. Receivable Provisions, Net of Recoveries

The following table reflects the Company's receivable provisions net of recoveries recorded in the consolidated statements of operations:

	Years Ended December 31,		
	2016	2015	2014
Accounts receivable provisions, net of recoveries	\$ 1,029	\$ 677	\$ 725
Financing receivable provisions, net of recoveries	(75)	75	193
Receivable provisions, net of recoveries	<u>\$ 954</u>	<u>\$ 752</u>	<u>\$ 918</u>

17. Consolidated Statements of Cash Flows Supplemental Information

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

	Years Ended December 31,		
	2016	2015	2014
Decrease (increase) in:			
Accounts receivable	\$ (1,414)	\$ (22,521)	\$ (4,318)
Financing receivables	(4,627)	(13,628)	(40)
Inventories	(3,825)	(21,070)	(7,603)
Prepaid expenses	(127)	(1,552)	(1,346)
Commissions and other deferred selling expenses	206	(203)	(769)
Insurance recoveries	132	4	10,958
Other assets, prepaid tax	(5,664)	-	(2,984)
Other assets	(1,376)	(456)	(459)
Increase (decrease) in:			
Accounts payable	(3,360)	9,183	(5,186)
Accrued and other liabilities	3,914	(2,057)	6,002
Deferred revenue	(14,733)	16,242	12,102
	<u>\$ (30,874)</u>	<u>\$ (36,058)</u>	<u>\$ 6,357</u>

(b) Cash payments made on account of:

	Years Ended December 31,		
	2016	2015	2014
Income taxes	<u>\$ 24,640</u>	<u>\$ 22,798</u>	<u>\$ 8,885</u>
Interest	<u>\$ 721</u>	<u>\$ 411</u>	<u>\$ 48</u>

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

	Years Ended December 31,		
	2016	2015	2014
Film assets ⁽¹⁾	\$ 16,324	\$ 16,357	\$ 11,851
Property, plant and equipment			
Joint revenue sharing arrangements	15,840	13,663	12,148
Other property, plant and equipment	9,692	7,698	5,616
Other intangible assets	3,235	3,285	2,988
Other assets	862	784	627
Deferred financing costs	532	1,016	526
	<u>\$ 46,485</u>	<u>\$ 42,803</u>	<u>\$ 33,756</u>

(1) Included in film asset amortization is a charge of \$0.2 million (2015 —\$0.9 million, 2014 —\$0.3 million) relating to changes in estimates based on the ultimate recoverability of future films.

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

	Years Ended December 31,		
	2016	2015	2014
Asset impairments			
Property, plant and equipment	\$ 223	\$ 405	\$ 314
Impairment of investments	194	425	3,206
Other charges (recoveries)			
Accounts receivables	1,029	677	725
Financing receivables	(75)	75	193
Inventories ⁽¹⁾	458	572	359
Film assets	3,020	-	-
Property, plant and equipment ⁽²⁾	885	1,485	440
Other intangible assets	206	86	57
	<u>\$ 5,940</u>	<u>\$ 3,725</u>	<u>\$ 5,294</u>
Inventory charges			
Recorded in costs and expenses applicable to revenues - equipment & product sales	\$ 227	\$ 537	\$ 209
Recorded in costs and expenses applicable to revenues - services	231	35	150
	<u>\$ 458</u>	<u>\$ 572</u>	<u>\$ 359</u>

- (1) In 2016, the Company recorded a charge of \$0.5 million (2015 — \$0.6 million, 2014 — \$0.4 million, respectively) in costs and expenses applicable to revenues, primarily for its laser-based projector inventories. Specifically, IMAX systems includes an inventory charge of \$0.2 million (2015 — \$0.5 million, 2014 — \$0.2 million). Theater system maintenance includes inventory write-downs of \$0.2 million (2015 — less than \$0.1 million, 2014 — \$0.2 million).
- (2) In 2016, the Company recorded a charge of \$0.3 million (2015 — \$0.4 million; 2014 — \$0.5 million) reflecting property, plant and equipment that were no longer in use. In 2016, the Company also recorded a charge of \$0.6 million (2015 — \$0.6 million) in cost of sales applicable to Equipment and product sales upon the upgrade of xenon-based digital systems under operating lease arrangements to laser-based digital systems under sales or sales-type lease arrangements. In addition, in 2015, the Company recorded a charge of \$0.5 million in cost of sales applicable to Rentals upon the upgrade of certain xenon-based digital systems to laser-based digital systems operating under joint revenue sharing arrangements.

18. Segmented Information

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

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

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

Transactions between the other segments are not significant.

Following recent changes in senior management, the Company is in the process of re-evaluating how it assesses the performance of the business. As a result of this process, modifications are being made to the CEO's reporting package to support a revised reporting structure which will move away from the Company's historical two primary reporting groups – IMAX Theater Systems and Film. The changes being contemplated will result in four primary reporting groups, comprising (1) Network Business, representing revenue generated by box-office results and which will include the reportable segments of DMR and JRSA's excluding hybrid fixed payments; (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 which will also include the fixed hybrid payments from the JRSA segment; (3) New Business, which will include virtual reality, IMAX Shift and IMAX Home Entertainment and (4) Other. The new reporting groups are expected to be implemented in the first quarter of 2017. The new reporting structure is expected to assist users of the financial statements with an enhanced understanding of how management views the business.

(a) Operating Segments

	Years Ended December 31,		
	2016	2015	2014
Revenue⁽¹⁾			
IMAX theater systems			
IMAX systems	\$ 105,527	\$ 102,128	\$ 72,992
Theater system maintenance	40,430	36,944	34,042
Joint revenue sharing arrangements	91,413	99,120	68,418
	<u>237,370</u>	<u>238,192</u>	<u>175,452</u>
Films			
Production and IMAX DMR	106,403	107,089	83,172
Distribution	5,254	3,876	8,932
Post-production	8,873	7,069	10,831
	<u>120,530</u>	<u>118,034</u>	<u>102,935</u>
Other	19,434	17,579	12,154
Total	<u>\$ 377,334</u>	<u>\$ 373,805</u>	<u>\$ 290,541</u>
Gross margin			
IMAX theater systems			
IMAX systems ⁽²⁾	\$ 60,090	\$ 59,168	\$ 47,928
Theater system maintenance ⁽²⁾	13,659	12,702	12,375
Joint revenue sharing arrangements ⁽³⁾	59,837	68,372	44,714
	<u>133,586</u>	<u>140,242</u>	<u>105,017</u>
Films			
Production and IMAX DMR ⁽³⁾	69,196	77,645	62,922
Distribution ⁽³⁾	(3,909)	(259)	2,274
Post-production	3,729	1,381	3,046
	<u>69,016</u>	<u>78,767</u>	<u>68,242</u>
Other	76	279	129
Total	<u>\$ 202,678</u>	<u>\$ 219,288</u>	<u>\$ 173,388</u>

	Years Ended December 31,		
	2016	2015	2014
Depreciation and amortization			
IMAX systems	\$ 4,165	\$ 5,685	\$ 1,910
Theater systems maintenance	72	72	225
Joint revenue sharing arrangements	16,724	14,443	14,614
Films			
Production and IMAX DMR	15,028	14,330	10,751
Distribution	1,444	2,129	1,512
Post-production	2,769	1,465	481
Other	1,567	704	671
Corporate and other non-segment specific assets	4,716	3,975	3,592
Total	\$ 46,485	\$ 42,803	\$ 33,756

	Years Ended December 31,		
	2016	2015	2014
Asset impairments and write-downs, net of recoveries			
IMAX systems	\$ 916	\$ 2,298	\$ 1,128
Theater systems maintenance	1,002	277	150
Joint revenue sharing arrangements	266	528	397
Films			
Distribution	3,020	-	-
Post-production	223	-	-
Other	-	-	314
Corporate and other non-segment specific assets	513	622	3,305
Total	\$ 5,940	\$ 3,725	\$ 5,294

	Years Ended December 31,		
	2016	2015	2014
Purchase of property, plant and equipment			
IMAX systems	\$ 3,170	\$ 8,846	\$ 8,822
Theater systems maintenance	481	555	229
Joint revenue sharing arrangements	42,910	28,474	16,838
Films			
Production and IMAX DMR	1,121	1,350	15,245
Distribution	21	830	1,582
Post-production	1,746	16,337	2,176
Other	5,874	1,986	1,337
Corporate and other non-segment specific assets	2,865	13,353	10,713
Total	\$ 58,188	\$ 71,731	\$ 56,942

	Years Ended December 31	
	2016	2015
Assets		
IMAX systems ⁽⁴⁾	\$ 218,835	\$ 215,602
Theater systems maintenance ⁽⁴⁾	28,763	20,907
Joint revenue sharing arrangements ⁽⁴⁾	203,227	179,156
Films		
Production and IMAX DMR	39,688	46,262
Distribution	21,059	17,534
Post-production	35,865	26,759
Other	18,179	23,485
Corporate and other non-segment specific assets	291,718	400,924
Total	<u>\$ 857,334</u>	<u>\$ 930,629</u>

- (1) The Company's largest customer represents 13.5% of total revenues as at December 31, 2016 (2015 – 16.0%, 2014 – 14.5%).
- (2) In 2016, the Company recorded a charge of \$0.5 million (2015 – \$0.6 million, 2014 – \$0.4 million, respectively) in costs and expenses applicable to revenues, primarily for its laser-based projector inventories. Specifically, IMAX systems includes an inventory charge of \$0.2 million (2015 – \$0.5 million, 2014 – \$0.2 million). Theater system maintenance includes inventory write-downs of \$0.2 million (2015 – less than \$0.1 million, 2014 – \$0.2 million).
- (3) IMAX systems include marketing and commission costs of \$3.0 million, \$3.0 million and \$2.7 million in 2016, 2015 and 2014, respectively. Joint revenue sharing arrangements segment margins include advertising, marketing, and commission costs of \$4.1 million, \$4.3 million and \$3.2 million in 2016, 2015 and 2014, respectively. Production and DMR segment margins include marketing costs of \$17.5 million, \$13.3 million and \$7.1 million in 2016, 2015 and 2014, respectively. Distribution segment margins include marketing expense of \$2.2 million, recovery of \$0.1 million and expense of \$0.6 million in 2016, 2015 and 2014, respectively.
- (4) Goodwill is allocated on a relative fair market value basis to the IMAX systems segment, theater system maintenance segment and joint revenue sharing segment. There has been no change in the allocation of goodwill from the prior year.

(b) 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.

	Years Ended December 31,		
	2016	2015	2014
Revenue			
United States	\$ 129,844	\$ 136,017	\$ 107,830
Canada	12,822	11,665	10,309
Greater China	118,532	110,591	78,218
Western Europe	36,286	39,569	30,245
Asia (excluding Greater China)	35,283	38,143	26,276
Russia & the CIS	14,908	12,412	15,700
Latin America	12,191	10,179	12,672
Rest of the World	17,468	15,229	9,291
Total	<u>\$ 377,334</u>	<u>\$ 373,805</u>	<u>\$ 290,541</u>

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

	As at December 31	
	2016	2015
Property, plant and equipment		
United States	\$ 104,083	\$ 105,641
Canada	39,467	40,943
Greater China	69,751	51,990
Western Europe	19,308	8,359
Asia (excluding Greater China)	8,460	10,369
Rest of the World	4,346	965
Total	<u>\$ 245,415</u>	<u>\$ 218,267</u>

19. Financial Instruments

(a) Financial Instruments

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

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

(b) Fair Value Measurements

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

	As at December 31, 2016		As at December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$ 204,759	\$ 204,759	\$ 317,449	\$ 317,449
Net financed sales receivable	\$ 114,041	\$ 115,014	\$ 106,286	\$ 108,184
Net investment in sales-type leases	\$ 8,084	\$ 8,372	\$ 10,945	\$ 11,154
Convertible loan receivable	\$ 1,000	\$ 1,000	\$ -	\$ -
Available-for-sale investment	\$ 1,000	\$ 1,007	\$ 1,000	\$ 997
Foreign exchange contracts — designated forwards	\$ (296)	\$ (296)	\$ (4,423)	\$ (4,423)
Borrowings under the Playa Vista Loan	\$ (27,667)	\$ (27,667)	\$ (29,667)	\$ (29,667)

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

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

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

The fair value of the Company's convertible loan receivable approximates market value as at December 31, 2016, as the loan was recently issued (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy).

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

The carrying value of borrowings under the Playa Vista Loan approximates fair value as the interest rates offered under the loan are close to December 31, 2016 market rates for the Company for debt of the same remaining maturities (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at December 31, 2016.

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2016 or 2015. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

There were no transfers in or out of the Company's Level 3 assets during the year ended December 31, 2016.

(c) *Financing Receivables*

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

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

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

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

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

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

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

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

	As at December 31, 2016			As at December 31, 2015		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	\$ 7,741	\$ 111,568	\$ 119,309	\$ 10,252	\$ 105,352	\$ 115,604
Credit Watch	-	1,514	1,514	-	-	-
Pre-approved transactions	-	842	842	-	757	757
Transactions suspended	1,015	611	1,626	1,365	745	2,110
	<u>\$ 8,756</u>	<u>\$ 114,535</u>	<u>\$ 123,291</u>	<u>\$ 11,617</u>	<u>\$ 106,854</u>	<u>\$ 118,471</u>

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

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

	As at December 31, 2016		As at December 31, 2015	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$ 1,015	\$ (672)	\$ 1,365	\$ (672)
Net financed sales receivables	611	(494)	1,502	(568)
Total	<u>\$ 1,626</u>	<u>\$ (1,166)</u>	<u>\$ 2,867</u>	<u>\$ (1,240)</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 December 31, 2016								
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivable	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowance	Recorded Investment Net of Allowances
Net investment in leases	\$ 28	\$ 159	\$ 781	\$ 968	\$ 7,788	\$ 8,756	\$ (672)	\$ 8,084
Net financed sales receivables	2,393	1,724	2,368	6,485	108,050	114,535	(494)	114,041
Total	<u>\$ 2,421</u>	<u>\$ 1,883</u>	<u>\$ 3,149</u>	<u>\$ 7,453</u>	<u>\$ 115,838</u>	<u>\$ 123,291</u>	<u>\$ (1,166)</u>	<u>\$ 122,125</u>

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

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

As at December 31, 2016								
	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	\$ -	\$ 54	\$ 244	\$ 298	\$ 1,646	\$ -	\$ 1,944	
Net financed sales receivables	284	634	1,854	2,772	20,147	-	22,919	
Total	<u>\$ 284</u>	<u>\$ 688</u>	<u>\$ 2,098</u>	<u>\$ 3,070</u>	<u>\$ 21,793</u>	<u>\$ -</u>	<u>\$ 24,863</u>	

As at December 31, 2015								
	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	\$ 41	\$ 47	\$ 205	\$ 293	\$ 1,076	\$ -	\$ 1,369	
Net financed sales receivables	129	224	839	1,192	10,795	-	11,987	
Total	<u>\$ 170</u>	<u>\$ 271</u>	<u>\$ 1,044</u>	<u>\$ 1,485</u>	<u>\$ 11,871</u>	<u>\$ -</u>	<u>\$ 13,356</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:

Impaired Financing Receivables					
For the Year Ended December 31, 2016					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	\$ 525	\$ 75	\$ (494)	\$ 637	\$ -
<u>Recorded investment for which there is no related</u>					
Net financed sales receivables	-	-	-	-	-
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	<u>\$ 525</u>	<u>\$ 75</u>	<u>\$ (494)</u>	<u>\$ 637</u>	<u>\$ -</u>

Impaired Financing Receivables					
For the Year Ended December 31, 2015					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	\$ 748	\$ 298	\$ (568)	\$ 748	\$ -
<u>Recorded investment for which there is no related</u>					
Net financed sales receivables	-	-	-	-	-
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	<u>\$ 748</u>	<u>\$ 298</u>	<u>\$ (568)</u>	<u>\$ 748</u>	<u>\$ -</u>

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

	Year Ended December 31, 2016	
	Net Investment in Leases	Net Financed Sales Receivables
<u>Allowance for credit losses:</u>		
Beginning balance	\$ 672	\$ 568
Charge-offs	-	-
Recoveries	-	(74)
Provision	-	-
Ending balance	<u>\$ 672</u>	<u>\$ 494</u>
Ending balance: individually evaluated for impairment	<u>\$ 672</u>	<u>\$ 494</u>

Financing receivables:

Ending balance: individually evaluated for impairment	<u>\$ 8,756</u>	<u>\$ 114,535</u>
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	Year Ended December 31, 2015	
	Net Investment in Leases	Net Financed Sales Receivables
<u>Allowance for credit losses:</u>		
Beginning balance	\$ 972	\$ 494
Charge-offs	(300)	-
Recoveries	-	-
Provision	-	74
Ending balance	<u>\$ 672</u>	<u>\$ 568</u>
Ending balance: individually evaluated for impairment	<u>\$ 672</u>	<u>\$ 568</u>

Financing receivables:

Ending balance: individually evaluated for impairment	<u>\$ 11,617</u>	<u>\$ 106,854</u>
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(d) Foreign Exchange Risk Management

The Company is exposed to market risk from changes in foreign currency rates. A majority portion of the Company's revenues is denominated in U.S. dollars while a substantial portion of its costs and expenses is denominated in Canadian dollars. A portion of the net U.S. dollar cash flows of the Company is periodically converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In China and Japan the Company has ongoing operating expenses related to its operations in Chinese Renminbi and Japanese yen, respectively. Net cash flows are converted to and from U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Chinese Renminbi, Japanese yen, Canadian dollars and Euros which are converted to U.S. dollars through the spot market. In addition, because IMAX films generate box-office in 74 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 December

31, 2016 (the “Foreign Currency Hedges”), with settlement dates throughout 2017 and 2018. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations. The Company currently does not hold any derivatives which are not designated as hedging instruments and therefore no gain or loss pertaining to an ineffective portion has been recognized.

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

Notional value of foreign exchange contracts:

	<u>As at December 31,</u>	
	<u>2016</u>	<u>2015</u>
Derivatives designated as hedging instruments:		
Foreign exchange contracts — Forwards	\$ 37,825	\$ 30,710

Fair value of derivatives in foreign exchange contracts:

	<u>Balance Sheet Location</u>	<u>As at December 31,</u>	
		<u>2016</u>	<u>2015</u>
Derivatives designated as hedging instruments:			
Foreign exchange contracts — Forwards	Other assets	\$ 480	\$ -
	Accrued and other liabilities	(776)	(4,423)
		<u>\$ (296)</u>	<u>\$ (4,423)</u>

Derivatives in Foreign Currency Hedging relationships are as follows:

		<u>Years Ended December 31,</u>		
		<u>2016</u>	<u>2015</u>	<u>2014</u>
Foreign exchange contracts - Forwards	Derivative Loss Recognized in OCI (Effective Portion)	\$ 1,049	\$ (5,881)	\$ (2,524)
		<u>\$ 1,049</u>	<u>\$ (5,881)</u>	<u>\$ (2,524)</u>
	<u>Location of Derivative Loss Reclassified from AOCI into Income (Effective Portion)</u>			
		<u>Years Ended December 31,</u>		
		<u>2016</u>	<u>2015</u>	<u>2014</u>
Foreign exchange contracts - Forwards	Selling, general and administrative expenses	\$ (3,078)	\$ (3,217)	\$ (1,186)
		<u>\$ (3,078)</u>	<u>\$ (3,217)</u>	<u>\$ (1,186)</u>

The Company's estimated net amount of the existing gains as at December 31, 2016 is \$0.1 million, which is expected to be reclassified to earnings within the next twelve months

(e) Investments in New Business Ventures

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 and the FASB ASC 320, as appropriate. As at December 31, 2016, the equity method of accounting is being utilized for investments with a total carrying value of \$nil (December 31, 2015 — \$1.0 million). The Company’s accumulated losses in excess of its equity investment were \$0.5 million as at December 31, 2016, and are classified in Accrued and other liabilities. For the year ended December 31, 2016,

gross revenues, cost of revenue and net loss for the investment were \$0.6 million, \$6.8 million and \$6.2 million, respectively (2015 — \$nil, \$9.3 million, and \$9.1 million, respectively). The Company has determined it is not the primary beneficiary of this VIE, and therefore this entity has not been consolidated. In 2016, the Company issued a convertible loan of \$1.0 million to this entity with a term of 3 years with an annual effective interest rate of 5.0%. The instrument is classified as an available-for-sale investment due to certain features that allow for conversion to common stock in the entity in the event of certain triggers occurring. In addition, the Company has an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under the FASB ASC 320 and is recorded at a fair value of \$nil at December 31, 2016 (December 31, 2015 — \$nil). This investment was classified as an available-for-sale investment. Furthermore, the Company has an investment of \$1.0 million (December 31, 2015 — \$1.0 million) in the shares of an exchange traded fund. This investment is also classified as an available-for-sale investment. The Company has an investment of \$2.5 million in the preferred shares of an enterprise which meet the criteria for classification as an equity security under FASB ASC 325. As at December 31, 2016, the Company recognized an other-than-temporary impairment of \$0.2 million (2015 — \$0.4 million) in the consolidated statement of operations. The total carrying value of investments in new business ventures at December 31, 2016 and 2015 is \$1.0 million and \$2.2 million, respectively, and is recorded in Other Assets.

20. 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, Chief Executive Officer (“CEO”) of the Company. The SERP provides for a lifetime retirement benefit from age 55 determined as 75% of Mr. Gelfond’s best average 60 consecutive months of earnings over his employment history. The benefits were 50% vested as at July 2000, the SERP initiation date. The vesting percentage increased on a straight-line basis from inception until age 55. As at December 31, 2016, the benefits of Mr. Gelfond were 100% vested. Upon a termination for cause, prior to a change of control, Mr. Gelfond shall forfeit any and all benefits to which he may have been entitled, whether or not vested.

Under the terms of the SERP, if Mr. Gelfond’s employment terminated other than for cause (as defined in his employment agreement), he is entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. 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 included in calculating his entitlement under the SERP.

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

	As at December 31,		
	2016	2015	2014
Discount rate	2.18%	1.34%	1.30%
Lump sum interest rate:			
First 20 years	1.87%	2.82%	2.89%
Thereafter	2.37%	2.95%	3.12%
Cost of living adjustment on benefits	1.20%	1.20%	1.20%

The amounts accrued for the SERP are determined as follows:

	Years Ended December 31,	
	2016	2015
Projected benefit obligation:		
Obligation, beginning of year	\$ 19,478	\$ 19,405
Interest cost	261	253
Actuarial gain	(159)	(180)
Obligation, end of year and unfunded status	<u>\$ 19,580</u>	<u>\$ 19,478</u>

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

	As at December 31,	
	2016	2015
Accrued benefits cost	\$ (19,580)	\$ (19,478)
Accumulated other comprehensive loss	1,165	1,323
Net amount recognized in the consolidated balance sheets	<u>\$ (18,415)</u>	<u>\$ (18,155)</u>

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

	Years ended December 31,		
	2016	2015	2014
Interest cost	\$ 261	\$ 253	\$ 264
Pension expense	<u>\$ 261</u>	<u>\$ 253</u>	<u>\$ 264</u>

The accumulated benefit obligation for the SERP was \$19.6 million at December 31, 2016 (2015 — \$19.5 million).

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

	As at December 31,		
	2016	2015	2014
Unrealized actuarial loss	\$ 1,165	\$ 1,323	\$ 1,503

No contributions were made for the SERP during 2016. The Company expects interest costs of \$0.4 million to be recognized as a component of net periodic benefit cost in 2017.

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

2017	\$ -
2018	-
2019	-
2020	21,115
2021	-
Thereafter	-
	<u>\$ 21,115</u>

(b) Defined Contribution Pension Plan

The Company also maintains defined contribution pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During 2016, the Company contributed and expensed an aggregate of \$1.2 million (2015 — \$1.1 million, 2014 — \$1.4 million) to its Canadian plan and an aggregate of \$0.6 million (2015 — \$0.4 million, 2014 — \$0.4 million) to its defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

In September 2016, the Company entered into a new employment agreement with Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company, which provides for an employment term from July 2, 2016 through July 2, 2019. Under the agreement, the Company agreed to create a deferred compensation plan (the “Retirement Plan”) covering Mr. Foster, and to make a total contribution of \$3.2 million over the three-year employment term. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, such that 25% will vest July 2019; 50% will vest July 2022; 75% will vest July 2025; and Mr. Foster will be 100% vested in July 2027. As at December 31, 2016, the Company had an unfunded benefit obligation recorded of \$0.5 million.

(c) Postretirement Benefits - Executives

The Company has an unfunded postretirement plan for Messrs. 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 supplemental coverage as selected by Messrs. Gelfond and Wechsler.

The amounts accrued for the plan are determined as follows:

	As at December 31,	
	2016	2015
Obligation, beginning of year	\$ 763	\$ 830
Interest cost	31	30
Benefits paid	(33)	(24)
Actuarial gain	(114)	(73)
Obligation, end of year	<u>\$ 647</u>	<u>\$ 763</u>

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

	Years Ended December 31,		
	2016	2015	2014
Interest cost	\$ 31	\$ 30	\$ 17
Amortization of actuarial loss (gain)	69	135	(32)
	<u>\$ 100</u>	<u>\$ 165</u>	<u>\$ (15)</u>

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

	As at December 31,		
	2016	2015	2014
Unrealized actuarial (gain) loss	<u>\$ (37)</u>	<u>\$ 146</u>	<u>\$ 346</u>

Weighted average assumptions used to determine the benefit obligation are:

	As at December 31,		
	2016	2015	2014
Discount rate	<u>4.10 %</u>	<u>4.20 %</u>	<u>3.70 %</u>

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

	Years Ended December 31,		
	2016	2015	2014
Discount rate	<u>4.20 %</u>	<u>3.70 %</u>	<u>4.50 %</u>

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

2017	\$	21
2018		24
2019		26
2020		33
2021		36
Thereafter		507
Total	\$	<u>647</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 amounts accrued for the plan are determined as follows:

	As at December 31,	
	2016	2015
Obligation, beginning of year	\$ 1,778	\$ 2,139
Interest cost	68	71
Service cost	-	1
Benefits paid	(88)	(80)
Actuarial gain	(70)	(6)
Unrealized foreign exchange loss (gain)	57	(347)
Obligation, end of year	<u>\$ 1,745</u>	<u>\$ 1,778</u>

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

	Years Ended December 31,		
	2016	2015	2014
Interest cost	\$ 68	\$ 71	\$ 93
Service cost	-	1	6
	<u>\$ 68</u>	<u>\$ 72</u>	<u>\$ 99</u>

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

	As at December 31,		
	2016	2015	2014
Unrealized actuarial loss	\$ 353	\$ 423	\$ 429

Weighted average assumptions used to determine the benefit obligation are:

	As at December 31,		
	2016	2015	2014
Discount rate	3.65 %	3.75 %	3.75 %

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

	Years Ended December 31,		
	2016	2015	2014
Discount rate	3.75 %	3.75 %	4.50 %

The Company expects interest costs of \$0.1 million and service costs of \$nil to be recognized as a component of net periodic benefit cost in 2017.

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

2017	\$	92
2018		98
2019		104
2020		107
2021		109
Thereafter		1,235
Total	\$	<u>1,745</u>

21. Non-Controlling Interests

(a) IMAX China Non-Controlling Interest

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

On October 8, 2015, IMAX China completed the IMAX China IPO. Following the IMAX China IPO, the Company continues to indirectly own approximately 68.2% of IMAX China, which remains a consolidated subsidiary of the Company. On October 15, 2015, in satisfaction of its obligations under the shareholders’ agreement, IMAX China paid a dividend of \$9.5 million to the non-controlling interest shareholders.

The following summarizes the movement of the non-controlling interest in temporary equity, in the Company’s subsidiary for the year ended December 31, 2016:

Balance as at January 1, 2015	\$	40,272
Issuance of subsidiary shares to a non-controlling interest		40,000
Share issuance costs from the issuance of subsidiary shares to a non-controlling interest		(2,000)
Net income prior to IMAX China IPO		5,401
Other comprehensive income prior to IMAX China IPO		164
Accretion charges associated with redeemable common stock		769
Redemption of redeemable common stock upon qualified IPO		(84,606)
Balance as at October 7, 2015	\$	<u>-</u>

The following summarizes the movement of the non-controlling interest in shareholders' equity, in the Company's subsidiary for the year ended December 31, 2016:

Balance as at October 8, 2015	\$ 84,606
Net income after IMAX China IPO	3,712
Other comprehensive income after IMAX China IPO	252
Dividends paid to non-controlling shareholders	(9,511)
Reduction in value due to qualified initial public offering	(29,100)
Balance as at December 31, 2015	<u>\$ 49,959</u>
Net income	11,338
Other comprehensive loss, net of tax	(1,735)
Balance as at December 31, 2016	<u>\$ 59,562</u>

(b) Other Non-Controlling Interest

In 2014, the Company announced the creation of the Film Fund to co-finance a portfolio of 10 original large-format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company agreed to contribute \$9.0 million to the Film Fund over five years starting in 2014 and sees the Film Fund as a self-perpetuating vehicle designed to generate a continuous, steady flow of high-quality documentary content. As at December 31, 2016, the Film Fund invested \$13.4 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.

Balance as at January 1, 2015	\$ 3,640
Net loss	(333)
Balance as at December 31, 2015	<u>\$ 3,307</u>
Issuance of subsidiary shares to a non-controlling interest	2,479
Net loss	(806)
Balance as at December 31, 2016	<u>\$ 4,980</u>

22. Asset Retirement Obligations

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

	Years Ended December 31,		
	2016	2015	2014
Beginning balance, January 1	\$ 82	\$ 149	\$ 143
Accretion expense	14	13	12
Reduction in asset retirement obligation	-	(80)	(6)
Ending balance, December 31	<u>\$ 96</u>	<u>\$ 82</u>	<u>\$ 149</u>

23. Selected Quarterly Financial Information (Unaudited)

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

	2016			
	Q1	Q2	Q3	Q4
Revenues	\$ 92,128	\$ 91,743	\$ 86,550	\$ 106,913
Costs and expenses applicable to revenues	39,952	41,466	41,651	51,587
Gross margin	\$ 52,176	\$ 50,277	\$ 44,899	\$ 55,326
Net income before cumulative effect from the adoption of ASU 2016-09	\$ 12,177	\$ 10,683	\$ 4,384	\$ 12,076
Net income	\$ 13,952	\$ 8,908	\$ 4,384	\$ 12,076
Net income attributable to common shareholders before cumulative effect from the adoption of ASU 2016-09	\$ 9,527	\$ 7,791	\$ 2,525	\$ 8,945
Net income attributable to common shareholders	\$ 11,302	\$ 6,016	\$ 2,525	\$ 8,945
Net income per share attributable to common shareholders:				
Net income per share before the adoption of ASU 2016-09 - basic	\$ 0.14	\$ 0.11	\$ 0.04	\$ 0.14
Net income per share before the adoption of ASU 2016-09 - diluted	\$ 0.14	\$ 0.11	\$ 0.04	\$ 0.13
Net income per share - basic	\$ 0.16	\$ 0.09	\$ 0.04	\$ 0.14
Net income per share - diluted	\$ 0.16	\$ 0.09	\$ 0.04	\$ 0.13

	2015			
	Q1	Q2	Q3	Q4
Revenues	\$ 62,211	\$ 107,160	\$ 85,101	\$ 119,333
Costs and expenses applicable to revenues	26,230	38,125	42,712	47,450
Gross margin	\$ 35,981	\$ 69,035	\$ 42,389	\$ 71,883
Net income	\$ 1,485	\$ 26,380	\$ 10,514	\$ 26,245
Net income attributable to common shareholders	\$ 391	\$ 24,350	\$ 8,610	\$ 22,493
Net income per share attributable to common shareholders:				
Net income per share - basic	\$ -	\$ 0.34	\$ 0.12	\$ 0.33
Net income per share - diluted	\$ -	\$ 0.34	\$ 0.12	\$ 0.32

The Company elected to early adopt ASU 2016-09 in 2016 and to account for forfeitures as they occur. The impact from the adoption of the provisions related to forfeiture rates was reflected in the Company's consolidated financial statements on a modified retrospective basis. See note 3 for additional information.

24. Prior Year's Figures

Upon the adoption of ASU 2015-03, certain of the prior years' figures have been reclassified to conform to the current year's presentation.

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

None

Item 9A. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods and that such information is accumulated and communicated to management, including the CEO and 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 December 31, 2016 and has concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were effective. The Company will continue to periodically evaluate its disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has used the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) framework in Internal Control-Integrated Framework (2013) to assess the effectiveness of the Company’s internal control over financial reporting.

Management has assessed the effectiveness of the Company’s internal control over financial reporting, as at December 31, 2016, and has concluded that such internal control over financial reporting were effective as at that date.

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

PricewaterhouseCoopers LLP has audited the effectiveness of the Company’s internal control over financial reporting as at December 31, 2016 as stated in their report on page 80.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the first quarter of 2016, the Company’s subsidiary, IMAX China Holding, Inc. (“IMAX China”), implemented a new enterprise resource planning (“ERP”) system. The implementation of the new ERP system resulted in material changes to the nature and type of IMAX China’s internal controls over financial reporting during the year ended December 31, 2016. The Company reviewed the implementation effort as well as the impact on its internal controls over financial reporting and where appropriate, has made changes to these controls over financial reporting to address these system changes. The Company believes that the internal control changes resulting from the new ERP implementation in China will improve the overall control environment. There were no other changes in the Company’s internal control over financial reporting which occurred during the three months ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9 B. Other Information

None.

PART III

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

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

Item 11. *Executive Compensation*

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

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

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

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

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

Item 14. *Principal Accounting Fees and Services*

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

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a)(1) Financial Statements

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

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

(a)(2) Financial Statement Schedules

Financial statement schedule for each year in the three-year period ended December 31, 2016.

II. Valuation and Qualifying Accounts.

(a)(3) Exhibits

The items listed as Exhibits 10.1 to 10.35 relate to management contracts or compensatory plans or arrangements.

Exhibit No.	Description
3.1	Restated Articles of Incorporation of IMAX Corporation, dated July 30, 2013. Incorporated by reference to Exhibit 3.1 to IMAX Corporation's Form 10-Q, for the quarter ended September 30, 2013 (File No. 001-35066).
3.2	By-Law No. 1 of IMAX Corporation, enacted on June 2, 2014. Incorporated by reference to Exhibit 3.2 to IMAX Corporation's Form 8-K, dated June 3, 2014 (File No. 001-35066).
4.1	Shareholders' Agreement, dated as of January 3, 1994, among WGIM Acquisition Corporation, the Selling Shareholders as defined therein, Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., Bradley J. Wechsler, Richard L. Gelfond and Douglas Trumbull (the "Selling Shareholders' Agreement"). Incorporated by reference to Exhibit 4.1 to IMAX Corporation's Form 10-K, for the year ended December 31, 2012 (File No. 001-35066).
4.2	Amendment, dated as of March 1, 1994, to the Selling Shareholders' Agreement. Incorporated by reference to Exhibit 4.2 to IMAX Corporation's Form 10-K, for the year ended December 31, 2012 (File No. 001-35066).
4.3	Registration Rights Agreement, dated as of February 9, 1999, by and among IMAX Corporation, Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., WPPN Inc., the Michael J. Biondi Voting Trust, Bradley J. Wechsler and Richard L. Gelfond. Incorporated by reference to Exhibit 4.3 to IMAX Corporation's Form 10-K, for the year ended December 31, 2012 (File No. 001-35066).
10.1	Stock Option Plan of IMAX Corporation, dated June 18, 2008. Incorporated by reference to Exhibit 10.1 to IMAX Corporation's Form 10-K for the year ended December 31, 2015 (File No. 001-35066).
10.2	IMAX Corporation Amended and Restated Long Term Incentive Plan. Incorporated by reference to Exhibit 10.1 to IMAX Corporation's Form 8-K, dated June 6, 2016 (File No. 001-35066).
10.3	IMAX Corporation Form of Stock Option Award Agreement. Incorporated by reference to Exhibit 10.41 to IMAX Corporation's Form 10-Q, for the quarter ended June 30, 2016 (File No. 001-35066).
10.4	IMAX Corporation Form of Restricted Stock Unit Award Agreement. Incorporated by reference to Exhibit 10.42 to IMAX Corporation's Form 10-Q, for the quarter ended June 30, 2016 (File No. 001-35066).
10.5	IMAX Corporation Supplemental Executive Retirement Plan, as amended and restated as of January 1, 2006. Incorporated by reference to Exhibit 10.2 to IMAX Corporation's Form 10-K, for year ended December 31, 2012 (File No. 001-35066).
10.6	Employment Agreement, dated July 1, 1998, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.3 to IMAX Corporation's Form 10-K, for the year ended December 31, 2012 (File No. 001-35066).
10.7	Amended Employment Agreement, dated July 12, 2000, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.4 to IMAX Corporation's Form 10-K, for the year ended December 31, 2012 (File No. 001-35066).
10.8	Amended Employment Agreement, dated March 8, 2006, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.5 to IMAX Corporation's Form 10-K, for the year ended December 31, 2011 (File No. 001-35066).
10.9	Amended Employment Agreement, dated February 15, 2007, between IMAX Corporation and Bradley, J. Wechsler. Incorporated by reference to Exhibit 10.6 to IMAX Corporation's Form 10-K, for the year ended December 31, 2011 (File No. 001-35066).

- 10.10 Amended Employment Agreement, dated December 31, 2007, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.8 to IMAX Corporation's Form 10-K, for the year ended December 31, 2013 (File No. 001-35066).
- 10.11 Services Agreement, dated December 11, 2008, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.9 to IMAX Corporation's Form 10-K, for the year ended December 31, 2014 (File No. 001-35066).
- 10.12 Services Agreement Amendment, dated February 14, 2011, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.10 to IMAX Corporation's Form 10-K, for the year ended December 31, 2015 (File No. 001-35066).
- 10.13 Services Agreement Amendment, dated April 1, 2013, between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.11 to IMAX Corporation's Form 10-K, for the year ended December 31, 2013 (File No. 001-35066).
- 10.14 Employment Agreement, dated July 1, 1998, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.10 to IMAX Corporation's Form 10-K, for the year ended December 31, 2012 (File No. 001-35066).
- 10.15 Amended Employment Agreement, dated July 12, 2000, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.11 to IMAX Corporation's Form 10-K, for the year ended December 31, 2012 (File No. 001-35066).
- 10.16 Amended Employment Agreement, dated March 8, 2006, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.12 to IMAX Corporation's Form 10-K, for the year ended December 31, 2011 (File No. 001-35066).
- 10.17 Amended Employment Agreement, dated February 15, 2007, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.13 to IMAX Corporation's Form 10-K, for the year ended December 31, 2011 (File No. 001-35066).
- 10.18 Amended Employment Agreement, dated December 31, 2007, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.16 to IMAX Corporation's Form 10-K, for the year ended December 31, 2013 (File No. 001-35066).
- 10.19 Amended Employment Agreement, dated December 11, 2008, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.17 to IMAX Corporation's Form 10-K, for the year ended December 31, 2014 (File No. 001-35066).
- 10.20 Amended Employment Agreement, dated December 20, 2010, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.18 to IMAX Corporation's Form 10-K, for the year ended December 31, 2015 (File No. 001-35066).
- 10.21 Amended Employment Agreement, dated December 12, 2011, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.17 to IMAX Corporation's Form 10-K, for the year ended December 31, 2011 (File No. 001-35066).
- 10.22 Employment Agreement, dated January 1, 2014, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.12 to IMAX Corporation's Form 10-Q, for the quarter ended September 30, 2014 (File No. 001-35066).
- 10.23 First Amending Agreement, dated December 9, 2015, between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.21 to IMAX Corporation's Form 10-K, for the year ended December 31, 2015 (File No. 001-35066).
- *10.24 Employment Agreement, dated November 8, 2016, between IMAX Corporation and Richard L. Gelfond

- 10.25 Employment Agreement, dated September 1, 2016, between IMAX Corporation and Greg Foster. Incorporated by reference to Exhibit 10.43 to IMAX Corporation's Form 10-Q, for the quarter ended September 30, 2016 (File No. 001-35066).
- 10.26 Employment Agreement, dated May 14, 2007, between IMAX Corporation and Joseph Sparacio. Incorporated by reference to Exhibit 10.21 to IMAX Corporation's Form 10-K, for the year ended December 31, 2012 (File No. 001-35066).
- 10.27 First Amending Agreement, dated May 14, 2009, between IMAX Corporation and Joseph Sparacio. Incorporated by reference to Exhibit 10.27 to IMAX Corporation's Form 10-K, for the year ended December 31, 2015 (File No. 001-35066).
- 10.28 Second Amending Agreement, dated May 14, 2010, between IMAX Corporation and Joseph Sparacio. Incorporated by reference to Exhibit 10.28 to IMAX Corporation's Form 10-K, for the year ended December 31, 2015 (File No. 001-35066).
- 10.29 Third Amending Agreement, dated January 23, 2012, between IMAX Corporation and Joseph Sparacio. Incorporated by reference to Exhibit 10.24 to IMAX Corporation's Form 10-K, for the year ended December 31, 2011 (File No. 001-35066).
- 10.30 Fourth Amending Agreement, dated May 15, 2014, between IMAX Corporation and Joseph Sparacio. Incorporated by reference to Exhibit 10.29 to IMAX Corporation's Form 10-Q, for the quarter ended September 30, 2014 (File No. 001-35066).
- 10.31 Fifth Amending Agreement, dated November 18, 2015, between IMAX Corporation and Joseph Sparacio. Incorporated by reference to Exhibit 10.31 to IMAX Corporation's Form 10-K, for the year ended December 31, 2015 (File No. 001-35066).
- 10.32 Employment Agreement, dated January 1, 2014, between IMAX Corporation and Robert D. Lister. Incorporated by reference to Exhibit 10.37 to IMAX Corporation's Form 10-Q, for the quarter ended March 31, 2015 (File No. 001-35066).
- 10.33 Service Agreement, dated March 6, 2014, between IMAX International Sales Corporation and Andrew Cripps. Incorporated by reference to Exhibit 10.38 to IMAX Corporation's Form 10-Q, for the quarter ended March 31, 2015 (File No. 001-35066).
- 10.34 Employment Agreement, dated June 6, 2016 between IMAX Corporation and Patrick McClymont. Incorporated by reference to Exhibit 10.40 to IMAX Corporation's Form 10-Q, for the quarter ended June 30, 2016 (File No. 001-35066).
- 10.35 Statement of Directors' Compensation, dated June 11, 2013. Incorporated by reference to Exhibit 10.26 to IMAX Corporation's Form 10-Q, for the quarter ended June 30, 2013 (File No. 001-35066).
- 10.36 Fourth Amended and Restated Credit Agreement, dated March 3, 2015, by and between IMAX Corporation, the Guarantors referred to therein, the Lenders referred to therein, Wells Fargo Bank National Association and Wells Fargo Securities, LLC. Incorporated by reference to Exhibit 10.39 to IMAX Corporation's Form 10-Q, for the quarter ended March 31, 2015 (File No. 001-35066).
- 10.37 Construction Loan Agreement, dated October 6, 2014, between IMAX PV Development, Inc., Wells Fargo Bank, National Association and the financial institutions referred to therein. Incorporated by reference to Exhibit 10.45 to IMAX Corporation's Form 10-Q, for the quarter ended September 30, 2014 (File No. 001-35066).
- 10.38 Securities Purchase Agreement, dated as of May 5, 2008, by and between IMAX Corporation, Douglas Family Trust, James Douglas and Jean Douglas Irrevocable Descendants' Trust, James E. Douglas, III, and K&M Douglas Trust. Incorporated by reference to Exhibit 10.43 to IMAX Corporation's Form 10-K, for the year ended December 31, 2013 (File No. 001-35066).
- 10.39 Amendment No. 1 to Securities Purchase Agreement, dated December 1, 2008, by and between IMAX Corporation, Douglas Family Trust, James Douglas and Jean Douglas Irrevocable Descendants' Trust, James E. Douglas, III, and K&M Douglas Trust. Incorporated by reference to Exhibit 10.35 to IMAX Corporation's Form 10-K, for the year ended December 31, 2014 (File No. 001-35066).

10.40 Subscription Agreement, dated April 7, 2014, by and among IMAX China Holding, Inc., IMAX Corporation, IMAX (Barbados) Holding, Inc., China Movie Entertainment FV Limited, CMCCP Dome Holdings Limited and China Movie Entertainment CMC Limited. Incorporated by reference to Exhibit 10.1 to IMAX Corporation's Form 8-K, dated April 7, 2014 (File No. 001-35066).

*21 Subsidiaries of IMAX Corporation.

*23 Consent of PricewaterhouseCoopers LLP.

*24 Power of Attorney of certain directors.

*31.1 Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated February 23, 2017, by Richard L. Gelfond.

*31.2 Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated February 23, 2017, by Patrick McClymont.

*32.1 Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated February 23, 2017, by Richard L. Gelfond.

*32.2 Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated February 23, 2017, by Patrick McClymont.

* Filed herewith

Item 16. Form 10-K Summary

Not applicable.

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

	<u>Balance at beginning of year</u>	<u>Additions/ (recoveries) charged to expenses</u>	<u>Other additions/ (deductions)⁽¹⁾</u>	<u>Balance at end of year</u>
Allowance for net investment in leases				
Year ended December 31, 2014	\$ 806	\$ -	\$ 166	\$ 972
Year ended December 31, 2015	\$ 972	\$ -	\$ (300)	\$ 672
Year ended December 31, 2016	\$ 672	\$ -	\$ -	\$ 672
Allowance for financed sale receivables				
Year ended December 31, 2014	\$ 236	\$ 193	\$ 65	\$ 494
Year ended December 31, 2015	\$ 494	\$ 75	\$ (1)	\$ 568
Year ended December 31, 2016	\$ 568	\$ (75)	\$ 1	\$ 494
Allowance for doubtful accounts receivable				
Year ended December 31, 2014	\$ 887	\$ 725	\$ (665)	\$ 947
Year ended December 31, 2015	\$ 947	\$ 677	\$ (478)	\$ 1,146
Year ended December 31, 2016	\$ 1,146	\$ 771	\$ (667)	\$ 1,250
Inventories valuation allowance				
Year ended December 31, 2014	\$ 3,982	\$ 359	\$ (792)	\$ 3,549
Year ended December 31, 2015	\$ 3,549	\$ 572	\$ (779)	\$ 3,342
Year ended December 31, 2016	\$ 3,342	\$ -	\$ -	\$ 3,342
Deferred income tax valuation allowance				
Year ended December 31, 2014	\$ 4,754	\$ (429)	\$ (4,015)	\$ 310
Year ended December 31, 2015	\$ 310	\$ 16	\$ -	\$ 326
Year ended December 31, 2016	\$ 326	\$ (129)	\$ -	\$ 197

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

IMAX CORPORATION
EXHIBIT 10.24
EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (the “*Agreement*”), dated as of November 8, 2016 between IMAX CORPORATION, a corporation organized under the laws of Canada (the “*Company*”), and RICHARD L. GELFOND (the “*Executive*”).

WHEREAS, the Executive is currently the Chief Executive Officer of the Company and is employed pursuant to an Employment Agreement dated as of January 1, 2014, as amended by a First Amending Agreement, dated as of December 9, 2015 (as so amended, the “*Prior Agreement*”); and

WHEREAS, the employment term under the Prior Agreement is scheduled to expire pursuant to its terms on December 31, 2016; and

WHEREAS, the Board of Directors of the Company (the “*Board*”) wishes to enter into this Agreement to engage the Executive to continue to provide services to the Company commencing on the Effective Date (as defined in Section 2), and the Executive wishes to be so engaged, pursuant to the terms and conditions hereinafter set forth.

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

1. Employment and Duties.

(a) General. Subject to the terms and conditions hereof, the Executive shall serve as Chief Executive Officer of the Company, reporting directly to the Board. Executive will have the powers, responsibilities, duties and authority customary for the chief executive officer of corporations of the size, type and nature of the Company, including, without limitation, those powers, responsibilities, duties and authority Executive has in the past exercised in the ordinary course of his service to the Company. Executive shall be the highest ranking executive of the Company and will have the authority to cause any Company business unit or operating division head, any executive officer of Company and/or any other employee of Company, to report directly to him or another executive officer of the Company. The Board shall also have the authority to cause any such person to also report to the Board, it being expected that in the ordinary course the exercise of such authority will be limited to the Chief Financial Officer and the General Counsel of the Company. The Executive’s principal place of employment shall be offices of the Company in New York, New York, subject to such reasonable travel as the performance of his duties and the business of the Company may require.

(b) Exclusive Services. For so long as the Executive is employed by the Company, the Executive shall devote his full business working time to his duties hereunder, shall faithfully serve the Company, and shall promote and serve the interests of the Company in a manner consistent with his past efforts. Notwithstanding the foregoing, the Executive may serve on corporate boards provided that, on and after the date hereof, the Executive provides the Board, in writing, with a written list of such boards and receives the consent of the Board to serve on such

boards. Nothing in this Agreement shall preclude Executive from serving as a member of the board of directors of any charitable, educational, religious, entertainment industry trade, public interest or public service organization, in each instance not inconsistent with the business practices and policies of the Company, or from devoting reasonable periods of time to the activities of the aforementioned organizations or from managing his personal investments. The Executive's commitments in the capacities described in this paragraph shall not impede his ability to fully perform his duties and responsibilities hereunder.

(c) Board Membership. Executive currently serves on the Board. For so long as the Executive is the Chief Executive Officer, the Company shall continue to use its best efforts to cause the Executive to be elected to the Board.

2. Term. Except as otherwise provided in Section 4(c) herein, the Executive's employment pursuant to this Agreement shall commence on January 1, 2017 (the "**Effective Date**") and shall terminate upon the earlier to occur of (i) the Executive's termination of employment pursuant to Section 4 hereunder or (ii) December 31, 2019. The period commencing as of the Effective Date and ending on December 31, 2019 or such earlier or later date to which the term of the Executive's employment under this Agreement shall have been reduced or extended is hereinafter referred to as the "**Term**".

3. Compensation and Other Benefits. Subject to the provisions of this Agreement, the Company shall pay and provide the following compensation and other benefits to the Executive during the Term as compensation for services rendered hereunder:

(a) Base Salary. During the Term, the Company shall pay to the Executive an annual salary (the "**Base Salary**") at the rate of \$1,200,000, payable in substantially equal installments in accordance with the Company's ordinary payroll practices as established from time to time.

(b) Bonus. The Executive shall be eligible to receive an incentive bonus of up to 200% of his Base Salary for each calendar year during the Term (the "**Bonus**"). The Executive's target bonus shall be 100% of his base salary. The actual amount of the Bonus shall be based upon the attainment of individual and Company performance goals and objectives determined reasonably and in good faith by the Board after meaningful consultation with the Executive and, to the extent that the Company maintains incentive compensation plan(s) intended to provide for qualified performance-based compensation under Section 162(m) of the Internal Revenue Code, as amended, and the regulations and guidance promulgated thereunder (the "**Code**"), established in conformity with such plan(s); *provided, however*, that it is understood and agreed that the final determination of the performance goals and objectives shall be in the Board's sole discretion. The Bonus (if any) shall be paid on the date on which the Company pays out bonuses to Company management (but not later than March 15th of the year following the year in respect of which the Bonus is earned), subject to the Executive's continued employment through such date except as otherwise provided herein, provided that the Bonus, if any is earned, for calendar year 2019 shall be subject to the Executive's continued employment only through December 31, 2019.

(c) Stock Options.

(i) As soon as practicable after each of January 1, 2017, January 1, 2018 and January 1, 2019, the Executive shall be granted stock options to purchase common shares of the Company (the "**Common Shares**") with an aggregate grant date value on each such grant date equal to \$3,300,000 (the "**2017 Options**", the "**2018 Options**" and the "**2019 Options**," respectively, and collectively the "**Options**"). The 2017 Options shall vest in nine (9) equal installments on May 1, September 1 and December 31 of each of 2017, 2018 and 2019. The 2018 Options shall vest in six (6) equal installments on May 1, September 1 and December 31 of each of 2018 and 2019. The 2019 Options shall vest in three (3) equal installments on May 1, 2019, September 1, 2019 and December 31, 2019.

(ii) For purposes of determining the number of Options to be granted pursuant to this Section 3(c), the Company shall value the Options in manner consistent with the Company's financial statement reporting. The Options shall be granted on the terms and conditions set forth in the IMAX Corporation Amended and Restated Long-Term Incentive Plan (the "**LTIP**"), the grant agreements to be entered into between the Company and the Executive pursuant to the LTIP, and this Agreement. The exercise price of the Options shall be the Fair Market Value of the Common Shares (as defined in the LTIP) on the date of grant. The Options shall have a ten (10) year term.

(d) RSUs. As soon as practicable after the date hereof, the Executive shall be granted Restricted Share Units (the "**RSUs**") having a grant date value of \$6,600,000. The number of RSUs shall be determined by dividing (i) \$6,600,000 by (ii) the closing price of the Company's common stock on the New York Stock Exchange on the date hereof. One-third of the RSUs shall vest on January 1, 2018, and the remaining RSUs shall vest in six (6) equal installments on May 1, September 1 and December 31 of each of 2018 and 2019. The RSUs shall be granted on the terms and conditions set forth in the LTIP, the grant agreement to be entered into between the Company and the Executive pursuant to the LTIP and this Agreement.

(e) Prior Grants. Exhibit A to this Agreement sets forth a list of all of the Executive's currently outstanding stock options and restricted stock units granted pursuant to the IMAX Stock Option Plan, the LTIP and the Prior Agreement, with, in the case of stock options, their exercise prices (collectively, the "**Prior Grants**"). The vesting schedule, exercise prices and other terms and conditions of the Prior Grants shall not be affected by the provisions of this Agreement.

(f) Benefit Plans. During the Term, the Executive shall be entitled to participate, on the same basis and at the same level as generally available to other executive officers of the Company, in any group insurance, hospitalization, medical, health and accident, disability, fringe benefit and deferred compensation plans or programs of the Company now existing or hereafter established to the extent that he is eligible under the general provisions thereof.

(g) SERP and Retiree Medical.

(i) The Executive shall continue to participate in the Company's Supplemental Executive Retirement Plan (the "**SERP**") in accordance with the terms and

conditions set forth therein, as amended from time to time. The Company and the Executive agree that no compensation paid to the Executive since January 1, 2011, including any payments under this Agreement, shall be included in the calculation of benefits payable under the SERP.

(ii) Following the Executive's Separation from Service for any reason, the Company shall provide the Executive and his eligible dependents with continued participation in the Company's group medical plans applicable to other executive officers (as in effect from time to time) until such time as the Executive becomes eligible for Medicare and thereafter Medicare supplement coverage selected by the Executive; provided, however, that in the event such participation or provision of supplemental coverage is not permitted or is not commercially practical for any period, an annual cash payment equal to the value of the coverage that would otherwise have been provided, payable in advance for any such period. The Executive shall continue to be obligated to pay his share of premiums, deductibles and co-payments.

(h) Automobile. The Company shall provide the Executive with the use of an automobile consistent with past practices. The Company shall also provide Executive with a driver, who shall be an employee of Company with a salary determined by the Company of no less than \$100,000 per annum and with benefits commensurate with that of similarly-situated Company employees in the United States.

(i) Financial and Estate Planning. For each year in the Term, the Company shall reimburse the Executive for up to \$25,000 of expenses incurred by him for financial and estate planning and tax advisory services. Payments with respect to reimbursements of such expenses shall be made consistent with the Company's reimbursement procedures and in no event later than the last day of the calendar year following the calendar year in which the relevant expense is incurred.

(j) Expenses. The Company shall reimburse the Executive for reasonable travel and other business-related expenses incurred by him in the fulfillment of his duties hereunder upon presentation of written documentation thereof, in accordance with the business expense reimbursement policies and procedures of the Company as in effect from time to time. Payments with respect to reimbursements of expenses shall be made consistent with the Company's reimbursement policies and procedures and in no event later than the last day of the calendar year following the calendar year in which the relevant expense is incurred. The Executive will continue to be entitled to travel and accommodations on a basis consistent with the current practice.

(k) Indemnification.

(i) To the fullest extent permitted by law and the Company's governing documents, the Company agrees to indemnify and hold the Executive harmless against and in respect to any and all actions, liabilities, suits, proceedings, claims, demands, judgments, costs, expenses (including reasonable attorneys' fees), losses, and damages resulting from the Executive's performance of his duties and obligations with the Company in good faith and with a reasonable belief that such performance was in, and not opposed to, the best interests of the Company; provided, however, that such indemnification shall not apply with respect to any action taken by the Executive that constitutes gross negligence or willful misconduct.

(ii) The Executive shall be entitled to coverage under the Company's directors' and officers' liability insurance policies in effect from time to time on the same terms and conditions (including, without limitation, with respect to scope, exclusions, amounts and deductibles) as are available to other current and former executive officers of the Company. Nothing in this Agreement shall require the Company to purchase or maintain any such insurance policy.

(iii) The Company shall hold the Executive harmless and indemnify the Executive, on an after-tax basis, against the amount of any income taxes imposed by Revenue Canada, the United States Federal government or any state or local taxing authority in Canada or the United States (collectively, "**Taxes**") with respect to any amounts payable to the Executive under this Agreement, to the extent such Taxes exceed the amount of Taxes that would have been imposed on such amounts had all of the services performed by the Executive under this Agreement been performed within the United States. The Company shall hold the Executive harmless and indemnify the Executive, on an after-tax basis, against the amount of any penalties or interest that are imposed on the Executive by Revenue Canada, the United States Federal government or any state or local taxing authority in Canada or the United States as a result of the Company's failure to properly withhold any tax with respect to any amounts payable to the Executive under this Agreement, to the extent such penalties or interest are not attributable to the failure of the Executive to file any required tax returns or pay any required taxes or any other willful act or omission of the Executive.

4. Termination of Employment.

(a) In General. Subject to this Section 4, the Company shall have the right to terminate the Executive's employment at any time, with or without Cause (as defined in Section 4(b)(iv) below), and the Executive shall have the right to resign his employment at any time. Except as expressly provided herein, the Executive is not entitled to any compensation or benefits in the event of a termination of his employment for any reason.

(b) Termination for Cause. If, prior to the expiration of the Term, the Executive incurs a "**Separation from Service**" within the meaning of Section 409A(a)(2)(A)(i) of the Internal Revenue Code of 1986, as amended and the regulations and guidance promulgated thereunder (the "**Code**") by reason of the Company's termination of the Executive's employment for Cause:

(i) The Company shall pay to the Executive his earned but unpaid Base Salary through and including the date of termination and any other amounts or benefits required to be paid or provided by law or under any plan, program, policy or practice of the Company (the "**Other Accrued Compensation and Benefits**"), payable in accordance with Company policies and practices and in no event later than thirty (30) days after the Executive's Separation from Service, unless otherwise expressly set forth in the applicable plan, program or agreement.

(ii) All outstanding unvested Options and unvested RSUs, and any unvested stock options and unvested restricted stock units included in the Prior Grants and any other outstanding unvested stock options, unvested restricted stock units, unvested restricted shares, unvested performance shares or unvested performance stock units granted to the Executive after

the date hereof (collectively, the “*Unvested Equity Awards*”) shall be cancelled immediately. All then vested Options shall remain exercisable for the shorter of (i) their original term and (ii) ninety (90) days from Executive’s Separation from Service, at which time they shall be cancelled. Upon cancellation, the Executive shall have no further rights with respect to the Unvested Equity Awards or Options.

(iii) Other than pursuant to those provisions that survive termination of this Agreement, the Executive shall have no further right to receive any other compensation or benefits following his termination of employment pursuant to this Section 4(b).

(iv) Termination for “*Cause*” shall only mean termination of the Executive’s employment upon a violation by the Executive of any law or regulation applicable to the business of the Company or one of its subsidiaries or affiliates (the “*Company Group*”), or the Executive’s conviction of a felony, or any willful perpetration by the Executive of a common law fraud.

(c) Termination Without Cause; Resignation for Good Reason. If, following the date hereof and prior to the expiration of the Term, the Executive incurs a Separation from Service by reason of the Company’s termination of the Executive’s employment without Cause or the Executive’s resignation for Good Reason:

(i) The Executive shall receive the Other Accrued Compensation and Benefits, payable in accordance with Company policies and practices and in no event later than thirty (30) days after the Executive’s Separation from Service, unless otherwise expressly set forth in the applicable plan, program or agreement. In addition, the Company shall pay the Executive, not later than the date on which the Company pays out bonuses to Company management but not later than March 15th of the year following the year in respect of which it was earned the amount of any Bonus earned for the calendar year preceding the year in which his employment is terminated, to the extent not theretofore paid.

(ii) The Company will pay the Executive a Bonus for the calendar year in which his employment is terminated, such Bonus to be determined based on actual performance pursuant to the performance goal(s) described in paragraph 3(b) hereof, and then prorated based on the number of calendar days of such year elapsed through the date of Executive’s termination of employment (the “*Pro-Rata Bonus*”).

(iii) All then outstanding Unvested Equity Awards shall immediately vest in full and all outstanding stock options granted to the Executive prior to the Executive’s Separation from Service shall remain exercisable as follows:

(A) The stock options awarded to the Executive on February 21, 2014 (the “*2014 Options*”) shall remain exercisable for the shorter of: (x) their original term and (y) five (5) years from Executive’s Separation from Service, at which time the 2014 Options shall be cancelled.

(B) The stock options awarded to the Executive on January 5, 2015 (the “*2015 Options*”) shall remain exercisable for the shorter of: (x) their original term and (y) four

(4) years from Executive's Separation from Service, at which time the 2015 Options shall be cancelled.

(C) The stock options awarded to the Executive on June 7, 2016 (the "**2016 Options**") shall remain exercisable for the shorter of: (x) their original term and (y) three (3) years from Executive's Separation from Service, at which time the 2016 Options shall be cancelled.

(D) The 2017 Options shall remain exercisable for the shorter of: (x) their original term and (y) five (5) years from Executive's Separation from Service, at which time the 2017 Options shall be cancelled.

(E) The 2018 Options shall remain exercisable for the shorter of: (x) their original term and (y) four (4) years from Executive's Separation from Service, at which time the 2018 Options shall be cancelled.

(F) The 2019 Options shall remain exercisable for the shorter of: (x) their original term and (y) three (3) years from Executive's Separation from Service, at which time the 2019 Options shall be cancelled.

Upon cancellation, the Executive shall have no further rights with respect to the foregoing stock options.

(iv) The Company shall pay the Executive an amount (the "**Severance Amount**") equal to 200% of the Base Salary the Executive would have received had he remained employed by the Company for the period (the "**Severance Period**") beginning on the day following the Executive's Separation from Service and continuing until the later of (x) December 31, 2019 and (y) the first anniversary of the Executive's Separation from Service, payable on the following schedule:

(1) 50% of the Severance Amount shall be paid in equal installments over the Severance Period, in accordance with the Company's ordinary payroll practices in effect from time to time, and

(2) The remaining 50% of the Severance Amount shall be payable as follows:

(A) if the Executive's Separation from Service occurs prior to January 1, 2018, one-sixth (1/6th) of the Severance Amount will be payable on each of March 1st, 2018, March 1st 2019 and March 1st 2020,

(B) if the Executive's Separation from Service occurs in the 2018 calendar year, one-quarter (1/4th) of the Severance Amount will be payable on each of March 1st, 2019 and March 1st 2020, or

(C) if the Executive's Separation from Service occurs in the 2019 calendar year, half (1/2th) of the Severance Amount will be payable on March 1st 2020.

(v) The Company shall also continue to provide the Executive with the automobile benefits provided for in Section 3(h) for the duration of the Severance Period.

(vi) Other than pursuant to those provisions that survive termination of this Agreement, the Executive shall have no further right to receive any other compensation or benefits following his termination of employment pursuant to this Section 4(c).

(vii) Resignation for “**Good Reason**” shall mean a termination of employment by the Executive because of the occurrence of any of the following events without the Executive’s prior written consent:

(A) a material decrease in the Executive’s Base Salary and bonus opportunity;

(B) a material diminution of the Executive’s responsibilities, positions, authority or reporting responsibilities from those set forth in this Agreement (including ceasing to report to a public company board of directors);

(C) a material breach by the Company of any material term of this Agreement;
or

(D) a requirement by the Company for the Executive to be based at any office or location more than 25 miles from New York, NY.

(d) Resignation without Good Reason. If, prior to the expiration of the Term, the Executive incurs a Separation from Service by reason of the Executive’s resignation other than for Good Reason:

(i) The Executive shall receive the Other Accrued Compensation and Benefits, payable in accordance with Company policies and practices and in no event later than thirty (30) days after the Executive’s Separation from Service, unless otherwise expressly set forth in the applicable plan, program or agreement.

(ii) All then outstanding Unvested Equity Awards shall be cancelled immediately. All vested Options shall remain exercisable until the shorter of: (x) their original term and (y) two (2) years from Executive’s Separation from Service. Upon cancellation, the Executive shall have no further rights with respect to the Unvested Equity Awards or Options.

(iii) Other than pursuant to those provisions that survive termination of this Agreement, the Executive shall have no further right to receive any other compensation or benefits following his termination of employment pursuant to this Section 4(d).

(e) Non-Renewal of Agreement; Retirement. If, upon the expiration of the Term, the Company does not offer to continue the Executive’s employment on substantially similar terms to those set forth herein, or if the Executive elects to retire from employment with the Company upon expiration of the Term, and in either such case upon the expiration of the Term the Executive incurs a Separation from Service, all then outstanding Unvested Equity Awards shall be cancelled immediately and the vested stock options granted to the Executive shall remain exercisable as follows:

(i) The 2014 Options shall remain exercisable for the shorter of: (x) their original term and (y) five (5) years from Executive's Separation from Service, at which time the 2014 Options shall be cancelled.

(ii) The 2015 Options shall remain exercisable for the shorter of: (x) their original term and (y) four (4) years from Executive's Separation from Service, at which time the 2015 Options shall be cancelled.

(iii) The 2016 Options shall remain exercisable for the shorter of: (x) their original term and (y) three (3) years from Executive's Separation from Service, at which time the 2016 Options shall be cancelled.

(iv) The 2017 Options shall remain exercisable for the shorter of: (x) their original term and (y) five (5) years from Executive's Separation from Service, at which time the 2017 Options shall be cancelled.

(v) The 2018 Options shall remain exercisable for the shorter of: (x) their original term and (y) four (4) years from Executive's Separation from Service, at which time the 2018 Options shall be cancelled.

(vi) The 2019 Options shall remain exercisable for the shorter of: (x) their original term and (y) three (3) years from Executive's Separation from Service, at which time the 2019 Options shall be cancelled.

Upon cancellation, the Executive shall have no further rights with respect to the Unvested Equity Awards or the foregoing stock options. In addition, for the twelve (12) months following the Executive's Separation from Service, the Company will continue to provide the Executive with office space and the services of a full-time executive assistant (either the Executive's current assistant as of the date hereof or another assistant mutually acceptable to the Executive and the Company) and shall continue to provide the Executive with the automobile benefits provided for in Section 3(h).

(f) Resignation from Directorships and Officerships. The termination of the Executive's employment for any reason will constitute the Executive's resignation from (i) any director, officer or employee position the Executive has with any member of the Company Group other than his position as a member of the Board, and (ii) all fiduciary positions (including as a trustee) the Executive holds with respect to any employee benefit plans or trusts established by the Company Group. The Executive agrees that this Agreement shall serve as written notice of resignation in this circumstance.

(g) Consultancy. At the end of Executive's employment (for whatever reason), Executive agrees to consult with the Company on such issues and items as requested by the Company including, but not limited to, theatre signings, management issues, film strategy issues, technological issues and/or issues with respect to management transition, subject to the Executive's other commitments and the parties entering into a written agreement on terms to be negotiated by the Company and the Executive in good faith.

(h) Notice of Termination. Any termination of employment by the Company or the Executive shall be communicated by a written “**Notice of Termination**” to the other party hereto given in accordance with Section 23 of this Agreement.

(i) Release. Notwithstanding anything to the contrary in this Agreement, the amounts required to be paid pursuant to Section 4(c) and 5(b) hereof (other than the payment of Other Accrued Compensation and Benefits) shall be paid to the Executive subject to the condition that Executive has delivered to the Company a countersigned copy of a mutual release substantially in the form attached hereto as Exhibit C and that such release has become effective, enforceable and irrevocable in accordance with its terms.

5. Change of Control.

(a) For purposes of this Agreement, a “**Change of Control**” of the Company occurs if any person or persons acting as a group acquires beneficial ownership of greater than 50% of the total voting power or fair market value of the stock of the Company, whether by direct or indirect acquisition or as a result of a merger or reorganization or a sale of all or substantially all of the Company’s assets.

(b) If, at any time following a Change in Control the Executive incurs a Separation from Service by reason of the Company’s termination of the Executive’s employment without Cause or the Executive’s resignation for Good Reason, in addition to the benefits and payments set forth in Section 4(c) above, the Executive shall receive a cash payment equal to \$3,300,000 for each Option grant that has not been made as of the date of the Separation from Service under Section 3(c) of this Agreement. Payment shall be made in a single lump sum within thirty (30) days following the Executive’s Separation from Service.

(c) Upon a Change of Control the Executive shall be entitled to receive a special bonus (the “**Special Bonus**”), payable within ten (10) days following a Change of Control. The Special Bonus shall be payable in U.S. dollars and shall be in an amount equal to the product of (i) .375% multiplied by (ii) the amount by which the Change of Control transaction imputes an equity value on the Common Shares (as defined in the Amended and Restated Shareholders’ Agreement dated as of June 16, 1994 by and among the Company and the other parties signatory thereto (the “**Shareholders’ Agreement**”)) originally issued by the Company (on a fully diluted basis, but without including Common Stock issuable upon exercise of the GW Warrants, the exercise of the warrants issued to WP in connection with the Working Capital Facility or the conversion of the Sellers’ Preferred Stock (as each such term is defined in the Shareholders’ Agreement)) in excess of C\$150 million. The provisions of this Section 5(c) shall survive any termination of this Agreement.

(d) The parties acknowledge and agree that pursuant to the Prior Agreement, upon a Change of Control, the Executive shall also be paid an incentive bonus (“**Incentive Bonus**”) equal to the product of (a) 225,000 multiplied by (b) the difference between the closing price of the Common Shares on the effective date of the Change of Control and \$10.67. The incentive bonus shall be paid in a single lump-sum ten (10) days following a Change of Control. The terms of this Incentive Bonus, as set forth in the Prior Agreement shall not be affected by the

provisions of this Agreement and therefore, the existence and terms of all rights with respect thereto shall be determined entirely without regard to this Agreement.

6. Noncompetition.

(a) In consideration of the execution of this Agreement, the Executive's continued employment with the Company Group and the benefits provided herein, the Executive agrees that during the Term, and for a period of two (2) years thereafter (the "**Restricted Period**"), absent the Company's prior written approval, he shall not (as principal, agent, employee, consultant or otherwise), directly or indirectly, engage in activities with, or render services to, any business engaged or about to become engaged in the business of producing or distributing projection and sound systems or films for large screen theaters, designing or supplying motion simulation theaters, producing or distributing films for movie rides (collectively, "**Competitive Business**"); provided, however, that, notwithstanding the foregoing, the Executive may (i) have equity interests in companies engaged in a Competitive Business so long as he is not employed by and does not consult with such companies in areas related to the Competitive Business, (ii) render consulting services to or be employed by a company engaged in a Competitive Business so long as he is not employed in, or rendering services related to, the Competitive Business of such company or (iii) perform usual investment banking services for a company engaged in a Competitive Business.

(b) Without intending to limit the remedies available to the Company Group, the Executive agrees that a breach of this Section 6 may result in material and irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, the Company shall be entitled to seek a temporary restraining order or a preliminary or permanent injunction, or both, without bond or other security, restraining the Executive from engaging in activities prohibited by this Section 6 or such other relief as may be required specifically to enforce any of the covenants contained in this Agreement. Such injunctive relief in any court shall be available to the Company in lieu of, or prior to or pending determination in, any arbitration proceeding.

(c) In addition to the remedies the Company may seek and obtain pursuant to this Section 6, the Restricted Period shall be extended by any and all periods during which the Executive shall be found by a court or arbitrator possessing personal jurisdiction over him to have been in violation of the covenants contained in Section 6 of this Agreement.

7. Confidentiality. The Executive covenants and agrees with the Company that he will not at any time, except in performance of his obligations to the Company hereunder or with the prior written consent of the Company Group, directly or indirectly, reveal to any person, entity or other organization (other than any member of the Company Group or its respective employees, officers, directors, shareholders or agents) or use the for Executive's own benefit any Confidential Information that he may learn or has learned by reason of his employment by, shareholdings in or other association with the Company Group. The term "**Confidential Information**" includes information not previously disclosed to the public or to the trade by the Company's management, or otherwise in the public domain, with respect to the Company Group's products, facilities, applications and methods, trade secrets and other intellectual

property, systems, procedures, manuals, confidential reports, product price lists, customer lists, technical information, financial information, business plans, prospects or opportunities, but shall exclude any information which (i) is or becomes available to the public or is generally known in the industry or industries in which the Company Group operates other than as a result of disclosure by the Executive in violation of his agreements under this Section 7 or (ii) the Executive is required to disclose under any applicable laws, regulations or directives of any government agency, tribunal or authority having jurisdiction in the matter or under the subpoena or other process of law. Confidential Information may be in any medium or form, including, without limitation, physical documents, computer files or disks, videotapes, audiotapes, and oral communications. In the event that the Executive becomes legally compelled to disclose any Confidential Information, the Executive shall provide the Company with prompt written notice so that the Company may seek a protective order or other appropriate remedy. In the event that such protective order or other remedy is not obtained, the Executive shall furnish only that portion of such Confidential Information or take only such action as is legally required by binding order and shall exercise his reasonable efforts to obtain reliable assurance that confidential treatment shall be accorded any such Confidential Information.

8. Term Insurance. During the Term, the Company will pay the full premium cost of certain term life insurance policies issued on the life of Executive and referred to on Exhibit B attached hereto, in the annual amount of approximately \$45,000.00. Executive will be responsible for the tax liability imposed on him as a result of such payment.

9. Recovery of Compensation. All payments and benefits provided under this Agreement shall be subject to any compensation recovery, clawback or similar policy as required under law and which is thereafter adopted by the Company from time to time.

10. Section 409A of the Code.

(a) The payments and benefits provided under this Agreement are intended to comply with or be exempt from Section 409A of the Code (“**Section 409A**”) and shall be interpreted or construed consistent with that intent. The Company shall not accelerate any payment or the provision of any benefits under this Agreement or make or provide any such payment or benefits if such payment or provision of such benefits would, as a result, be subject to tax under Section 409A. If, in the good faith judgment of the Company, any provision of this Agreement could cause the Executive to be subject to adverse or unintended tax consequences under Section 409A, such provision shall be modified by the Company in its sole discretion to maintain, to the maximum extent practicable, the original intent of the applicable provision without contravening the requirements of Section 409A of the Code. This Section 10 does not create an obligation on the part of the Company to modify this Agreement and does not guarantee that the amounts or benefits owed under this Agreement will not be subject to interest and penalties under Section 409A.

(b) Anything in this Agreement to the contrary notwithstanding, each payment of compensation made to the Executive shall be treated as a separate and distinct payment from all other such payments for purposes of Section 409A. The actual date of payment pursuant to this Agreement shall be within the sole discretion of the Company. In no event may the Company be permitted to control the year in which payment occurs. With regard to any provision herein that

provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A: (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year; and (iii) such payments shall be made on or before the last day of the Executive's taxable year following the taxable year in which the expense occurred, or such earlier date as required hereunder. Any tax gross-up payments provided under this Agreement shall be paid to the Executive on or before December 31st of the calendar year immediately following the calendar year in which the Executive remits the related taxes.

(c) Notwithstanding any other provision of this Agreement, to the extent that the right to any payment (including the provision of benefits) hereunder provides for the “*deferral of compensation*” within the meaning of Section 409A(d)(1), if the Executive is a “*Specified Executive*” within the meaning of Section 409A(a)(2)(B)(i) on the date of the Executive's Separation from Service, then no such payment shall be made or commence during the period beginning on the date of the Executive's Separation from Service and ending on the date that is six months following the Executive's Separation from Service or, if earlier, on the date of the Executive's death. The amount of any payment that would otherwise be paid to the Executive during this period shall instead be paid to the Executive on the fifteenth (15th) day of the first calendar month following the end of the six-month period.

11. Source of Payments. All payments provided under this Agreement, other than payments made pursuant to a plan which provides otherwise, shall be paid in cash from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of assets shall be made, to assure payment. The Employee shall have no right, title or interest whatsoever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

12. Binding Agreement. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors and permitted assigns.

13. Withholding. Any payments made or benefits provided to the Executive under this Agreement shall be reduced by any applicable withholding taxes or other amounts required or permitted to be withheld by law or contract.

14. Assignment. This Agreement may be assigned by the Company to any affiliate of the Company, provided however, that no such assignment shall relieve the Company of any of its obligations hereunder. The Executive may not assign or delegate his duties under this Agreement without the Company's prior written approval.

15. Amendment; Waiver. Subject to Section 10, this Agreement may not be modified, amended or waived in any manner, except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement by the other party (including the failure to insist upon strict compliance with any term, covenant

or condition) shall not operate or be construed as a waiver of (i) any other provision of this Agreement, or (ii) any subsequent breach by such party of a provision of this Agreement.

16. Governing Law. All matters affecting this Agreement, including the validity thereof, are to be subject to, and interpreted and construed in accordance with, the laws of the State of New York applicable to contracts executed in and to be performed in that State.

17. Arbitration. Any dispute or controversy arising under or in connection with this Agreement or otherwise in connection with the Executive's employment by the Company that cannot be mutually resolved by the parties to this Agreement and their respective advisors and representatives shall be settled exclusively by arbitration in the State of New York in accordance with the rules of the American Arbitration Association before one arbitrator of exemplary qualifications and stature, who shall be selected jointly by an individual to be designated by the Company and an individual to be selected by the Executive, or if such two individuals cannot agree on the selection of the arbitrator, who shall be selected by the American Arbitration Association.

18. Survival of Certain Provisions. The rights and obligations set forth in this Agreement that, by their terms, extend beyond the Term shall survive the Term. The provisions of Section 3(g) and (k), 4, 5, 6, 7 and 9 through 23 hereof shall survive any termination of this Agreement in accordance with their terms (it being understood that the reference to Section 5, without limitation, is not intended to result in any duplication of benefits).

19. Entire Agreement. Except as specified in Section 3(e) hereof, this Agreement (together with any agreements entered into in connection with the Prior Grants) contains the entire agreement and understanding of the parties hereto with respect to the matters covered herein, and supersedes all prior or contemporaneous negotiations, commitments, agreements and writings with respect to the subject matter hereof (including, without limitation, the Prior Agreement), all such other negotiations, commitments, agreements and writings shall have no further force or effect, and the parties to any such other negotiation, commitment, agreement or writing shall have no further rights or obligations thereunder.

20. Severability Clause. In the event any provision or part of this Agreement is found to be invalid or unenforceable, only that particular provision or part so found, and not the entire Agreement, will be inoperative.

21. Counterparts. This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

22. Headings. The headings of sections herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

23. Notices. All notices or communications hereunder shall be in writing, addressed as follows:

if to the Company:

IMAX Corporation
110 E. 59th Street
Suite 2100
New York NY 10022
Attention: General Counsel

if to the Executive:

On file with the Company

All such notices shall be conclusively deemed to be received and shall be effective (i) if sent by hand delivery, upon receipt or (ii) if sent by electronic mail or facsimile, upon receipt by the sender of confirmation of such transmission; provided, however, that any electronic mail or facsimile will be deemed received and effective only if followed, within 48 hours, by a hard copy sent by certified United States mail.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by its officer pursuant to the authority of its Board, and the Executive has executed this Agreement, as of the date set forth above.

IMAX CORPORATION

By: /s/ Michael Lynne
Name: Michael Lynne
Title: Director

By: /s/ Bradley Wechsler
Name: Bradley Wechsler
Title: Chairman of the Board

RICHARD L. GELFOND

/s/ Richard L. Gelfond

IMAX CORPORATION

EXHIBIT 21

SUBSIDIARIES OF IMAX CORPORATION

Company Name	Place of Incorporation	Percentage Held
3183 Films Ltd.	Canada	100
12582 Productions Inc.	Delaware	100
1329507 Ontario Inc.	Ontario	100
2328764 Ontario Ltd.	Ontario	100
4507592 Canada Ltd.	Canada	100
6822967 Canada Ltd.	Canada	100
7096267 Canada Ltd.	Canada	100
7103077 Canada Ltd.	Canada	100
7109857 Canada Ltd.	Canada	100
7214316 Canada Ltd.	Canada	100
7550391 Canada Ltd.	Canada	100
7550405 Canada Ltd.	Canada	100
7742266 Canada Ltd.	Canada	100
7742274 Canada Ltd.	Canada	100
9733248 Canada Ltd.	Canada	100
Animal Orphans 3D Ltd.	Ontario	100
Arizona Big Frame Theatres, L.L.C.	Arizona	100
Baseball Tour, LLC	Delaware	15.625
ILW Productions Inc.	Delaware	100
IMAX II U.S.A. Inc.	Delaware	100
IMAX 3D TV Ventures, LLC	Delaware	100
IMAX (Barbados) Holding, Inc.	Barbados	100
IMAX Chicago Theatre LLC	Delaware	100
IMAX China Holding, Inc.	Cayman Islands	68.46
IMAX China (Hong Kong), Limited	Hong Kong	100
IMAX Documentary Films Capital, LLC	Delaware	47.37
IMAX Europe SA (98.4% owned by IMAX Corp.)	Belgium	100
IMAX Film Holding Co.	Delaware	100
IMAX FZE	JAFZA, Dubai, UAE	100
IMAX (Hong Kong) Holding, Limited	Hong Kong	100
IMAX Indianapolis LLC	Indiana	100
IMAX International Sales Corporation	Canada	100
IMAX Japan Inc.	Japan	100
IMAX Minnesota Holding Co.	Delaware	100
IMAX Music Ltd.	Ontario	100
IMAX Post/DKP Inc.	Delaware	100
IMAX Providence General Partner Co.	Delaware	100
IMAX Providence Limited Partner Co.	Delaware	100
IMAX PV Development Inc.	Delaware	100
IMAX Rhode Island Limited Partnership	Rhode Island	100
IMAX (Rochester) Inc.	Delaware	100
IMAX Scribe Inc.	Delaware	100
IMAX (Shanghai) Multimedia Technology Co., Ltd.	People's Republic of China	100
IMAX (Shanghai) Digital Media Co., Ltd.	People's Republic of China	100
IMAX (Shanghai) Theatre Technology Services Co., Ltd.	People's Republic of China	100
IMAX Space Productions Ltd.	Canada	100
IMAX Spaceworks Ltd.	Canada	100
IMAX Theatre Holding (California I) Co.	Delaware	100
IMAX Theatre Holding (California II) Co.	Delaware	100
IMAX Theatre Holding Co.	Delaware	100

Company Name	Place of Incorporation	Percentage Held
IMAX Theatre Holdings (OEI), Inc.	Delaware	100
IMAX Theatre Holding (Nyack I) Co.	Delaware	100
IMAX Theatre Holding (Nyack II) Co.	Delaware	100
IMAX Theatre Services Ltd.	Ontario	100
IMAX Theatres International Limited	Ireland	100
IMAX (Titanic) Inc. (50 % owned by IMAX Corp.)	Delaware	100
IMAX U.S.A. Inc.	Delaware	100
IMAX VR, LLC	Delaware	100
IMAX Virtual Reality Content Fund, LLC	Delaware	100
IMAXSHIFT, LLC	Delaware	100
Line Drive Films Inc.	Delaware	100
Madagascar Doc 3D Ltd.	Canada	100
Night Fog Productions Ltd.	Canada	100
Nyack Theatre LLC	New York	100
Plymouth 135-139, LLC	Delaware	100
Raining Arrows Productions Ltd.	Canada	100
Ridefilm Corporation	Delaware	100
Ruth Quentin Films Ltd.	Canada	100
Sacramento Theatre LLC	Delaware	100
Sonics Associates, Inc.	Alabama	100
Starboard Theatres Ltd.	Canada	100
Strategic Sponsorship Corporation	Delaware	100
Taurus-Littrow Productions Inc.	Delaware	100
TCL-IMAX Entertainment Co., Limited	Hong Kong	50
TCL-IMAX (Shanghai) Digital Technology Co. Ltd.	People's Republic of China	100
Walking Bones Pictures Ltd.	Canada	100



IMAX CORPORATION

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in (i) the Registration Statements on Form S-8 (No. 333-2076; No. 333-5720; No. 333-30970; No. 333-44412; No. 333-155262, No. 333-165400; No. 333-189274; No. 333-211888) and (ii) the Post-Effective Amendments No. 1 to Form S-8 (No. 333-5720 as amended and No. 333-165400) of IMAX Corporation of our report dated February 23, 2017, relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
February 23, 2017

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

IMAX CORPORATION

EXHIBIT 24

POWER OF ATTORNEY

Each of the persons whose signature appears below hereby constitutes and appoints Patrick McClymont and Robert D. Lister, and each of them severally, as his true and lawful attorney or attorneys with power of substitution and re-substitution to sign in his name, place and stead in any and all such capacities the Form 10-K, including the French language version thereof, and any and all amendments thereto and documents in connection therewith, and to file the same with the United States Securities Exchange Commission (the "SEC") and such other regulatory authorities as may be required, each of said attorneys to have power to act with and without the other, and to have full power and authority to do and perform, in the name and on behalf of each of the directors of the Corporation, every act whatsoever which such attorneys, or either of them, may deem necessary or desirable to be done in connection therewith as fully and to all intents and purposes as such directors of the Corporation might or could do in person.

Dated this 23RD day of February, 2017.

<u>Signature</u>	<u>Title</u>
<u>/s/ Bradley J. Wechsler</u> <i>Bradley J. Wechsler</i>	Chairman of the Board & Director
<u>/s/ Richard L. Gelfond</u> <i>Richard L. Gelfond</i>	Chief Executive Officer (Principal Executive Officer)
<u>/s/ Neil S. Braun</u> <i>Neil S. Braun</i>	Director
<u>/s/ Eric A. Demirian</u> <i>Eric A. Demirian</i>	Director
<u>/s/ Kevin Douglas</u> <i>Kevin Douglas</i>	Director
<u>/s/ Greg Foster</u> <i>Greg Foster</i>	Director
<u>/s/ Michael Lynne</u> <i>Michael Lynne</i>	Director
<u>/s/ Michael MacMillan</u> <i>Michael MacMillan</i>	Director
<u>/s/ Dana Settle</u> <i>Dana Settle</i>	Director
<u>/s/ Darren Throop</u> <i>Darren Throop</i>	Director
<u>/s/ Patrick McClymont</u> <i>Patrick McClymont</i>	Chief Financial Officer (Principal Financial Officer)
<u>/s/ Jeffrey Vance</u> <i>Jeffrey Vance</i>	Controller (Principal Accounting Officer)

IMAX CORPORATION

EXHIBIT 31.1

Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002

I, Richard L. Gelfond, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2016 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2017

By: /s/ Richard L. Gelfond
Richard L. Gelfond
Chief Executive Officer

IMAX CORPORATION

EXHIBIT 31.2

Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002

I, Patrick McClymont, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2016 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2017

By: /s/ Patrick McClymont
Patrick McClymont
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 of IMAX Corporation, a Canadian corporation (the "Company"), hereby certify, to my knowledge, that:

The Annual Report on Form 10-K for the year ended December 31, 2016 (the "Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2017

/s/ Richard L. Gelfond
Richard L. Gelfond
Chief Executive Officer

IMAX CORPORATION

EXHIBIT 32.2

CERTIFICATIONS

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), I, Patrick McClymont, Chief Financial Officer of IMAX Corporation, a Canadian corporation (the "Company"), hereby certify, to my knowledge, that:

The Annual Report on Form 10-K for the year ended December 31, 2016 (the "Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2017

/s/ Patrick McClymont
Patrick McClymont
Chief Financial Officer &
Executive Vice President