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IMAX CHINA HOLDING, INC.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1970)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

AND

INSIDE INFORMATION

OUR CONTROLLING SHAREHOLDER IMAX CORPORATION RELEASED ITS UNAUDITED RESULTS AND QUARTERLY REPORT FOR THE SECOND QUARTER AND THE FIRST HALF OF FISCAL 2016

INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of IMAX China Holding, Inc. (the “**Company**” or “**IMAX China**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2016. The interim results have been reviewed by the Group’s external auditor and the Audit Committee.

INSIDE INFORMATION

This is an announcement made pursuant to the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571) and Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Our controlling shareholder, IMAX Corporation has, on or about 20 July 2016, at 4:10 p.m. New York time, released its unaudited results and on or about 4:30 p.m. New York time, released its quarterly report for the second quarter of 2016.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2016	2015	
	(Unaudited)	(Audited)	Change %
Total revenue (US\$'000)	55,061	43,913	25.4%
Gross profit (US\$'000)	33,942	30,564	11.1%
Gross profit %	61.6%	69.6%	(8.0)%
Profit (loss) for the period (US\$'000)	17,742	(67,947)	126.1%
Profit (loss) for the period %	32.2%	(154.7)%	186.9%
Profit (loss) per share (US\$)	0.05	(0.25)	120.0%
Adjusted profit (US\$'000)	18,592	18,328	1.4%
Adjusted profit %	33.8%	41.7%	(7.9)%
Total theater system signings	79	18	338.9%
Sales arrangements	29	18	—
Revenue sharing arrangements	50	—	—
Total theater system installations	30	18	66.7%
Sales arrangements	9	5	—
Revenue sharing arrangements	19	13	—
Upgrades	2	—	—
Gross box office (US\$'000)	180,467	175,112	3.1%
Box office per screen (US\$'000)	615	811	(24.2)%

In 1HFY2016, we signed 79 new theater contracts which included 50 new full revenue sharing arrangements with existing clients Guangzhou Jinyi Media Corporation and Sichuan Lumiere Cinema Company Limited. Total signings in 1HFY2016 exceeded the 18 signings we achieved in the comparable period of 1HFY2015 and, in fact, exceeded our 74 total signings for all of FY2015 and our 40 total signings for all of FY2014. Our backlog at 30 June 2016 has increased to 264 IMAX systems, up from 217 at 30 June 2015.

In 1HFY2016 Greater China box office was US\$180.5 million representing a 3.1% increase over 1HFY2015. 1HFY2016 box office growth included 8 of the top 10 grossing titles in mainland China. In local currency in mainland China, our 10.1% increase over 1HFY2015 was less than overall industry growth mainly due to the record-breaking box office contribution of *Mermaid*, a local language title which was not released in IMAX. In June 2016, IMAX box office was up 55.6% over June 2015 due to strong performance of such films like *Warcraft* and *Independence Day: Resurgence*, and we are encouraged by the strong lead in to 2HFY2016.

Box office per screen of US\$0.6 million in 1HFY2016 was 24.2% less than 1HFY2015 primarily due to the unprecedented IMAX success of *Furious 7* in 1HFY2015 and the depreciation of the RMB to USD. 1HFY2016, box office per screen was comparable to 1HFY2014 notwithstanding a network footprint that is currently about 80% larger.

Total revenues increased 25.4% to US\$55.1 million which was primarily the result of increased installation activity and network growth. In 1HFY2016 we installed 30 theater systems which was a 66.7% increase over 1HFY2015 and these installations were comprised of 9 sales, 7 hybrid revenue share and 12 full revenue share arrangements in addition to 2 laser upgrades. This brings our total IMAX network in Greater China to 335 theaters. Based on our robust signing and installation activity, we have increased our 2016 installation guidance to 115 theatres for 2016, up from original 2016 installation guidance of 100 theatres.

Gross profit for 1HFY2016 was US\$33.9 million or 11.1% higher than 1HFY2015 primarily driven by more installations versus the comparable period. Gross profit margin of 61.6% was 8.0% lower than 1HFY2015 as a result of the year over year comparable box office results discussed above. Adjusted profit was US\$18.6 million for 1HFY2016 and the adjusted profit margins was 33.8%.

INTERIM DIVIDEND

The Board has recommended that no interim dividend be paid in respect of the six months ended 30 June 2016.

FINANCIAL INFORMATION

The financial information set out below in this announcement represents an extract from the condensed consolidated interim financial information, which is unaudited but has been reviewed by the Group's external auditor, PricewaterhouseCoopers ("PwC"), in accordance with International Standard on Review Engagements 2410 and by the audit committee of the Company. PwC's unmodified review report is included in the Interim Report to be sent to shareholders.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(In thousands of U.S. dollars)

		Six months ended 30 June	
		2016	2015
	Notes	(Unaudited)	(Audited)
Revenues	5	55,061	43,913
Cost of sales	6	(21,119)	(13,349)
Gross profit	5	33,942	30,564
Selling, general and administrative expenses	6	(8,598)	(11,847)
Other operating expenses	6, 15	(2,980)	(2,453)
Operating profit		22,364	16,264
Accretion of amortised cost of financial instrument	4	—	(2,247)
Fair value adjustment of conversion option	4	—	(77,568)
Interest income		259	239
Interest expense		—	(30)
Profit (loss) before income tax		22,623	(63,342)
Income tax expense	7	(4,881)	(4,605)
Profit (loss) for the period attributable to owners of the Company		17,742	(67,947)
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss:			
Change in foreign currency translation adjustments		(1,397)	(132)
Other comprehensive loss for the period		(1,397)	(132)
Total comprehensive income (loss) for the period attributable to owners of the Company		16,345	(68,079)
Profit (loss) per share — basic and diluted (expressed in U.S. dollars per share):			
From profit (loss) for the period — basic	8	0.05	(0.25)
From profit (loss) for the period — diluted	8	0.05	(0.25)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(In thousands of U.S. dollars)

		As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment	9	58,222	51,990
Other assets		4,381	4,362
Deferred income tax asset	11	1,992	1,309
Financing receivables		25,968	25,270
Total non-current assets		90,563	82,931
Current assets			
Other assets		1,482	1,736
Film assets		105	35
Inventories		12,145	6,364
Prepayments		1,234	984
Financing receivables		4,598	3,783
Trade and other receivables	10	49,554	35,640
Cash and cash equivalents		103,205	90,689
Total current assets		172,323	139,231
Total assets		262,886	222,162
LIABILITIES			
Non-current liabilities			
Deferred revenue	14	17,003	29,137
Total non-current liabilities		17,003	29,137
Current liabilities			
Trade and other payables	13	28,403	12,172
Accruals and other liabilities		5,122	4,152
Taxes payable		8,540	6,217
Deferred revenue	14	29,247	12,762
Total current liabilities		71,312	35,303
Total liabilities		88,315	64,440
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		35	35
Share premium		369,926	369,864
Capital reserves		(30,352)	(30,794)
Accumulated deficit		(161,146)	(178,888)
Accumulated other comprehensive loss		(3,892)	(2,495)
Total equity		174,571	157,722
Total equity and liabilities		262,886	222,162

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Tabular amounts in thousands of U.S. dollars unless otherwise stated)

1. General information

IMAX China Holding, Inc. (the “**Company**”) was incorporated in the Cayman Islands on 30 August 2010, as an exempted company with limited liability under the laws of the Cayman Islands. The ultimate holding company of the Company is IMAX Corporation (the “**Controlling Shareholder**”), incorporated in Canada. The Company’s registered office is located at Post Office Box 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104.

The Company is an investment holding company and its subsidiaries (together the “**Group**”) are principally engaged in the entertainment industry specialising in digital and film-based motion picture technologies in Mainland China, Hong Kong, Taiwan and Macau (“**Greater China**”).

The Group refers to all the theatres using the IMAX theatre system in Greater China as “IMAX theatres” and all activities within Greater China.

The Company has listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 8 October 2015 (the “**Listing**”).

Pursuant to the reorganisation of the Group (the “**Reorganisation**”) as set out under the section headed “History and Reorganisation” in the prospectus of the Company dated 24 September 2015, which was completed on 8 October 2015, the Company became the holding Company of the Group. The Reorganisation is merely a reorganisation of the Group’s business, with no change in management of such business, and the Controlling Shareholder remains the same. Accordingly, the condensed consolidated interim financial information of the Group have been prepared as if the current Group structure had been in existence throughout both periods presented.

The condensed consolidated interim financial information is presented in United States dollars (“**US\$**”), unless otherwise stated.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the condensed consolidated interim financial information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the

year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The preparation of condensed consolidated interim financial information in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

(b) Summary of significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

Taxes on income in the six months ended 30 June 2016 are accrued using the tax rate that would be applicable to expected total annual profits.

3. New Accounting Standards and Accounting Changes

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations to be adopted in future reporting periods, and have not been applied in preparing this condensed consolidated interim financial information. None of these are expected to have a significant effect on the condensed consolidated interim financial information of the Group, except the following set out below:

IFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (“OCI”) and fair value through profit and loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9’s full impact.

IFRS 15, “Revenue from contracts with customers” deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRS Interpretations committee interpretations that are not yet effective that would be expected to have a material impact on the Group.

4. Financial Instruments

(a) Financial Instruments

The Group maintains cash with various major financial institutions.

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

(b) Fair Value Measurements

The carrying values of the Group’s cash and cash equivalents, trade and other receivables, trade and other payables and accruals and other liabilities due within one year approximate fair values due to the short-term maturity of these instruments. The Group’s other financial instruments at the following year/period-ends are comprised of the following:

	As at 30 June 2016 (Unaudited)		As at 31 December 2015 (Audited)	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Net financed sales receivable	30,096	31,698	27,705	28,914
Net investment in finance leases	470	470	1,348	1,297
Available-for-sale investment	4,000	n/a	4,000	n/a

	Loans and receivables	Available- for Sale	Total
30 June 2016 (unaudited)			
Assets as per statement of financial position			
Available-for-sale financial assets	—	4,000	4,000
Net financed sales receivable	30,096	—	30,096
Net investment in finance leases	470	—	470
Trade and other receivables	49,554	—	49,554
Cash and cash equivalents	103,205	—	103,205
	<u>183,325</u>	<u>4,000</u>	<u>187,325</u>

	Liabilities at fair value through profit or loss	Liabilities at amortised cost	Total
Liabilities as per statement of financial position			
Trade and other payables	—	28,403	28,403
	<u>—</u>	<u>28,403</u>	<u>28,403</u>

	Loans and receivables	Available- for Sale	Total
31 December 2015 (audited)			
Assets as per statement of financial position			
Available-for-sale investment	—	4,000	4,000
Net financed sales receivable	27,705	—	27,705
Net investment in finance leases	1,348	—	1,348
Trade and other receivables	35,640	—	35,640
Cash and cash equivalents	90,689	—	90,689
	<u>155,382</u>	<u>4,000</u>	<u>159,382</u>

	Liabilities at fair value through profit or loss	Liabilities at amortised cost	Total
Liabilities as per statement of financial position			
Trade and other payables	—	12,172	12,172
	<u>—</u>	<u>12,172</u>	<u>12,172</u>

Cash and cash equivalents are comprised of cash and interest-bearing investments with original maturity dates of 90 days or less. Cash and cash equivalents are recorded at cost, which approximates fair value as at 30 June 2016 and 31 December 2015, respectively.

In 2014, the Company purchased one preferred share of IMAX (Hong Kong) Holdings, Limited at a cost of \$4.0 million. The investment is classified as available-for-sale. The preferred share does not have a quoted price in an active market and its fair value cannot be reliably measured, accordingly, it is measured at cost.

The estimated fair values of the net financed sales receivable and net investment in finance leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms (Level 2 input) as at 30 June 2016 and 31 December 2015, respectively.

Redeemable Class C Shares

On 8 April 2014, IMAX Corporation announced the investment (the “**IMAX China Investment**”) in the Company 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 IMAX China Investment provided for the sale and issuance of 20% of the shares of the Company to entities owned and controlled by CMC and FountainVest.

Pursuant to the transaction, the Company issued the investors 337,500 Common C Shares of par value \$0.01 each in the authorised capital of the Company (the “**Class C Shares**”) for an aggregate subscription price of \$40.0 million on 8 April 2014, and issued the investors another 337,500 Class C Shares for an aggregate subscription price of \$40.0 million on 10 February 2015.

The parties entered into a shareholders’ agreement in connection with the IMAX China Investment, which terminated upon completion of the IMAX China IPO on October 8, 2015. However, while the shareholders’ agreement was in effect, the Class C shareholders had certain redemption rights. Specifically, if a qualified IPO (as defined in the shareholders’ agreement) had not occurred by April 8, 2019, each holder of Class C Shares would have been entitled to request that all of such holders’ Class C Shares be, at their election, either: (i) redeemed by the Company at par value together with the issuance of 2,846,000 of IMAX Corporation’s common shares, (ii) redeemed by the Company at par value together with the payment by IMAX Corporation in cash of the consideration paid by the holders of the Class C Shares, or (iii) exchanged and/or redeemed by the Company in a combination of cash and the shares of the Company equal to the pro rata fair market value of the Company. These rights terminated as a result of the IMAX China IPO, which was a qualified initial public offering for purposes of the shareholders’ agreement. All of the Company’s shares have been re-designated into a single class of shares.

The board of directors of the Company previously consisted of nine members, one of whom was appointed by CMC, one of whom was appointed by FountainVest, and one of whom was independent. On 28 May 2015, in connection with IMAX China's submission of an application on Form A1 for the purposes of the IMAX China IPO, and conditional upon completion of such initial public offering, five of the nine members of the board of directors of IMAX China resigned and three new board members were appointed. Two additional independent board members were appointed upon completion of the IMAX China IPO.

The Shareholders' Agreement automatically terminated following completion of the IMAX China IPO.

The following summarises the movement related to the redeemable shares host liability in the Company:

Balance as at 1 January 2015	26,785
Adjusted for:	
Proceeds from Second Closing	40,000
Fair value of conversion option	(12,841)
Transaction costs	(2,000)
Accretion of amortised cost of financial instrument	2,247
Balance as at 30 June 2015	<u><u>54,191</u></u>

The Company identified a conversion option embedded in the Class C share agreement that required bifurcation from its host contract. On issuance of the Class C Shares in April 2014, the Company valued the option at \$12.4 million. On issuance of the additional Class C Shares in February 2015, the Company valued the additional option at \$12.8 million. At 30 June 2015 the Company marked the options to market, increasing the value of the options by a \$77.6 million with a corresponding loss through Fair Value Adjustments in the consolidated statement of comprehensive loss. The option was valued using a Monte Carlo simulation. The loss was a result of an increase in the equity value of the Group, which is the key assumption used in the valuation and is not based on observable inputs. The conversion option expired unexercised as a result of the reorganisation and IPO transactions in the year ended 31 December 2015.

The equity value of the Group was determined using a discounted cash flow with consideration given to implied market multiples to other comparable companies, including IMAX Corporation (the Controlling Shareholder). The key assumptions used in determining the equity value of the Group along with the assumptions as of the relevant reporting periods are listed below:

	30 June 2016 (Unaudited)	30 June 2015 <i>(Audited)</i>
Discount rate	n/a	11%
Terminal Growth rate	n/a	4%
Minority investment and liquidity discount	n/a	20%

There were no significant transfers between Level 1 and Level 2 during the six months ended 30 June 2016 (30 June 2015: none). 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.

5. Revenue and Segmented Information

The Group has five reportable segments identified by category of product sold or service provided: sales arrangements; theatre system maintenance; revenue sharing arrangements; film business; and other. The sales arrangements segment sells or leases IMAX theatre projection system equipment. The theatre system maintenance segment maintains IMAX theatre projection system equipment in the IMAX theatre network. The revenue sharing arrangements segment provides IMAX theatre projection system equipment to an exhibitor in exchange for a share of the box-office. The other segment sells glasses and other miscellaneous items. The film segment absorbs its costs to purchase the film from IMAX Corporation and then recoups this cost from a percentage of the gross box-office receipts of the film, which generally range from 9.5–12.5%. The other segment includes after-market sales and other miscellaneous items.

Management, including the Group's executive directors, assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, trademark and technology fees, interest income, interest expense and tax (provision) recovery are not allocated to the segments.

Inter-segment profits are eliminated upon consolidation, as well as for the disclosures below.

Transactions between the other segments are not significant.

(a) Operating Segments

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Audited)
Revenue		
Theatre Business		
Sales arrangements	16,257	7,932
Theatre system maintenance	5,665	4,435
Revenue sharing arrangements	16,767	15,996
Other	446	376
	39,135	28,739
Film Business	15,926	15,174
Total	55,061	43,913
Gross profit		
Theatre Business		
Sales arrangements	8,589	5,749
Theatre system maintenance	3,301	2,482
Revenue sharing arrangements	10,442	10,574
Other	(119)	123
	22,213	18,928
Film Business	11,729	11,636
Total gross profit	33,942	30,564
Selling, general and administrative expenses	(8,598)	(11,847)
Other operating expenses	(2,980)	(2,453)
Accretion of amortised cost of financial instrument	—	(2,247)
Fair value adjustment of conversion option	—	(77,568)
Interest income	259	239
Interest expense	—	(30)
Profit (loss) before income tax	22,623	(63,342)

The Group's operating assets are located in Greater China. All revenue earned by the Group is generated by the activity of IMAX theatres operating in Greater China.

Sales arrangements included \$0.2 million of contingent rent recognised as income in the six months ended 30 June 2016 (30 June 2015: \$0.2 million). Revenue sharing arrangements included contingent rent recognised as income of \$13.4 million for the six months ended 30 June 2016 (30 June 2015: \$13.1 million).

(b) Significant Customers

Revenue from the Group's significant customers (individually defined as greater than 10% of total revenues) as reported in segments are as follows:

Customer A

Revenues of approximately \$14.3 million in the six months ended 30 June 2016 (30 June 2015: \$14.1 million) are derived from a single external customer. These revenues are attributable to the IMAX systems, theatre system maintenance, joint revenue sharing arrangements, and other segments.

Customer B

Revenues of approximately \$4.0 million in the six months ended 30 June 2016 (30 June 2015: \$14.0 million) are derived from a single external customer. These revenues are attributable to the IMAX systems and theatre system maintenance segments.

Customer C

Revenues of approximately \$12.4 million in the six months ended 30 June 2016 (30 June 2015: \$1.8 million) are derived from a related party. These revenues are attributable to theatre system maintenance, film, and other segments.

No other single customers comprises of more than 10% of total revenues in the six months ended 30 June 2016 or 2015.

6. Expenses by nature

A breakdown of the Group's expenses is provided in the table below:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Audited)
Cost of theatre system sales and finance leases	10,486	4,962
Depreciation, including revenue sharing arrangements and film cost	5,755	5,230
Employee salaries and benefits	3,974	2,740
Theatre maintenance fees	2,364	1,952
Other employee expenses	1,034	395
Advertising and marketing expenses	2,835	1,531
Technology and trademark fees	2,980	2,386
Travel and transportation expenses	614	432
Professional fees	825	181
Foreign exchange and other business (income)/expenses	(510)	606
Operating lease rentals in respect of office buildings	850	327
Share-based compensation expenses	1,090	1,223
Other film costs recoveries	(73)	(58)
Auditors' remuneration		
— Non-audit services	23	3
— Audit services	421	68
Utilities and maintenance expenses	29	165
Listing expenses	—	5,506
Total costs of sales, selling, general and administrative expenses and other operating expenses	32,697	27,649

7. Income tax expense

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Audited)
Current income tax:		
Current tax on profits for the period	(5,615)	(5,169)
Adjustments in respect of prior years	85	—
Total current income tax	(5,530)	(5,169)
Deferred income tax:		
Origination and reversal of temporary differences	649	564
Total deferred income tax	649	564
Income tax expense	(4,881)	(4,605)

Income tax expense for the six months ended 30 June 2016 is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

For the six months ended 30 June 2016, the estimated average annual tax rate used for the year ending 31 December 2016 was 22%. For the six months ended 30 June 2015, the weighted average applicable tax rate was negative 8%. The change is caused by a change in the profitability of the Group's subsidiaries in the respective countries and in particular, a significant increase in the pre-tax loss for the Company due to charges relating to the fair value of the conversion option and accretion which is taxed at 0%.

8. Profit (loss) per share

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Audited)
Profit (loss) for the period	<u>17,742</u>	<u>(67,947)</u>
Weighted average number of common shares (in '000s):		
Issued and outstanding, beginning of period	355,325	270,000
Weighted average number of shares issued during the period	<u>8</u>	<u>—</u>
Weighted average number of shares used in computing basic earnings per share	355,333	270,000
Assumed exercise of stock options, net of shares assumed	<u>6,652</u>	<u>—</u>
Weighted average number of shares used in computing diluted earnings per share	<u>361,985</u>	<u>270,000</u>

9. Property, plant and equipment

	Theatre System Components	Office and Production Equipment	Leasehold Improvements	Construction in Process	Total
As at 1 January 2016 (audited)					
Cost	64,368	970	978	454	66,770
Accumulated depreciation	(13,708)	(400)	(672)	—	(14,780)
Net book amount	<u>50,660</u>	<u>570</u>	<u>306</u>	<u>454</u>	<u>51,990</u>
Six months ended 30 June 2016 (unaudited)					
Opening net book amount	50,660	570	306	454	51,990
Exchange differences	150	(155)	—	5	—
Additions	27	390	681	8,242	9,340
Transfers	4,809	—	399	(5,208)	—
Disposals	(166)	—	—	—	(166)
Depreciation charge	(2,663)	(93)	(186)	—	(2,942)
Closing net book amount	<u>52,817</u>	<u>712</u>	<u>1,200</u>	<u>3,493</u>	<u>58,222</u>
As at 1 January 2015 (audited)					
Cost	51,600	651	565	26	52,842
Accumulated depreciation	(9,195)	(299)	(532)	—	(10,026)
Net book amount	<u>42,405</u>	<u>352</u>	<u>33</u>	<u>26</u>	<u>42,816</u>
Six months ended 30 June 2015 (audited)					
Opening net book amount	42,405	352	33	26	42,816
Exchange differences	1	—	(8)	8	1
Additions	—	57	214	6,707	6,978
Transfers	2,831	—	—	(2,831)	—
Depreciation charge	(2,128)	(50)	(68)	—	(2,246)
Closing net book amount	<u>43,109</u>	<u>359</u>	<u>171</u>	<u>3,910</u>	<u>47,549</u>

10. Trade and other receivables

	As at 30 June 2016 <i>(Unaudited)</i>	As at 31 December 2015 <i>(Audited)</i>
Trade receivables	24,067	18,225
Less: provision for impairment of trade receivables	(49)	(49)
Trade receivables — net	24,018	18,176
Receivables from IMAX Corporation	20,468	14,991
Other accrued receivables	5,068	2,473
	49,554	35,640

The fair value of trade and other receivables approximates the carrying value.

The aging analysis of the trade receivables, including receivables from IMAX Corporation, based on invoice date is as follows:

	As at 30 June 2016 <i>(Unaudited)</i>	As at 31 December 2015 <i>(Audited)</i>
0–30 days	8,873	11,401
31–60 days	2,074	1,080
61–90 days	5,064	2,216
Over 90 days	28,524	18,519
	44,535	33,216

11. Deferred income tax

The gross movement in the deferred income tax asset is as follows:

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Opening balance	1,309	805
Exchange differences	34	7
Income statement recovery	649	497
Closing balance	<u>1,992</u>	<u>1,309</u>

12. Share capital and reserves

(a) Authorised

Common Shares

Prior to Reorganisation on 21 September 2015, the authorised capital of the Company consisted of 6,256,250 common shares with a total par value of US\$62,562.50 as detailed below:

Common A Shares — 4,700,000 voting Common A shares of a par value of US\$0.01
Common B Shares — 300,000 non-voting Common B shares of a par value of US\$0.01
Redeemable Class C Shares — 750,000 voting common C shares of a par value of US\$0.01
Common D Shares — 506,250 voting Common D shares of a par value of US\$0.01

	As at 21 September 2015	As at 31 December 2014
Common A Shares issued	2,700,000	2,700,000
Common B Shares issued	—	—
Redeemable Class C Shares issued	675,000	337,500
Common D Shares issued	—	—
	<u>3,375,000</u>	<u>3,037,500</u>

On 21 September 2015, the following resolutions were passed as written resolutions to redesignate all the issued and unissued Common A Shares, Common B Shares, Redeemable Class C Shares and Common D Shares into one class of shares (“**Share Redesignation**”) with effect from and conditional upon the listing of the Company.

- (a) Variation of class rights by passing a shareholder’s resolution of holders of Common A Shares and a shareholder’s resolution of holders of Redeemable Class C Shares;
- (b) Redesignation of issued and unissued shares into one class of shares by passing a shareholders’ ordinary resolution; and
- (c) Amendment of the Articles to reflect the change in classes of shares by passing a shareholders’ special resolution.

Immediately prior to Listing, the Common A Shares and Redeemable Class C Shares (collectively, the “**Shares**”) held by the existing shareholders, namely IMAX Barbados, FountainVest, CMCCP and CME, were redesignated to the same number of shares (the “**Class**”) in the Company.

Reorganisation – Share Subdivision

Immediately upon completion of the Share Redesignation, the Company underwent a share subdivision (“**Share Subdivision**”) pursuant to which all the Shares were subdivided at a ratio of 1:100, whereby one Share of par value of US\$0.01 was subdivided into 100 Shares of par value of US\$0.0001 each. Upon the completion of the Share Subdivision, the authorised share capital of the Company is US\$62,562.50 divided into 625,625,000 Shares of US\$0.0001 each. The remainder of the financial statements will reflect the Company shares and per share amounts based on the 1:100 Share Subdivision which occurred on 21 September 2015. The following summarizes the movement in the number of shares issued by the Company:

Number of shares as at 1 January 2015	303,750,000
Redeemable Class C Shares issued	<u>33,750,000</u>
Number of shares as at 30 June 2015	337,500,000
Common shares issued upon initial public offering	<u>17,825,000</u>
Number of shares as at 1 January 2016	355,325,000
Exercise of share options	<u>33,900</u>
Number of shares as at 30 June 2016	<u><u>355,358,900</u></u>

The holders of common shares are entitled to receive dividends if, as and when declared by the directors of the Group. 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 period

In February 2015, the Company issued Redeemable Class C Shares. The Class C Shares were subsequently redesignated into common shares as discussed above under Reorganisation.

The Company issued 17,825,000 shares pursuant to the global offering in October 2015.

IMAX Corporation did not issue common shares in the six months ended 30 June 2016. In the year ended 31 December 2015, IMAX Corporation issued 29,251 common shares, pursuant to the exercise of stock options for cash proceeds of \$0.5 million.

The Company issued 33,900 common shares in the six months ended 30 June 2016 (30 June 2015: nil) pursuant to the exercise of stock options for cash proceeds of less than \$0.1 million (30 June 2015: \$nil).

(c) Share-based payments

IMAX Corporation issued share-based compensation to eligible Group employees under IMAX Corporation's 2013 Long-Term Incentive Plan and the China Long-Term Incentive Plan, as described below.

On 11 June 2013, IMAX Corporation's shareholders approved the IMAX 2013 Long-Term Incentive Plan ("**IMAX LTIP**") at IMAX Corporation's Annual and Special Meeting. Awards to employees under the IMAX LTIP may consist of stock options, restricted share units ("**RSUs**") and other awards.

IMAX Corporation's Stock Option Plan ("**SOP**") which shareholders approved in June 2008, permitted the grant of stock options to employees. As a result of the implementation of the IMAX LTIP on 11 June 2013, stock options will no longer be granted under the SOP.

A separate China Long-Term Incentive Plan (the "**China LTIP**") was adopted by the Group in October 2012. Each stock option issued prior to the IPO ("**China IPO Option**"), stock options issued after the IPO ("**China Option**"), RSU ("**China 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 the Company.

The compensation costs recorded in the condensed consolidated interim statement of comprehensive income for these plans were \$1.1 million in the six months ended 30 June 2016 (30 June 2015: \$1.2 million). An income tax benefit is recorded in the condensed consolidated interim statement of comprehensive income (loss) for these costs of \$0.2 million for the six months ended 30 June 2016 (30 June 2015: \$0.3 million).

The Group utilises a lattice-binomial option-pricing model (“**Binomial Model**”) to determine the fair value of share-based payment awards. The fair value determined by the Binomial Model is affected by IMAX Corporation’s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, IMAX Corporation’s expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviours. 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 IMAX Corporation’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 provides the best measure of the fair value of IMAX Corporation’s employee stock options.

All awards of stock options under the IMAX LTIP and SOP are made at fair market value of IMAX Corporation’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 IMAX Corporation’s Board of Directors (the “**Fair Market Value**”). The stock options vest within 5 years and expire 7 years or less from the date granted. The SOP and IMAX LTIP provide that vesting will be accelerated if there is a change of control, as defined in each plan and upon certain conditions.

The Group recorded an expense of \$0.1 million in the six months ended 30 June 2016 (30 June 2015: \$0.1 million) related to stock option grants issued to IMAX China employees in the IMAX LTIP and SOP plans. Total share-based compensation expense related to non-vested IMAX China employee stock options not yet recognised and the weighted average period over which the awards are expected to be recognised at 30 June 2016 is \$0.1 million and 2.9 years.

The weighted average fair value of all stock options, granted to IMAX China employees in the six months ended 30 June 2016 at the measurement date was \$8.57 per share (30 June 2015: \$7.14 per share). The following assumptions were used to estimate the average fair value of the stock options:

	Six months ended 30 June	
	2016 <i>(Unaudited)</i>	2015 <i>(Audited)</i>
Average risk-free interest rate	1.72%	1.90%
Expected option life (in years)	4.88	4.51
Expected volatility	30%	30%
Dividend yield	0%	0%

SOP and IMAX LTIP Summary

The following table summarizes certain information in respect of option activity related to employees of the Group, in IMAX Corporation options issued under the SOP and IMAX LTIP:

For the six months ended 30 June

	Number of Shares		Weighted Average Exercise Price Per Share	
	2016 <i>(Unaudited)</i>	2015 <i>(Audited)</i>	2016 <i>(Unaudited)</i>	2015 <i>(Audited)</i>
Options outstanding, beginning of period	57,645	246,022	29.93	24.03
Granted	4,376	1,904	31.85	33.80
Transferred in	7,877	25,416	32.01	28.03
Exercised	—	(29,251)	—	18.58
Options outstanding, end of period	69,898	244,091	30.28	25.17
Options exercisable, end of period	52,557	31,533	30.26	30.01

No stock options were surrendered or cancelled by Group employees in the six months ended 30 June 2016 (30 June 2015: none).

As at 30 June 2016, 67,425 options were fully vested or are expected to vest with a weighted average exercise price of \$30.25, aggregate intrinsic value of \$0.1 million and weighted average remaining contractual life of 2.7 years. As at 30 June 2016, options that are exercisable have an intrinsic value of \$0.1 million and a weighted average remaining contractual life of 2.0 years. The intrinsic value of options exercised in the six months ended 30 June 2016 was \$nil (30 June 2015: \$0.6 million).

China IPO Options Summary

The China IPO Options issued under China LTIP vest and become exercisable only upon specified events, including upon the likely event of a qualified initial public offering or upon a change in control on or prior to the fifth anniversary of the grant date. If such a specified event is likely to occur, the China IPO Options vest over a 5 year period beginning on the date of grant. In addition to China IPO Options, the Group has granted options to certain employees that operate in tandem with options granted under the IMAX Corporation’s SOP and IMAX LTIP (“**Tandem Options**”). The Group would recognise the Tandem Options expense over a 5 year period if it is determined that a qualified initial public offering is unlikely. Upon vesting of the China IPO Options, the Tandem Options would not vest and be forfeited.

During the six months ended 30 June 2015, 1,113,700 China IPO Options were granted to certain employees in accordance with the China LTIP. No China IPO Options were granted after 2015. Both the China IPO Options and Tandem Options have a maximum contractual life of 7 years.

As at 30 June 2016, 8,943,600 China IPO Options were fully vested or are expected to vest with a weighted average exercise price of \$1.41 per share and a weighted average remaining contractual life of 4.0 years. As at 30 June 2016, 3,876,010 China IPO Options were exercisable (31 December 2015: nil).

The Group did not record any expense related to Tandem Options issued under the China LTIP, since it was likely that a qualified initial public offering would occur. The Tandem Options were forfeited on 8 October 2015, as an initial public offering occurred. An expense has been recorded for China IPO Options as discussed in the section below.

The weighted average fair value of China IPO Options granted in the six months ended 30 June 2015 at the measurement date was \$0.43 per share. The assumptions used in the fair value calculation are the same as the assumptions used for stock options under IMAX LTIP and SOP.

As at 30 June 2016, there were 8,943,600 (31 December 2015: 8,977,500) of outstanding China IPO Options. The following table summarizes certain information in respect of China IPO Option activity in the Group:

Equity-settled China Options

For the six months ended 30 June

	Number of Shares		Weighted Average Exercise Price Per Share	
	2016 (Unaudited)	2015 (Audited)	2016 (Unaudited)	2015 (Audited)
Options outstanding, beginning of period	8,977,500	7,863,800	1.41	1.42
Granted	—	1,113,700	—	1.33
Exercised	(33,900)	—	1.36	—
Options outstanding, end of period	<u>8,943,600</u>	<u>8,977,500</u>	<u>1.41</u>	<u>1.41</u>
Options exercisable, end of period	<u>3,876,010</u>	<u>—</u>	<u>1.41</u>	<u>—</u>

In the six months ended 30 June 2016, the Group recorded an expense of \$0.3 million (30 June 2015: \$0.6 million) related to equity-settled China IPO Options issued under the China LTIP.

China Options Summary

During the six months ended 30 June 2016, 139,579 (30 June 2015: nil) China Options were granted to certain employees in accordance with the China LTIP. The China Options vest between a three and four year period beginning on the date of grant. The China Options have a maximum contractual life of 7 years.

As at 30 June 2016, 139,579 China Options were fully vested or are expected to vest with a weighted average exercise price of \$5.84 per share and a weighted average remaining contractual life of 6.7 years. As at 30 June 2016, no China Options were exercisable (31 December 2015: nil).

The weighted average fair value of China Options granted in the six months ended 30 June 2016 at the measurement date was \$1.52 per share. The following assumptions were used to estimate the average fair value of the options:

	Six months ended 30 June	
	2016 <i>(Unaudited)</i>	2015 <i>(Audited)</i>
Average risk-free interest rate	1.13%	n/a
Expected option life (in years)	4.27	n/a
Expected volatility	30%	n/a
Dividend yield	0%	n/a

As at 30 June 2016, there were 139,579 (31 December 2015: nil) of outstanding China Options. The following table summarizes certain information in respect of China Option activity in the Group:

For the six months ended 30 June

	Number of Shares		Weighted Average Exercise Price Per Share	
	2016 <i>(Unaudited)</i>	2015 <i>(Audited)</i>	2016 <i>(Unaudited)</i>	2015 <i>(Audited)</i>
Options outstanding, beginning of period	—	—	—	—
Granted	<u>139,579</u>	<u>—</u>	<u>5.84</u>	<u>—</u>
Options outstanding, end of period	<u>139,579</u>	<u>—</u>	<u>5.84</u>	<u>—</u>
Options exercisable, end of period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

In the six months ended 30 June 2016, the Group recorded an expense of less than \$0.1 million (30 June 2015: \$nil) related to China Options issued under the China LTIP.

Cash Settled China Awards

In 2012, certain employees of the Group were given CSSBP which are tied to the appreciation in the value of the Group. The CSSBP represent the right to receive cash payments in an amount equal to 0.3% of the excess of the total equity value of the Group based on the per share price in the Qualified IPO or Change in Control over the strike price of the CSSBP. The CSSBP were issued in conjunction with the China LTIP, with similar terms and conditions as the China IPO Options. In the six months ended 30 June 2016, the Group recorded an expense of \$0.1 million (30 June 2015: \$0.5 million) related to the CSSBP.

The carrying amount of the liability relating to the CSSBP transactions as of 30 June 2016 is \$1.0 million (31 December 2015: \$0.8 million). No CSSBP have been vested or settled during the six months ended 30 June 2016. During 2015 and subject to completion of the IPO, a portion of the CSSBP awards vested and were settled in cash for \$1.0 million.

Restricted Share Units

RSUs have been granted to employees of the Group under the IMAX LTIP. Each RSU represents a contingent right to receive one common share of IMAX Corporation and is the economic equivalent of one common share of IMAX Corporation. RSUs were not issued before 2013. The grant date fair value of each RSU is equal to the share price of IMAX Corporation's stock at the grant date. The Group recorded an expense of \$0.1 million for the six months ended 30 June 2016 (30 June 2015: less than \$0.1 million) related to RSU grants issued to employees in the plan. The annual termination probability assumed for the six months ended 30 June 2016 was 8.08% (30 June 2015: 8.07%).

Total share-based compensation expense related to non-vested RSU's not yet recognised at 30 June 2016 and the weighted average period over which the awards are expected to be recognised is \$0.3 million and 2.6 years. No actual tax benefits have been realised for tax deductions related to the vesting of RSUs for the six months ended 30 June 2016 (30 June 2015: none).

RSUs granted under the IMAX LTIP vest between one and four years. Vesting of the RSUs is subject to continued employment or service with the Group or IMAX Corporation.

RSU Summary

The following table summarizes certain information in respect of RSU activity under the IMAX LTIP:

For the six months ended 30 June

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2016	2015	2016	2015
	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
RSUs outstanding, beginning of period	11,823	4,909	31.48	27.26
Granted	3,533	2,828	31.85	33.80
Transferred in	9,045	2,572	34.64	27.16
Vested and settled	(2,863)	(1,183)	28.43	27.09
	<u>21,538</u>	<u>9,126</u>	<u>33.28</u>	<u>29.28</u>
RSUs outstanding, end of period	<u>21,538</u>	<u>9,126</u>	<u>33.28</u>	<u>29.28</u>

China RSUs

China RSUs have been granted to employees of the Group under the IMAX China LTIP. Each China RSU represents a contingent right to receive one common share of IMAX China and its economic equivalent of one common share of IMAX China Holding, Inc. China RSUs were not issued before 2015. The grant date fair value of each China RSU is equal to the share price of the Company's stock at the grant date. The Group recorded an expense of \$0.4 million for the six months ended 30 June 2016 (30 June 2015: \$nil) related to China RSU grants issued to employees in the plan. The annual termination probability assumed for the six months ended 30 June 2016 was 0% (30 June 2015: nil).

Total share-based compensation expense related to non-vested RSUs not yet recognized at 30 June 2016 and the weighted average period over which the awards are expected to be recognized is \$1.0 million and 3.2 years. No actual tax benefits have been realised for tax deductions related to the vesting of RSUs for the six months ended 30 June 2016 (30 June 2015: none).

RSUs granted under the China LTIP vest between immediately and four years. Vesting of the RSUs is subject to continued employment or service with the Group or IMAX Corporation.

China RSU Summary

The following table summarizes certain information in respect of China RSU activity under the China LTIP:

For the six months ended 30 June

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2016 (Unaudited)	2015 (Audited)	2016 (Unaudited)	2015 (Audited)
RSUs outstanding, beginning of period	—	—	—	—
Granted	239,821	—	5.65	—
Vested and settled	(58,254)	—	5.16	—
Forfeited	(514)	—	5.81	—
	<u>181,053</u>	<u>—</u>	<u>5.81</u>	<u>—</u>
RSUs outstanding, end of period	<u>181,053</u>	<u>—</u>	<u>5.81</u>	<u>—</u>

(d) Reserves

Share premium

The application of the share premium account is governed by Section 34(2) of the Companies Law (2013 Revision) of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

Capital reserve

The Group's capital reserve represents the net contributions from the Controlling Shareholder and share-based payments expenses.

13. Trade and other payables

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Trade payables	1,537	1,272
Amounts due to IMAX Corporation	26,866	10,900
	28,403	12,172

The aging analysis of trade and other payables is as follows:

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
0–30 days	17,181	1,858
31–60 days	182	4,023
61–90 days	762	622
Over 90 days	10,278	5,669
	28,403	12,172

As at 30 June 2016 and 31 December 2015, the carrying amounts of trade and other payables approximated their fair values due to short maturity. Trade and other payables over 90 days primarily consist of amounts due to IMAX Corporation.

14. Deferred revenue

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Theatre system deposits	42,320	38,482
Maintenance prepayments	3,748	3,235
Other deferred revenue	182	182
	<u>46,250</u>	<u>41,899</u>
Deferred revenue, current	29,247	12,762
Deferred revenue, non-current	17,003	29,137
	<u>46,250</u>	<u>41,899</u>

15. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Controlling Shareholder of the Company is IMAX Corporation (incorporated in Canada) which holds 68.5% of the Company's shares.

The following continuing transactions were carried out with related parties:

(a) Purchases and sales of goods and services

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Audited)
Purchase of goods:		
IMAX Corporation (theatres systems)	19,872	13,508
Purchase of services:		
IMAX Corporation (film related transactions)	2,885	2,965
IMAX Corporation (management fees — legal and administration services)	248	250
Other transactions:		
IMAX Corporation (Reimbursement of compensation of Company employees paid by IMAX Corporation)	1,118	1,586
IMAX Corporation (trademark and technology fees)	2,980	2,309
Revenue earned from film services through IMAX Corporation	11,562	13,987
Revenue earned from maintenance services provided to IMAX Corporation	182	56

Goods are bought from IMAX Corporation (the Controlling Shareholder) on a cost-plus basis. Management services, trademark and technology fees are bought from IMAX Corporation (the Controlling Shareholder) based on service and fee agreements. Management fees related to legal and administrative services provided by IMAX Corporation to the Group have been charged in the amount of \$0.5 million per year.

(b) Period/Year-end balances arising from sales/purchases of goods/services

	As at	As at
	30 June	31 December
	2016	2015
	(Unaudited)	(Audited)
Receivables from related parties:		
IMAX Corporation	20,468	14,991
Payables to related parties:		
IMAX Corporation	26,866	10,900

The receivables and payables from related parties arise mainly from purchase, sale, service and fee transactions and do not bear interest nor have fixed repayment terms and are due on demand.

(c) Other related party transactions

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Investment in IMAX (Hong Kong) Holding, Limited	4,000	4,000

The promissory note payable to IMAX Corporation arose from the legal transfer of contracts and is unsecured, interest free and has no fixed terms of repayment, and was fully repaid in 2014.

The Group has a preferred share investment in IMAX (Hong Kong) Holding, Limited, an entity owned by one of the Controlling Shareholder's subsidiaries, which holds an investment in a joint venture and is accounted for as available-for-sale investment at cost. The Group legally transferred a note receivable as consideration for the preferred share investment. The agreement's key terms, which will be fully defined in a subsequent agreement, currently provide the Group with right to dividends and other distributions, redemption rights should IMAX Corporation sell all or part of its interest in the investment and the right to nominate one representative to the Board of Directors.

(d) Key management compensation

Key management includes members of the executive committee. The compensation paid or payable to key management for employee services is shown below:

	Six months ended 30 June 2016 (Unaudited)	2015 (Audited)
Salaries and other short-term employee benefits	1,902	1,943
Post-employment benefits	9	18
Other benefits ¹	651	530
Share-based payments	673	990
	3,235	3,481

1 Includes perquisites such as educational reimbursements of minor children, housing, car, and relocation allowances.

RELATED PARTY TRANSACTIONS

For details of the related party transactions, see note 15 to the Interim Financial Information. Our directors confirm that all related party transactions are conducted on normal commercial terms, and their terms are fair and reasonable.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The management discussion and analysis is based on the Company's condensed consolidated interim financial information for 1H FY2016 prepared in accordance with International Accounting Standard 34 and must be read together with the condensed consolidated interim financial information and the notes which form an integral part of the condensed consolidated interim financial information.

DESCRIPTION OF SELECTED LINE ITEMS IN THE CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME ITEMS

Revenue

We derive a majority of our revenue from our two principal business segments — the theatre business and the films business.

Theatre business

Our theatre business segment contains three sub-segments which are based on our business arrangements:

- sales arrangements, which are comprised of the design, procurement and provision of IMAX theatre systems to exhibitors in exchange for upfront fees;
- revenue sharing arrangements, which are comprised of the provision of IMAX theatre systems to exhibitors in exchange for a certain percentage of box office receipts and a relatively small upfront payment; and
- theatre system maintenance, which is comprised of the maintenance of IMAX theatre systems in the IMAX theatre network.

We also derive an immaterial amount of other revenue from the aftermarket sales of 3D glasses, screen sheets and other items.

Films business

Our films business consists of the conversion of Hollywood and Chinese language films to the IMAX format and the release of such films to the IMAX theatre network.

The following table sets forth the breakdown of revenue by business segments:

	1H FY2016		1H FY2015	
	US\$'000	%	US\$'000	%
Theatre Business				
Sales	16,257	29.5%	7,932	18.1%
Revenue Sharing Arrangements	16,767	30.5%	15,996	36.4%
Theatre System Maintenance	5,665	10.3%	4,435	10.1%
Sub-total⁽¹⁾	39,135	71.1%	28,739	65.4%
Films Business	15,926	28.9%	15,174	34.6%
Total	55,061	100.0%	43,913	100.0%

Note:

- (1) Theatre business also includes other revenue of US\$0.4 million and US\$0.4 million in 1H FY2016 and 1H FY2015, respectively.

Cost of Sales

Our cost of sales primarily is comprised of IMAX theatre systems under sales arrangements and hybrid revenue sharing arrangements, depreciation for full revenue sharing arrangements and certain one-time costs at system installation such as commissions and marketing costs for IMAX theatre launches.

The following table sets out the cost of sales for our business segments for the periods indicated as well as the percentage of revenue they represent:

	1H FY2016		1H FY2015	
	US\$'000	%	US\$'000	%
Theatre Business				
Sales	7,668	47.2%	2,183	27.5%
Revenue Sharing Arrangements	6,325	37.7%	5,422	33.9%
Theatre System Maintenance	2,364	41.7%	1,953	44.0%
Sub-total⁽¹⁾	16,922	43.2%	9,811	34.1%
Films Business	4,197	26.4%	3,538	23.3%
Total	21,119	38.4%	13,349	30.4%

Note:

- (1) Theatre business also includes cost of sales in respect of other revenue of US\$0.5 million and US\$0.3 million in 1H FY2016 and 1H FY2015, respectively.

Gross Profit and Gross Profit Margin

The following table sets out the gross profit and gross profit margin for our business segments for the periods indicated:

	1H FY2016		1H FY2015	
	US\$'000	%	US\$'000	%
Theatre Business				
Sales	8,589	52.8%	5,749	72.5%
Revenue Sharing Arrangements	10,442	62.3%	10,574	66.1%
Theatre System Maintenance	3,301	58.3%	2,482	56.0%
Sub-total⁽¹⁾	22,213	56.8%	18,928	65.9%
Films Business	11,729	73.6%	11,636	76.7%
Total	33,942	61.6%	30,564	69.6%

Note:

- (1) Theatre business also includes gross profit in respect of other revenue of (0.1) million and US\$0.1 million, in 1H FY2016 and 1H FY2015, respectively.

Selling, General and Administrative Expenses

The following table sets out the selling, general and administration expenses we incurred as well as the percentage of revenue they represent for the periods indicated:

	1H FY2016		1H FY2015	
	US\$'000	%	US\$'000	%
Employee salaries and benefits	3,165	5.7%	2,740	6.2%
Share based compensation expenses	1,090	2.0%	1,223	2.8%
Travel and transportation	614	1.1%	432	1.0%
Advertising and marketing	749	1.4%	454	1.0%
Professional fees	1,269	2.3%	252	0.6%
Other employee expenses	157	0.3%	89	0.2%
Facilities	879	1.6%	492	1.1%
Depreciation	279	0.5%	58	0.1%
Foreign exchange and other expenses	396	0.7%	601	1.4%
IPO related costs	—	—	5,506	12.6%
Total	8,598	15.6%	11,847	27.0%

Other Operating Expenses

Other expenses primarily include the annual license fees payable to IMAX Corporation in relation to the trademark and technology licensed under the Technology License Agreements and the Trademark License Agreements, charged at an aggregate of 5% of our revenue. Our other operating expenses for 1H FY2016 and 1H FY2015 were US\$3.0 million and US\$2.5 million, respectively.

Interest Income and Expense

Interest income represents interest earned on various term deposits we hold. None of the term deposits had a term of more than 90 days. Our interest income for 1H FY2016 and 1H FY2015 was US\$0.3 million and US\$0.2 million, respectively.

Fair Value Adjustment

On April 8, 2014, the Company announced an investment into the Company (the “**IMAX China Investment**”) by CMC Capital Partners (“**CMC**”) and FountainVest Partners (“**FountainVest**”). The IMAX China Investment provided for the sale and issuance of 20% of the shares of the Company (the “**Redeemable Class C Shares**”) to entities owned by CMC and FountainVest in equal tranches of US\$40.0 million on 8 April 2014 and 10 February 2015.

The shareholders’ agreement in connection with the IMAX China Investment (the “**Class C Shareholders’ Agreement**”) terminated upon completion of the Company’s Global Offering on the Listing Date. However, while the Class C Shareholders’ Agreement was in effect, certain conversion options (the “**Conversion Options**”) were embedded within the Class C Shareholders’ Agreement that required bifurcation, separate valuation and marked to market value when the shares were issued on the above dates as well as at FY2014 and the Listing Date. The Conversion Options were marked to market using a Monte Carlo simulation.

The Conversion Options were valued at US\$12.4 million and US\$12.8 million on issuance of the Redeemable Class C Shares in April 2014 and February 2015 respectively. As at 30 June 2015, we had marked the options to market and recorded a US\$77.6 million non-cash charge through fair value adjustment. The loss was the result of an increase in the equity value of the Company which was the key assumption used in the valuation and was not based on observable inputs. The equity of the Group was determined using a discounted cash flow with consideration given to other comparable companies, including IMAX Corporation. On the Listing Date and corresponding termination of the Class C Shareholders Agreement, these non-cash charges were reversed to Equity Share Premium due to termination of the Class C Shareholders Agreement.

Accretion of amortised cost of financial instrument

Transaction costs of US\$2.8 million related to the Redeemable Class C Shares sold to CMC and FountainVest and the fair value of the conversion option of US\$12.4 million at inception and US\$12.8 million at February 2015 were netted against the US\$80.0 million proceeds and were amortised using the effective interest rate method over a 5 year period representing the period of time provided under the Class C Shareholders' Agreement for a qualified initial public offering to occur. They accreted to the carrying value of the Redeemable Class C share value. The charge amounted US\$2.2 million in 1HFY2015. On the Listing Date these non-cash charges were reversed to Equity Share Premium due to termination of the Class C Shareholders Agreement.

Income Tax Expenses

We are subject to PRC and Hong Kong income tax. We are also subject to withholding taxes in Taiwan. The enterprise income tax ("EIT") rate generally levied in the PRC and Hong Kong is 25% and 16.5%, respectively. Our effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of numerous permanent differences, subsidies, investment and other tax credits, the provision for income taxes at different rates in different jurisdictions, the application of Hong Kong's territorial tax system, enacted statutory tax rate increases or reductions in the year and changes due to our recoverability assessments of deferred tax assets.

Our income tax expense for 1HFY2016 and 1HFY2015 was US\$4.9 million and US\$4.6 million, respectively. Our effective tax rate was 21.6% and (7.3)% during 1HFY2016 and 1HFY2015, respectively. In 1HFY2015, we recorded a loss before income tax of US\$63.3 million, which was the result of a fair value adjustment of the bifurcated conversion option amounting to US\$77.6 million associated with our Redeemable Class C Shares. Such adjustments were made to reflect the market to market revaluation of the bifurcated conversion option to US\$103.4 million as at 30 June 2015 due to an increase in our equity value, which did not impact our taxable income for the period. Without taking into account such one-time, non-cash and non-deductible adjustments, our effective tax rate for 1HFY2015 would have been 21.0%.

IMAX Shanghai Multimedia has made certain enquiries of the Chinese State Administration of Taxation regarding the potential deductibility of the IMAX China IPO expenses and certain share-based compensation for stock options issued by the Company. 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. To date, no tax assets have been recorded against these amounts given the significant uncertainty of its deductibility and the possible 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 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.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

The following table sets out items in our condensed consolidated interim statements of comprehensive income (loss) and as a percentage of revenue for the periods indicated:

	1H FY2016		1H FY2015	
	US\$'000	%	US\$'000	%
Revenues	55,061	100.0%	43,913	100.0%
Cost of sales	(21,119)	(38.4)%	(13,349)	(30.4)%
Gross profit	33,942	61.6%	30,564	69.6%
Selling, general and administrative expenses	(8,598)	(15.6)%	(11,847)	(27.0)%
Other operating expenses	(2,980)	(5.4)%	(2,453)	(5.6)%
Operating profit	22,364	40.6%	16,264	37.0%
Accretion of amortised cost of financial instrument	—	—	(2,247)	(5.1)%
Fair value adjustment of conversion option	—	—	(77,568)	(176.6)%
Interest income	259	0.5%	239	0.5%
Interest expense	—	—	(30)	(0.1)%
Profit (loss) before income tax	22,623	41.1%	(63,342)	(144.2)%
Income tax expense	(4,881)	(8.9)%	(4,605)	(10.5)%
Profit (loss) for the period attributable to owners of the Company	17,742	32.2%	(67,947)	(154.7)%
Other comprehensive loss:				
Change in foreign currency translation adjustments	(1,397)	(2.5)%	(132)	(0.3)%
Other comprehensive loss for the period	(1,397)	(2.5)%	(132)	(0.3)%
Total comprehensive income (loss) for the period attributable to owners of the Company	16,345	29.7%	(68,079)	(155.0)%

Adjusted Profit

Adjusted profit is not a measure of performance under IFRS. This measure does not represent and should not be used as a substitute for, gross profit or profit for the year as determined in accordance with IFRS. This measure is not necessarily an indication of whether cash flow will be sufficient to fund our cash requirements or whether our business will be profitable. In addition, our definition of adjusted profit may not be comparable to other similarly titled measures used by other companies.

The following table sets out our adjusted profits for the periods indicated:

	1HFY2016 <i>US\$'000</i>	1HFY2015 <i>US\$'000</i>
Profit (loss) for the period	17,742	(67,947)
Adjustments:		
Share-based compensation	1,090	1,223
Accretion of amortised cost of financial instrument	—	2,247
Fair value adjustment of conversion option	—	77,568
IPO related costs	—	5,506
Tax impact on items listed above	(240)	(269)
Adjusted profit	18,592	18,328

1HFY2016 COMPARED WITH 1HFY2015

Revenue

Our revenue increased 25.4% from US\$43.9 million in 1HFY2015 to US\$55.1 million in 1HFY2016 driven by an increase of US\$10.4 million in our theatre business revenue and an US\$0.8 million increase in a films business revenue explained below.

Theatre Business

Revenue from our theatre business increased 36.2% from US\$28.7 million in 1HFY2015 to US\$39.1 million in 1HFY2016.

The following table provides a breakdown of IMAX theatres in operation in Greater China by type and geographic location as at the dates indicated:

Commercial	As at 30 June		Growth (%)
	2016	2015	
The PRC	306	221	38.5%
Hong Kong	4	4	—
Taiwan	8	8	—
	318	233	36.5%
Institutional⁽¹⁾	17	18	(5.6)%
Total	335	251	33.5%

Note:

- (1) Institutional IMAX theatres include museums, zoos, aquaria and other destination entertainment sites that do not exhibit commercial films. One institutional IMAX theatre located in Taiwan was closed in 2HFY2015.

The following table sets out the number of IMAX theatre systems installed by business arrangements in 1HFY2016 and 1HFY2015:

	1HFY2016	1HFY2015
Sales arrangements	9	5
Revenue sharing arrangements	19	13
Laser upgrades	2	—
Total theatre systems installed	30	18⁽¹⁾

Note:

- (1) We installed 18 new IMAX theatre systems in 1H2015 and closed one IMAX theatre under sales arrangements in the same period.

Sales arrangements

Theatre business revenue from sales arrangements increased 105.0% from US\$7.9 million in 1HFY2015 to US\$16.3 million in 1HFY2016, resulting primarily from the recognition in 1HFY2016 of 6 additional system sales including 2 laser upgrades. We recognised sales revenue on 5 new theatre systems in 1HFY2015 with a total value of US\$6.7 million, compared to 9 new theatre systems in 1HFY2016 with a total value of US\$11.9 million. In addition, in 1HFY2016 we installed 2 laser upgrades at a total value of US\$2.9 million. There were no upgrades in 1HFY2015.

Average revenue per new system under sales arrangements was unchanged in 1HFY2016 and 1HFY2015 at US\$1.3 million.

Revenue sharing arrangements

Revenue from revenue sharing arrangements increased 4.8% from US\$16.0 million in 1HFY2015 to US\$16.8 million in 1HFY2016, primarily due to a greater number of IMAX theatres operating under revenue sharing arrangements in 1HFY2016 compared to 1HFY2015. We had 140 theatres operating under revenue sharing arrangements at the end of 1HFY2015, as compared to 196 at the end of 1HFY2016, which represented an increase of 40.0%.

Revenue from full revenue sharing arrangements was relatively flat from US\$11.7 million in 1HFY2015 to US\$11.5 million in 1HFY2016 as a result of lower box office revenue per screen offset by growth in the full revenue sharing network. In 1HFY2016, we had 143 IMAX theatres in operation, an increase of 31.2% from the 109 IMAX theatres in operation in 1HFY2015.

Revenue from hybrid revenue sharing arrangements increased 23.4% from US\$4.3 million in 1HFY2015 to US\$5.3 million in 1HFY2016 primarily driven by one incremental hybrid revenue sharing installation in 1HFY2016 and the percentage of box office revenue recognised on a larger IMAX theatre network in 1HFY2016, which increased 71.0% from 31 IMAX theatres in 1HFY2015 to 53 IMAX theatres in 1HFY2016.

Theatre system maintenance

Theatre system maintenance revenue increased 27.7% from US\$4.4 million in 1H FY2015 to US\$5.7 million in 1H FY2016. Maintenance revenue increased in 1H FY2016 commensurate with the increase in the number of theatres in the IMAX theatre network.

Films Business

Revenue from our films business increased 5.0% from US\$15.2 million in 1H FY2015 to US\$15.9 million in 1H FY2016 primarily due to an increase in box office revenue. The box office revenue generated by IMAX format films increased 3.1% from US\$175.1 million in 1H FY2015 to US\$180.5 million in 1H FY2016 as a result of continued growth of the IMAX theatre network offset by lower box office revenue per screen in 1H FY2016.

Box office revenue per screen decreased 24.2% from US\$0.8 million for 1H FY2015 to US\$0.6 million in 1H FY2016 as a result of the strong performance of the Company's film slate in 1H FY2015, which included the top grossing Hollywood film of all time in China, *Furious 7*, along with *Avengers Age of Ultron* and *Jurrassic World*. The depreciation of the RMB relative to the USD also impacted recorded box office in 1H FY2016 versus 1H FY2015. In 1H FY2016 and 1H FY2015, we generated our box office revenue from the exhibition of 19 IMAX format films.

The following table sets out the number of films we released in the IMAX format in 1H FY2016 and 1H FY2015 in Greater China:

	1H FY2016	1H FY2015
Hollywood films	13	14
Hollywood films (Hong Kong and Taiwan only)	4	3
Chinese language films	2	2
Total IMAX films released	19	19

Cost of Sales

Our cost of sales increased 58.2% from US\$13.3 million in 1H FY2015 to US\$21.1 million in 1H FY2016. This increase was primarily due to the increase in costs for both our theatre and films business segments as a result of more installations and increased business activity due to a larger network.

Theatre Business

The cost of sales for our theatre business increased 72.5% from US\$9.8 million in 1H FY2015 to US\$16.9 million in 1H FY2016, primarily due to the installation of a total of 12 additional IMAX theatre systems under sales arrangements and revenue sharing arrangements and the maintenance associated with the growth in the IMAX theatre network.

Sales arrangements

Cost of sales from our theatre business under sales arrangements increased 251.3% from US\$2.2 million in 1HFY2015 to US\$7.7 million in 1HFY2016, primarily due to the installation of 5 IMAX theatre systems under sales arrangements in 1HFY2015 as compared to 11 in 1HFY2016 which included two laser upgrades at a higher cost as compared to our standard projection system.

Revenue sharing arrangements

Cost of sales from our theatre business under revenue sharing arrangements increased 16.7% from US\$5.4 million in 1HFY2015 to US\$6.3 million in 1HFY2016 primarily due to the cost associated with the installation of an incremental hybrid revenue sharing arrangement in 1HFY2016 as compared to 1HFY2015, the one time upfront costs related to the installation of 5 incremental full revenue share agreements as well as an increase in depreciation and IMAX theatre marketing expenses associated with an increase in the number of IMAX theatres under full revenue sharing arrangements.

Cost of sales from full revenue sharing arrangements increased 14.2% from US\$2.9 million in 1HFY2015 to US\$3.3 million in 1HFY2016, primarily due to higher depreciation expenses from a greater number of IMAX theatres under full revenue sharing arrangements and higher associated marketing costs.

Cost of sales from hybrid revenue sharing arrangements increased 19.5% from US\$2.5 million in 1HFY2015 to US\$3.0 million in 1HFY2016, primarily due to the costs recognised on 6 theatre system installations under hybrid revenue sharing arrangements in 1HFY2015 as compared to 7 in 1HFY2016.

Theatre system maintenance

Cost of sales from our theatre business with respect to theatre system maintenance increased 21.0% from US\$2.0 million in 1HFY2015 to US\$2.4 million in 1HFY2016 commensurate with the additional costs associated with servicing a larger IMAX theatre network in 1HFY2016 versus 1HFY2015.

Films Business

The cost of sales for our films business increased 18.6% from US\$3.5 million to US\$4.2 million due to increased marketing costs for films shown during 1HFY2016 as compared to 1HFY2015.

Gross Profit and Gross Profit Margin

Our gross profit in 1HFY2015 was US\$30.6 million, or 69.6% of total revenue, compared to US\$33.9 million, or 61.6% of total revenue, in 1HFY2016. The decrease was largely attributable to lower box office revenue per screen in 1HFY2016 as compared to 1HFY2015, 2 higher-cost

laser projector installations, 1 additional hybrid revenue sharing installation and additional film marketing costs in 1HFY2016.

Theatre Business

The gross profit for our theatres business increased 17.4% from US\$18.9 million in 1HFY2015 to US\$22.2 million in 1HFY2016. During the same period, our gross profit margin decreased from 65.9% to 56.8%. The decrease in gross profit margin was primarily driven by the installation of 2 laser upgrades and 1 additional hybrid revenue sharing arrangement in 1HFY2016 coupled with lower box office revenue per screen for revenue sharing arrangements and higher depreciation costs associated with a larger network of full revenue sharing theatres.

Sales arrangements

The gross profit for our theatre business from sales of new IMAX theatre systems increased 49.4% from US\$5.7 million in 1HFY2015 to US\$8.6 million in 1HFY2016 primarily due to our installation of 6 additional IMAX theatre systems under sales arrangements including two laser upgrades in 1HFY2016 as compared to 1HFY2015. Our gross profit margin decreased from 72.5% in 1HFY2015 to 52.8% in 1HFY2016 due to the installation of 2 higher cost laser projector upgrades.

Revenue sharing arrangements

The gross profit for our theatre business from revenue sharing arrangements decreased 1.2% from US\$10.6 million in 1HFY2015 to US\$10.4 million in 1HFY2016. Our gross profit margin was 66.1% in 1HFY2015 as compared to 62.3% in 1HFY2016. The flat gross profit and decrease in gross profit margin were primarily driven by the incremental costs associated with continued growth in the IMAX theatre network under revenue sharing arrangements coupled by lower box office revenue per screen.

The gross profit for full revenue sharing arrangements was US\$8.8 million in 1HFY2015 and US\$8.1 million in 1HFY2016. The gross profit margin was 75.1% in 1HFY2015 and 71.0% in 1HFY2016. Gross profit margin decreased primarily due to increased depreciation costs associated with a larger full revenue sharing network, one-time costs associated with the installation of 5 incremental systems in 1HFY2016 and lower box office revenue per screen in 1HFY2016 as compared to 1HFY2015.

The gross profit for hybrid revenue sharing arrangements was US\$1.8 million in 1HFY2015 and US\$2.3 million in 1HFY2016. The increase was driven by an increase in box office revenue from a larger theatre network and the installation of 1 additional hybrid revenue sharing arrangement in 1HFY2016. The gross profit margin was 41.7% in 1HFY2015 as compared to 43.5% in 1HFY2016. Gross profit margin was higher in 1HFY2016 primarily due to a larger network & hybrid revenue sharing arrangements for which installation costs were recognised in prior periods.

Theatre system maintenance

The gross profit for our theatre system maintenance increased 33.0% from US\$2.5 million in 1H FY2015 to US\$3.3 million in 1H FY2016 as a result of the growth of the IMAX theatre network. Our gross profit margin increased from 56.0% in 1H FY2015 to 58.3% in 1H FY2016.

Films Business

The gross profit from our films business was relatively flat from US\$11.6 million in 1H FY2015 to US\$11.7 million in 1H FY2016, primarily due to only a slight increase in our overall box office revenue from US\$175.1 million in 1H FY2015 to US\$180.5 million in 1H FY2016. In 1H FY2015, box office was driven by the strong box office success of *Furious 7*, *Avengers Age of Ultron* and *Jurrassic World*. The gross profit margin for our films business decreased from 76.7% in 1H FY2015 to 73.6% in 1H FY2016 primarily due to additional DMR marketing costs in 1H FY2016 versus 1H FY2015.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, decreased 27.4% from US\$11.8 million in 1H FY2015 to US\$8.6 million in 1H FY2016, primarily due to a US\$5.5 million decrease in costs directly related to our Global Offering in 1H FY2015, partially offset by: (i) a US\$0.4 million increase in salaries and benefits and other staff costs as a result of increased head count and salary increases to manage the growing IMAX theatre network; and (ii) an increase in professional fees of US\$1.0 million due to higher audit and legal costs incurred in our first year as a public company.

Income Tax Expense

Our income tax expense increased 6.0% from US\$4.6 million in 1H FY2015 to US\$4.9 million in 1H FY2016. The increase in income tax expense was primarily due to an increase in our operating profit before income tax from US\$16.3 million in 1H FY2015 to US\$22.4 million in 1H FY2016. Calculated based on our adjusted profit, our adjusted effective tax rate was 19.8% in 1H FY2015 as compared to 20.6% in 1H FY2016 as a result of a larger proportion of our revenue being earned in the PRC (which has a higher EIT rate than Hong Kong) in 1H FY2016 as compared to 1H FY2015.

Profit (loss) for the Period

We reported profit for the period of US\$17.7 million in 1H FY2016 as compared to a loss of US\$67.9 million in 1H FY2015. The loss in 1H FY2015 primarily resulted from non-cash charges associated with the accretion of amortised costs of financial instrument (US\$2.2 million), and the fair value adjustment of the bifurcated conversion option related to the Redeemable Class C Shares (US\$77.6 million) and costs associated with the Global Offering (US\$5.5 million).

Adjusted Profit

Adjusted profit, which consists of profit/loss for the period adjusted for the impact of share-based compensation, accretion of amortised cost of financial instrument, fair value adjustment of conversion option, IPO related cost, and the related tax impact, was US\$18.3 million in 1HFY2015 as compared to adjusted profit of US\$18.6 million in 1HFY2016, an increase of 1.4%. Adjusted profit was flat primarily due to lower box office revenue per screen coupled with higher selling, general and administrative expenses due to business growth and the incremental costs related to our first year as a public company.

LIQUIDITY AND CAPITAL RESOURCES

	As at 30 June 2016 US\$'000	As at 31 December 2015 US\$'000
Current assets		
Other assets	1,482	1,736
Film assets	105	35
Inventories	12,145	6,364
Prepayments	1,234	984
Financing receivables	4,598	3,783
Trade and other receivables	49,554	35,640
Cash and cash equivalents	103,205	90,689
Total Current Assets	172,323	139,231
Current liabilities		
Trade and other payables	28,403	12,172
Accruals and other liabilities	5,122	4,152
Taxes payable	8,540	6,217
Deferred revenue	29,247	12,762
Total Current Liabilities	71,312	35,303
Net Current Assets	101,011	103,928

As at 30 June 2016, we had net current assets of US\$101.0 million compared to net current assets of US\$103.9 million as at 31 December 2015. The decrease in net current assets in 1HFY2016 was mainly attributable to a US\$16.2 increase in trade and other payables which correlates to increased business activity in 1HFY2016 and beyond and a US\$16.5 million increase in deferred revenue driven by funds received on the large number of sale arrangement installations scheduled to install in the next 12 months. This was offset by a US\$12.5 million increase in cash and cash equivalents, a US\$13.9 million increase in trade and other receivables due to increased business activity and revenue and a US\$5.8 million increase in inventory to accommodate increased installations scheduled for 2HFY2016 over 2HFY2015.

We have cash and cash equivalent balances denominated in various currencies. The following is a breakdown of our cash and cash equivalent balances by currency as at the end of each period/year:

	As at 30 June 2016	As at 31 December 2015
Cash and cash equivalent denominated in US\$ (in thousands)	\$68,180	\$66,041
Cash and cash equivalent denominated in RMB (in thousands)	¥231,311	¥158,498
Cash denominated in Hong Kong dollars HK\$ (in thousands)	<u>\$1,112</u>	<u>\$1,430</u>

CAPITAL MANAGEMENT

Our objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

We consider our capital structure as the aggregate of total equity and long-term debt less cash and short-term deposits. We manage our capital structure and makes adjustments to it in order to have funds available to support the business activities which the Board intends to pursue in addition to maximising the return to Shareholders. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Group's management to sustain future development of the business.

In order to carry out current operations and pay for administrative costs, we will spend our existing working capital and raise additional amounts as needed. Management reviews our capital management approach on an on-going basis and believes that this approach, given the relative size of the Group, is reasonable.

CASH FLOW ANALYSIS

The following table shows our net cash generated from operating activities, net cash used in investing activities and net cash generated from financing activities for the periods indicated:

	1HFY2016 US\$'000	1HFY2015 US\$'000
Net cash provided by operating activities	22,250	547
Net cash used in investing activities	(9,340)	(6,955)
Net cash (used in) provided by financing activities	(264)	38,000
Effects of exchange rate changes on cash	(130)	(12)
Increase in cash and cash equivalents during period	12,516	31,580
Cash and cash equivalents, beginning of period	90,689	48,320
Cash and cash equivalents, end of period	<u>103,205</u>	<u>79,900</u>

Cash from Operating Activities

1HFY2016

Our net cash provided by operations was approximately US\$22.3 million in 1HFY2016. We had profit for the period of US\$17.7 million in 1HFY2016 and positive adjustments for amortisation of film assets of US\$2.8 million, depreciation of property, plant and equipment of US\$2.9 million and changes in working capital of US\$7.8 million, reduced by our taxes paid of US\$6.9 million and our net investment in film assets of US\$2.9 million. Changes in working capital primarily consisted of: (i) an increase in trade and other receivables of US\$13.9 million; (ii) an increase in financing receivable of US\$1.5 million; (iii) an increase in inventories of US\$5.8 million. These increases were partially offset by: (i) an increase in trade and other payables of US\$16.0 million; (ii) an increase in deferred revenue of US\$4.4 million; and (iii) an increase in taxes payable of US\$9.2 million.

1HFY2015

Our net cash provided by operations was approximately US\$0.5 million in 1HFY2015. We had loss for the period of US\$67.9 million in 1HFY2015 and positive adjustments for fair value adjustment of conversion option of US\$77.6 million, amortisation of film assets of US\$3.0 million, depreciation of property, plant and equipment of US\$2.2 million and accretion charges associated with the Redeemable Class C Shares of US\$2.2 million, reduced by our taxes paid of US\$4.9 million, our net investment in film assets of US\$2.9 million and changes in working capital of US\$9.1 million. Changes in working capital primarily consisted of: (i) an increase in trade and other receivables of US\$10.2 million; (ii) a decrease in trade and other payables of US\$10.6 million; and (iii) an increase in inventories of US\$2.9 million, partially offset by (i) an increase in deferred revenue of US\$7.1 million; (ii) an increase in taxes payable of US\$5.2 million; and (iii) a decrease in other assets of US\$4.4 million.

Cash Used in Investing Activities

1HFY2016

Our net cash used in investing activities was approximately US\$9.3 million for 1HFY2016, primarily related to: (i) the purchase of property, plant and equipment of US\$1.1 million; and (ii) investments in IMAX theatre equipment amounting to US\$8.2 million installed in our exhibitor partners' theatres under full revenue sharing arrangements.

1HFY2015

Our net cash used in investing activities was approximately US\$7.0 million for 1HFY2015, primarily related to investments in IMAX theatre equipment amounting to US\$6.7 million installed in our exhibitor partners' theatres under full revenue sharing arrangements.

Cash Used in/from Financing Activities

1HFY2016

Our net cash used in financing activities was approximately US\$0.3 million for 1HFY2016 primarily related to settlement of restricted share units and options of US\$0.3 million.

1HFY2015

Our net cash generated from financing activities was approximately US\$38.0 million for 1HFY2015. The increase was primarily related to our sale of 20% of the equity interest in our Company to entities owned and controlled by CMC Capital Partners, an investment fund that is focused on media and entertainment, and FountainVest Partners, a China focused private equity firm. The sale price was US\$80.0 million and was payable in two equal instalments. The first instalment was received on 8 April 2014 and the second instalment was received on 10 February 2015. Share issuance costs of US\$2.0 million partially offset the net cash generated from these financing activities.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

Lease Commitments

We have lease commitments within one year and between one and two years amounting to US\$1.9 million and US\$1.5 million respectively related primarily to leased office and warehouse space in Shanghai and Beijing. These have increased from previous years due to additional leased office space required to accommodate our growth and expansion.

Capital Commitments

As at 30 June 2016, we had capital expenditures contracted but not provided in the condensed consolidated interim financial information in respect of: (i) acquisition of property, plant and equipment of US\$0.8 million (31 December 2015: US\$0.7 million); and (ii) capital injection into a film fund of US\$25 million (31 December 2015: US\$nil).

CAPITAL EXPENDITURES AND CONTINGENT LIABILITIES

Capital Expenditures

Our capital expenditures primarily relate to the acquisition of IMAX theatre systems and acquisition of films. During 1HFY2016 and 1HFY2015, our capital expenditures were US\$12.2 million and US\$9.9 million, respectively.

Going forward, with respect to our theatre business, we plan to allocate a significant portion of our capital expenditures to the continued expansion of the IMAX theatre network under revenue sharing arrangements to execute on our existing contractual backlog and future signings. For our films business, in order to further our strategy of securing more Chinese language film content and enhancing longer term partnerships in the PRC cinema industry for the IMAX theatre network, we plan to build out an IMAX screening theatre and expand our DMR conversion facility to convert Chinese language films into the IMAX format. We expect to incur capital expenditures of approximately US\$35.0 million in FY2016, which will be primarily used to expand the IMAX theatre network under full revenue sharing, fund DMR conversion costs, expand our office space in the PRC and invest in a China film fund.

Contingent Liabilities

We have historically been involved in lawsuits, claims and proceedings arise in the ordinary course of business. In accordance with our internal policies, we 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. In March 2013, IMAX Shanghai Multimedia received notice from the Shanghai office of the General Administration of Customs that it had been selected for a customs audit as a result of its unintentional exclusion of freight and insurance from the customs value of certain imports into the PRC which resulted in an understated amount of value added taxes and duties on such imports. We are unable to assess the potential impact, if any as of the date of this announcement.

Except as disclosed above or as otherwise disclosed herein, as at 30 June 2016, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities. The Directors confirm that there has been no material change in our commitments and contingent liabilities since 30 June 2016.

WORKING CAPITAL

We finance our working capital needs primarily through cash flow from operating activities. Cash flow generated from operating activities was US\$22.3 million in 1HFY2016 and US\$0.5 million in 1HFY2015. As the IMAX theatre network continues to grow, we believe our cash flow from operating activities will continue to increase and fund existing business operations and any initial capital expenditures required under revenue sharing arrangements.

STATEMENT OF INDEBTEDNESS

As at 30 June 2016:

- we did not have any bank borrowings or committed bank facilities;
- we did not have any borrowing from IMAX Corporation or any related parties; and
- we did not have any hire purchase commitments or bank overdrafts.

Since 30 June 2016, being the latest date of our condensed interim statements, there has been no material adverse change to our indebtedness.

RECENT DEVELOPMENTS

No important event affecting the Group has occurred since 30 June 2016.

OFF BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We had no off-balance sheet arrangements as at 30 June 2016.

KEY FINANCIAL RATIOS

The following table lays out certain financial ratios as at the dates and for the periods indicated. We presented adjusted profit margin because we believe it presents a more meaningful picture of our financial performance than unadjusted numbers as it excludes the impact from share-based compensation, accretion of amortised cost of Redeemable Class C Shares, fair value adjustments, IPO related costs, and the related tax impact.

	As at 30 June 2016	As at 31 December 2015
Gearing ratio ⁽¹⁾	50.6%	40.9%
	1HFY2016	1HFY2015
Adjusted profit margin ⁽²⁾	33.8%	41.7%

Notes:

(1) Gearing ratio is calculated by dividing total liabilities by total equity and multiplying the result by 100.

(2) Adjusted profit margin is calculated by dividing adjusted profit for the period by revenue and multiplying the result by 100.

Gearing Ratio

Our gearing ratio increased from 40.9% as at 31 December 2015 to 50.6% as at 30 June 2016, primarily due to an increase in trade and other payables of US\$16.2 million.

Adjusted Profit Margin

Our adjusted profit margin decreased from 41.7% as at 30 June 2015 to 33.8% as at 30 June 2016, primarily due to lower box office revenue per screen, higher depreciation cost on full revenue sharing theater systems due to a larger network, with higher selling, general and administrative expenses associated with business growth and the incremental costs related to our first year as a public company.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

The proposal of payment and the amount of our dividends will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Any dividend distribution shall also be subject to the approval of our Shareholders in a Shareholders' meeting. We do not presently intend to declare any dividends.

In addition, as our Company is a holding company registered in the Cayman Islands and our operations are conducted through our subsidiaries, two of which are incorporated in the PRC, the availability of funds to pay distributions to Shareholders and to service our debts depends on dividends received from these subsidiaries. Our PRC subsidiaries are restricted from distributing profits before the losses from previous years have been remedied and amounts for mandated reserves have been deducted.

As at 30 June 2016, the Company had a total equity of US\$101.1 million. Under the Companies Law of the Cayman Islands, subject to the provisions of memorandum of association of the Company or the articles of association (the “**Articles of Association**”), the Company's share premium account may be applied to pay distributions or dividends to shareholders provided that immediately following the date of distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

MATERIAL ACQUISITIONS OR DISPOSALS

Except as disclosed in “History and Reorganisation” in the Prospectus, we have not undertaken any material acquisition or disposal for the period ended 30 June 2016.

SIGNIFICANT INVESTMENTS

We are entitled to IMAX Hong Kong Holding's share of any distributions and dividends paid by TCL-IMAX Entertainment in respect of profit from Greater China as a result of a preferred share we hold in IMAX Hong Kong Holding, which holds 50% of TCL-IMAX Entertainment, a 50:50 joint venture between IMAX Hong Kong Holding (which is indirectly wholly owned by IMAX Corporation) and Sino Leader (Hong Kong) Limited (which is wholly owned by TCL Multimedia Technology Holdings Limited). TCL-IMAX Entertainment engages in the design, development, manufacturing and global sale of premium home theatre systems incorporating components of IMAX's projection and sound technology adapted for a broader home environment. TCL-IMAX Entertainment has commenced offering home theatre systems in Greater China in the second half of 2015. We did not receive any distributions or dividends from TCL-IMAX Entertainment during the period ended 30 June 2016.

We do not have any management or operational role, responsibilities or rights in TCL-IMAX Entertainment, nor are we subject to any funding obligations (either in respect of capital funding or bearing of losses) in relation to TCL-IMAX Entertainment.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices and the corporate governance principles of the Company are adopted in the best interest of the Company and its Shareholders. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules (the "CG Code").

The Shares of the Company have listed on the Stock Exchange since 8 October 2015. The Company has in practice complied with the new requirements under the amendments to C.3.3 of the CG Code relating to risk management and internal control since 1 January 2016. The Board has adopted new terms of reference for the audit committee of the Company on 20 July 2016 to comply with the new requirements under the amendments to C.3.3 of the CG Code. Save as disclosed above, during the six months ended 30 June 2016, the Company has complied with all the code provisions of the CG Code.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2016, in connection with the granting of vested RSUs to the independent non-executive directors of the Company, 58,254 common shares were purchased in the open market by the trustee of the LTIP on 8 June 2016 at an average price per share of HK\$41.23.

Save as disclosed, there have been no convertible securities issued or granted by the Group, no exercise of any conversion or subscription rights, nor any sale or redemption by the Group of its listed Shares for the period from 1 January 2016 to 30 June 2016.

SUPPLEMENTAL INFORMATION RELATING TO GRANT OF RSUS

We refer to the announcements by the Company dated 25 April 2016, 10 May 2016 and 6 June 2016. The Company has appointed a professional trustee to make on-market purchases of shares in respect of the satisfaction of RSUs granted to the Directors (73,662 RSUs). With respect to the satisfaction of RSUs granted to employees (166,156 RSUs), the Company intends to arrange for the issuance of new Shares.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Directors' dealing policy on 21 September 2015 in order to ensure compliance with the Model Code. The terms of the Directors' dealing policy are no less exacting than those set out in the Model Code. Having made specific enquiry of the Directors, all Directors have confirmed that they have complied with the required standard of dealings and code of conduct regarding securities dealings by directors as set out in the Model Code and the Company's own Directors' dealing policy for the six months ended 30 June 2016.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the Directors, as at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules throughout the six months ended 30 June 2016.

BOARD COMMITTEES

The Board has received appropriate delegation of its functions and powers and has established appropriate Board committees, with specific written terms of reference in order to manage and monitor specific aspects of the Group's affairs. The terms of reference of the Board Committees are posted on the websites of the Company and the Stock Exchange and are available to the Shareholders upon request. The Board and the Board committees are provided with all necessary resources including the advice of external auditors, external legal advisers and other independent professional advisors as needed.

Audit Committee

The Company set up the audit committee on 27 May 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and of the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control and risk management systems of the Group, maintain an appropriate relationship with the Company's auditors and provide advice and comments to the Board.

The audit committee consists of three members: Mr. John Davison, an Independent Non-executive Director; Ms. Dawn Taubin, an Independent Non-Executive Director; and Mr. Richard Gelfond, a Non-executive Director. Mr. John Davison is the chairman of the audit committee.

The audit committee members have reviewed the interim report, including the unaudited condensed consolidated interim financial information for the six month ended 30 June 2016.

Remuneration Committee

The Company set up the remuneration committee on 27 May 2015 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and of the CG Code. The primary duties of the remuneration committee are to assist the Board in determining the policy and structure for the remuneration of Directors, evaluating the performance of Directors and senior management, reviewing incentive schemes and Directors' service contracts and fixing the remuneration packages for all Directors and senior management. The remuneration packages of all Directors is determined by the remuneration committee in accordance with the committee's written terms of reference, and with the delegated authority of the Board. Determination of such matters is based on the Group's performance and the Directors' and senior management members' respective contributions to the Group.

The remuneration committee consists of three members: Ms. Yue-Sai Kan, an Independent Non-executive Director; Mr. John Davison, an Independent Non-executive Director; and Mr. Greg Foster, a Non-executive Director. Ms. Yue-Sai Kan is the chairman of the remuneration committee.

Nomination Committee

The Company set up the nomination committee on 27 May 2015 with written terms of reference in compliance with the CG Code. The primary duties of the nomination committee are to identify, screen and recommend to the Board appropriate candidates to serve as Directors of the Company and to oversee the process for evaluating the performance of the Board. In reviewing the composition of the Board, the nomination committee considers the skills, knowledge and experience and also the desirability of maintaining a balanced composition of executive and non-executive Directors (including independent non-executive Directors).

The nomination committee consists of three members: Mr. Richard Gelfond, a Non-executive Director; Ms. Dawn Taubin, an Independent Non-executive Director; and Ms. Yue-Sai Kan, an Independent Non-executive Director. Mr. Richard Gelfond is the chairman of the nomination committee.

In selecting candidates, the Board and the nomination committee intend to consider a large number of factors including but not limited to independence, diversity, age, competencies, skills, experience, availability of service to the Company, tenure and the Board's anticipated needs in order to achieve a diverse Board with directors from different backgrounds with varying perspectives, professional experience, education and skills. The nomination committee reports annually on the composition of the Board from the perspective of diversity, and monitors the implementation of this policy. The nomination committee is satisfied that the composition of the Board is sufficiently diverse.

INTERIM REPORT

The Company's interim report for the six months ended 30 June 2016 containing all the relevant information required by Appendix 16 of the Listing Rules has been published on the websites of the Company and the Stock Exchange and will be dispatched to Shareholders in due course.

LITIGATION

The Group did not have any material litigation outstanding as at 30 June 2016.

INSIDE INFORMATION

This is an announcement made pursuant to the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571) and Rule 13.09 of the Listing Rules.

Results of IMAX Corporation

Our controlling shareholder, IMAX Corporation, is a company listed on the New York Stock Exchange in the United States. As of the date of this announcement, IMAX Corporation beneficially owns 68.46% of the issued share capital of the Company.

On or about July 20, 2016, at 4:10 p.m. New York time, IMAX Corporation made an announcement regarding its unaudited results for the second quarter of 2016 (the “**Earnings Release**”). If you wish to review the Earnings Release, please visit: <https://www.sec.gov/Archives/edgar/data/921582/000119312516652273/d153069d8k.htm>. Unless otherwise provided therein, all dollar amounts in the Earnings Release are denominated in United States dollars.

On or about July 20, 2016, at 4:30 p.m. New York time, IMAX Corporation filed its unaudited quarterly report on the Form 10-Q for the second quarter of 2016 (the “**Quarterly Report**”) with the United States Securities and Exchange Commission (the “**SEC**”), in accordance with the ongoing disclosure obligations applicable to the companies listed on the New York Stock Exchange. If you wish to review the Quarterly Report as filed with the SEC, please visit: <https://www.sec.gov/Archives/edgar/data/921582/000119312516652431/d228462d10q.htm>. Unless otherwise provided therein, all dollar amounts in the Quarterly Report are denominated in United States dollars.

The financial information disclosed in the Earnings Release, and the unaudited condensed consolidated financial results contained in the Quarterly Report and the financial information included in this announcement have been prepared in accordance with the Generally Accepted Accounting Principles of the United States, which are different from the International Financial Reporting Standards, which is the standard employed by the Company, as a company listed on the Main Board of the Stock Exchange, to prepare and present financial information. As such financial information of the Company in the Earnings Release and in the Quarterly Report is not directly comparable to the financial results published directly by the Company.

Our shareholders and potential investors are advised to exercise caution in dealing in securities in the Company

The Earnings Release and Quarterly Report may contain forward-looking statements. Forward-looking statements involve a number of risks, uncertainties or other factors beyond our control, which may cause material differences in actual results, performance or other expectations. These factors include, but are not limited to, general economic conditions, competition, changes of government policies and regulations and other factors detailed in the Company’s prospectus dated 24 September 2015. We are under no obligation to (and expressly disclaim any such obligation to) update the forward-looking statements as a result of new information, future events or otherwise.

(1) QUARTERLY REPORT EXTRACTS

IMAX CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 228,081	\$ 317,449
Accounts receivable, net of allowance for doubtful accounts of \$1,319 (December 31, 2015 — \$1,146)	94,687	97,981
Financing receivables	118,884	117,231
Inventories	44,776	38,753
Prepaid expenses	8,754	6,498
Film assets	16,859	14,571
Property, plant and equipment	234,480	218,267
Other assets	26,017	26,136
Deferred income taxes	25,893	26,666
Other intangible assets	29,279	28,950
Goodwill	39,027	39,027
Total assets	\$ 866,737	\$ 931,529
Liabilities		
Bank indebtedness	\$ 28,296	\$ 29,276
Accounts payable	21,451	23,455
Accrued and other liabilities	83,539	95,748
Deferred revenue	106,967	104,993
Total liabilities	240,253	253,472
Commitments and contingencies		
Non-controlling interests	3,221	3,307
Shareholders' equity		
Capital stock common shares — no par value. Authorized — unlimited number. 67,112,751 — issued and 67,112,358 — outstanding (December 31, 2015 — 69,673,244 — issued and outstanding)	435,711	448,310
Less: Treasury stock held in trust, 393 shares at cost	(13)	—
Other equity	172,645	168,425
Accumulated (deficit) earnings	(34,923)	15,499
Accumulated other comprehensive loss	(4,471)	(7,443)
Total shareholders' equity attributable to common shareholders	568,949	624,791
Non-controlling interests	54,314	49,959
Total shareholders' equity	623,263	674,750
Total liabilities and shareholders' equity	\$ 866,737	\$ 931,529

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

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

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

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Equipment and product sales	\$ 26,489	\$ 25,305	\$ 50,229	\$ 39,741
Services	41,385	50,958	85,658	82,674
Rentals	20,752	28,527	42,531	42,341
Finance income	2,367	2,229	4,703	4,474
Other	750	141	750	141
	<u>91,743</u>	<u>107,160</u>	<u>183,871</u>	<u>169,371</u>
Costs and expenses applicable to revenues				
Equipment and product sales	15,594	13,521	33,385	21,061
Services	20,528	19,495	38,124	34,302
Rentals	5,298	5,109	9,863	8,992
Other	46	—	46	—
	<u>41,466</u>	<u>38,125</u>	<u>81,418</u>	<u>64,355</u>
Gross margin	<u>50,277</u>	<u>69,035</u>	<u>102,453</u>	<u>105,016</u>
Selling, general and administrative expenses (including share-based compensation expense of \$6.2 million and \$14.7 million for the three and six months ended June 30, 2016, respectively (2015 — expense of \$5.1 million and \$10.7 million, respectively))	30,436	29,023	62,020	57,375
Research and development	3,435	2,347	7,143	6,889
Amortization of intangibles	515	443	1,006	873
Receivable provisions, net of recoveries	230	343	356	348
Impairment of investments	194	350	194	350
	<u>15,467</u>	<u>36,529</u>	<u>31,734</u>	<u>39,181</u>
Income from operations	<u>15,467</u>	<u>36,529</u>	<u>31,734</u>	<u>39,181</u>
Interest income	380	259	847	505
Interest expense	(458)	(403)	(856)	(707)
	<u>15,389</u>	<u>36,385</u>	<u>31,725</u>	<u>38,979</u>
Income from operations before income taxes	<u>15,389</u>	<u>36,385</u>	<u>31,725</u>	<u>38,979</u>
Provision for income taxes	(3,366)	(9,256)	(7,084)	(9,931)
Loss from equity-accounted investments, net of tax	(1,340)	(749)	(1,781)	(1,183)
	<u>10,683</u>	<u>26,380</u>	<u>22,860</u>	<u>27,865</u>
Net income	<u>10,683</u>	<u>26,380</u>	<u>22,860</u>	<u>27,865</u>
Less: net income attributable to non-controlling interests	(2,892)	(2,030)	(5,542)	(3,124)
	<u>7,791</u>	<u>24,350</u>	<u>17,318</u>	<u>24,741</u>
Net income attributable to common shareholders	<u>\$ 7,791</u>	<u>\$ 24,350</u>	<u>\$ 17,318</u>	<u>\$ 24,741</u>
Net income per share attributable to common shareholders — basic and diluted:				
Net income per share — basic	<u>\$ 0.11</u>	<u>\$ 0.34</u>	<u>\$ 0.25</u>	<u>\$ 0.35</u>
Net income per share — diluted	<u>\$ 0.11</u>	<u>\$ 0.34</u>	<u>\$ 0.25</u>	<u>\$ 0.34</u>

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$ 10,683	\$ 26,380	\$ 22,860	\$ 27,865
Unrealized net (loss) gain from cash flow hedging instruments	(49)	352	2,158	(2,674)
Realization of cash flow hedging net loss upon settlement	716	516	1,993	1,151
Foreign currency translation adjustments	(1,819)	(100)	(1,397)	(170)
Amortization of postretirement benefit plan actuarial loss	17	—	34	—
Other comprehensive (loss) income, before tax	(1,135)	768	2,788	(1,693)
Income tax (expense) benefit related to other comprehensive (loss) income	(178)	(206)	(1,089)	438
Other comprehensive (loss) income, net of tax	(1,313)	562	1,699	(1,255)
Comprehensive income	9,370	26,942	24,559	26,610
Less: Comprehensive income attributable to non-controlling interests	(2,318)	(2,047)	(4,269)	(3,136)
Comprehensive income attributable to common shareholders	\$ 7,052	\$ 24,895	\$ 20,290	\$ 23,474

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

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

	Six Months Ended June 30,	
	2016	2015
Cash provided by (used in):		
Operating Activities		
Net income	\$ 22,860	\$ 27,865
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	22,064	20,724
Write-downs, net of recoveries	1,249	1,457
Change in deferred income taxes	(29)	2,232
Stock and other non-cash compensation	15,014	10,861
Unrealized foreign currency exchange (gain) loss	(583)	851
Loss from equity-accounted investments	1,980	1,923
Gain on non-cash contribution to equity-accounted investees	(199)	(740)
Investment in film assets	(10,890)	(7,404)
Changes in other non-cash operating assets and liabilities	(15,399)	(39,271)
Net cash provided by operating activities	36,067	18,498
Investing Activities		
Purchase of property, plant and equipment	(8,472)	(34,920)
Investment in joint revenue sharing equipment	(20,700)	(11,613)
Acquisition of other intangible assets	(1,691)	(2,972)
Net cash used in investing activities	(30,863)	(49,505)
Financing Activities		
Increase in bank indebtedness	—	17,568
Repayment of bank indebtedness	(1,000)	—
Repurchase of common shares	(85,714)	—
Settlement of restricted share units and options	(8,369)	(4,988)
Common shares issued — stock options exercised	3,582	22,850
Taxes paid on secondary sale and repatriation dividend	(2,991)	—
Taxes withheld and paid on employee stock awards vested	(73)	—
Treasury stock purchased for future settlement of restricted share units	(13)	(1,214)
Credit facility amendment fees paid	—	(1,161)
Issuance of subsidiary shares to non-controlling interests — private offering	—	40,000
Share issuance costs from the issuance of subsidiary shares to non-controlling interests — private offering	—	(2,000)
Net cash (used in) provided by financing activities	(94,578)	71,055
Effects of exchange rate changes on cash	6	(168)
(Decrease) increase in cash and cash equivalents during period	(89,368)	39,880
Cash and cash equivalents, beginning of period	317,449	106,503
Cash and cash equivalents, end of period	\$ 228,081	\$ 146,383

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

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

1. Basis of Presentation

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

The condensed 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 nature of the Company’s business is such that the results of operations for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all normal and recurring adjustments necessary to make the results of operations for the interim periods a fair statement of such operations.

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

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

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company’s 2015 Annual Report on Form 10-K for the year ended December 31, 2015 (“**the 2015 Form 10-K**”) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company’s financial statements for the year ended December 31, 2015, except as noted below.

3. Financing Receivables

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

	June 30, 2016	December 31, 2015
Gross minimum lease payments receivable	\$ 11,626	\$ 13,998
Unearned finance income	<u>(1,929)</u>	<u>(2,381)</u>
Minimum lease payments receivable	9,697	11,617
Accumulated allowance for uncollectible amounts	<u>(672)</u>	<u>(672)</u>
Net investment in leases	<u>9,025</u>	<u>10,945</u>
Gross financed sales receivables	148,370	146,232
Unearned finance income	<u>(37,868)</u>	<u>(39,378)</u>
Financed sales receivables	110,502	106,854
Accumulated allowance for uncollectible amounts	<u>(643)</u>	<u>(568)</u>
Net financed sales receivables	<u>109,859</u>	<u>106,286</u>
Total financing receivables	<u>\$ 118,884</u>	<u>\$ 117,231</u>
Net financed sales receivables due within one year	\$ 21,134	\$ 19,068
Net financed sales receivables due after one year	\$ 88,725	\$ 87,218

As at June 30, 2016, the financed sale receivables had a weighted average effective interest rate of 9.2% (December 31, 2015 — 9.4%).

4. Inventories

	June 30, 2016	December 31, 2015
Raw materials	\$ 32,032	\$ 25,750
Work-in-process	2,252	2,628
Finished goods	<u>10,492</u>	<u>10,375</u>
	<u><u>\$ 44,776</u></u>	<u><u>\$ 38,753</u></u>

At June 30, 2016, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$6.3 million (December 31, 2015 — \$5.4 million).

During the three and six months ended June 30, 2016, the Company had write-downs for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of \$0.1 million and \$0.3 million, respectively (2015 — \$0.4 million and \$0.5 million, respectively).

5. Property Plant and Equipment

	As at June 30, 2016		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	\$ 208,036	\$ 82,329	\$ 125,707
Camera equipment	<u>5,879</u>	<u>3,605</u>	<u>2,274</u>
	<u>213,915</u>	<u>85,934</u>	<u>127,981</u>
Assets under construction	<u>19,475</u>	<u>—</u>	<u>19,475</u>
Other property, plant and equipment			
Land	8,203	—	8,203
Buildings	68,305	13,744	54,561
Office and production equipment	39,356	19,638	19,718
Leasehold improvements	<u>7,177</u>	<u>2,635</u>	<u>4,542</u>
	<u>123,041</u>	<u>36,017</u>	<u>87,024</u>
	<u><u>\$ 356,431</u></u>	<u><u>\$ 121,951</u></u>	<u><u>\$ 234,480</u></u>

	As at December 31, 2015		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	\$ 199,974	\$ 74,568	\$ 125,406
Camera equipment	<u>5,393</u>	<u>3,368</u>	<u>2,025</u>
	<u>205,367</u>	<u>77,936</u>	<u>127,431</u>
Assets under construction	<u>9,616</u>	<u>—</u>	<u>9,616</u>
Other property, plant and equipment			
Land	8,203	—	8,203
Buildings	67,150	12,679	54,471
Office and production equipment	34,396	17,035	17,361
Leasehold improvements	<u>3,512</u>	<u>2,327</u>	<u>1,185</u>
	<u>113,261</u>	<u>32,041</u>	<u>81,220</u>
	<u>\$ 328,244</u>	<u>\$ 109,977</u>	<u>\$ 218,267</u>

8. Contingencies and Guarantees

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

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

- (a) In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd., the Company's majority-owned subsidiary in China, received notice from the Shanghai office of the General Administration of Customs that it had been selected for a customs audit. The Company is unable to assess the potential impact, if any, of the audit at this time.

9. Condensed Consolidated Statements of Operations Supplemental Information

(a) Selling Expenses

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to revenues-equipment and product sales, totaled \$1.0 million and \$1.7 million for the three and six months ended June 30, 2016, respectively (2015 — \$0.6 million and \$1.1 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$6.0 million and \$9.0 million for the three and six months ended June 30, 2016, respectively (2015 — \$3.6 million and \$4.8 million, respectively) and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled \$0.4 million and \$0.3 million for the three and six months ended June 30, 2016, respectively (2015 — \$0.3 million and \$0.2 million, respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled an expense of \$0.5 million and \$0.6 million for the three and six months ended June 30, 2016, respectively (2015 — \$0.6 million and \$0.6 million, respectively).

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three and six months ended June 30, 2016 is a loss of \$0.4 million and a gain of \$0.1 million, respectively (2015 — gain of \$0.6 million and a loss of \$1.0 million, respectively), for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 15(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 for a total of 823 theater systems, of which 559 theaters were operating as at June 30, 2016, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m) of the Company's 2015 Form 10-K.

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 three and six months ended June 30, 2016 amounted to \$23.9 million and \$47.2 million, respectively (2015 — \$31.6 million and \$47.5 million, respectively).

IMAX DMR

In an IMAX DMR arrangement, the Company transforms conventional motion pictures into the Company's large screen format, allowing the release of Hollywood content to the 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 net box-office receipts of the film, which in recent years has ranged from 10–15%. The Company does not typically hold distribution rights or the copyright to these films.

For the six months ended June 30, 2016, the majority of IMAX DMR revenue was earned from the exhibition of 27 IMAX DMR films (2015 — 33) throughout the IMAX theater network. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2015 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and six months ended June 30, 2016 amounted to \$27.4 million and \$57.2 million, respectively (2015 — \$36.6 million and \$54.3 million, respectively).

10. Condensed Consolidated Statements of Cash Flows Supplemental Information

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

	Six Months Ended June 30,	
	2016	2015
Decrease (increase) in:		
Accounts receivable	\$ 2,930	\$ (15,830)
Financing receivables	(994)	(3,645)
Inventories	(6,284)	(17,282)
Prepaid expenses	(2,256)	(1,881)
Commissions and other deferred selling expenses	(13)	(279)
Insurance recoveries	132	(101)
Other assets	(1,153)	(1,912)
Increase (decrease) in:		
Accounts payable	(1,892)	7,315
Accrued and other liabilities	(7,783)	(15,276)
Deferred revenue	1,914	9,620
	<u>\$ (15,399)</u>	<u>\$ (39,271)</u>

(b) Cash payments made on account of:

	Six Months Ended June 30,	
	2016	2015
Income taxes	<u>\$ 16,146</u>	<u>\$ 16,598</u>
Interest	<u>\$ 360</u>	<u>\$ 160</u>

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

	Six Months Ended June 30,	
	2016	2015
Film assets	\$ 7,481	\$ 8,243
Property, plant and equipment		
Joint revenue sharing arrangements	7,564	6,575
Other property, plant and equipment	4,816	3,585
Other intangible assets	1,512	1,544
Other assets	420	381
Deferred financing costs	271	396
	<u>\$ 22,064</u>	<u>\$ 20,724</u>

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

	Six Months Ended June 30,	
	2016	2015
Accounts receivable	\$ 281	\$ 348
Financing receivables	75	—
Inventories	261	464
Impairment of investments	194	350
Property, plant and equipment	408	295
Other intangible assets	30	—
	<u>\$ 1,249</u>	<u>\$ 1,457</u>

11. Income Taxes

(a) *Income Taxes*

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the quarter ended June 30, 2016, there was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings.

As at June 30, 2016, the Company had net deferred income tax assets after valuation allowance of \$25.9 million (December 31, 2015 — \$26.7 million), which consists of a gross deferred income tax asset of \$26.2 million (December 31, 2015 — \$27.0 million), against which the Company is carrying a \$0.3 million valuation allowance (December 31, 2015 — \$0.3 million).

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 condensed consolidated statement 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 three and six months ended June 30, 2016, respectively. 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 deficit and Deferred tax asset related to the impact from adoption of the provisions related to forfeiture rates. See Notes 2 and 12 for further discussion of the impact from the adoption of ASU 2016-09.

12. Capital Stock

(a) *Stock-Based Compensation*

The compensation costs recorded in the condensed consolidated statement of operations for the Company's stock-based compensation plans were \$6.2 million and \$14.7 million for the three and six months ended June 30, 2016, respectively (2015 — \$5.1 million and \$10.7 million, respectively).

As at June 30, 2016, the Company has reserved a total of 12,580,921 (December 31, 2015 — 7,023,258) common shares for future issuance under the Company's Stock Option Plan ("SOP") and the IMAX Corporation Amended and Restated Long-Term Incentive Plan ("IMAX LTIP"). Of the common shares reserved for issuance, there are options in respect of 5,419,084 common shares and restricted share units ("RSUs") in respect of 1,119,434 common shares outstanding at June 30, 2016. At June 30, 2016, options in respect of 3,653,921 common shares were vested and exercisable.

Stock Option Plan

The Company recorded an expense of \$1.0 million and \$6.0 million for the three and six months ended June 30, 2016, respectively (2015 — \$2.2 million and \$6.1 million, respectively) 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 condensed consolidated statements of operations of \$0.3 million and \$1.6 million for the three and six months ended June 30, 2016, respectively, for these costs.

The weighted average fair value of all stock options granted to employees and directors for the three and six months ended June 30, 2016 at the grant date was \$8.03 and \$8.23 per share, respectively (2015 — n/a and \$8.07 per share, respectively). The following assumptions were used to estimate the average fair value of the stock options:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
		2015		2015
Average risk-free interest rate	1.72%	n/a	1.72%	1.97%
Expected option life (in years)	4.79–5.24	n/a	4.79–5.24	3.55–5.76
Expected volatility	30%	n/a	30%	30%
Dividend yield	0%	n/a	0%	0%

Stock options to Non-Employees

There were no common share options issued to non-employees during the three and six months ended June 30, 2016 and 2015.

As at June 30, 2016, non-employee stock options outstanding amounted to 38,750 stock options (2015 — 39,500) with a weighted average exercise price of \$26.79 per share (2015 — \$26.78 per share). 26,950 stock options (2015 — 21,525) were exercisable with an average weighted exercise price of \$26.97 per share (2015 — \$26.34 per share) and the vested stock options have an aggregate intrinsic value of \$0.1 million (2015 — \$0.3 million).

For the three and six months ended June 30, 2016, the Company recorded an expense of less than \$0.1 million and a recovery less than \$0.1 million, respectively (2015 — expense of less than \$0.1 million and \$0.1 million, respectively) to cost and expenses related to revenues — services and selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is an accrual of less than \$0.1 million for non-employee stock options (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, 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. The China LTIP options (“**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 initial public offering of IMAX China on the Hong Kong Stock Exchange Limited on October 8, 2015 (the “**IMAX China IPO**”), there were 186,446 outstanding and unvested Tandem Options issued under the China 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 or upon a change in control on or prior to the fifth anniversary of the grant date, 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 related to the forfeiture of Tandem Options issued under the Company’s SOP and IMAX LTIP. During the three and six months ended June 30, 2015, the Company recorded an expense of \$0.1 million and \$0.2 million related to the Tandem Options.

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 2015, a portion of the CSSBPs vested and were settled in cash for \$1.0 million.

In connection with the IMAX China IPO of IMAX China and in accordance with the IMAX China LTIP, IMAX China adopted a post-IPO share option plan and a post-IPO restricted stock unit plan. Pursuant to these plans, during the three and six months ended June 30, 2016, IMAX China issued additional China Options and China LTIP Restricted Share Units (“**China RSUs**”).

During the three and six months ended June 30, 2016, the Company recorded an expense related to the China Options, China RSUs and CSSBPs of \$0.2 million and \$0.5 million, \$0.4 million and \$0.4 million and \$0.1 million and \$0.2 million, respectively. The liability recognized with respect to the CSSBPs at June 30, 2016 is \$0.6 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 for the six month periods ended June 30:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2016	2015	2016	2015
Options outstanding, beginning of period	4,805,244	5,925,660	\$ 27.03	\$ 24.24
Granted	814,603	871,431	31.58	31.56
Exercised	(193,471)	(1,172,331)	18.28	19.49
Forfeited	(7,292)	(30,624)	25.87	27.82
Options outstanding, end of period	<u>5,419,084</u>	<u>5,594,136</u>	28.03	26.35
Options exercisable, end of period	<u>3,653,921</u>	<u>3,054,774</u>	27.14	24.88

The Company did not cancel any stock options from its SOP or IMAX LTIP surrendered by Company employees during the three and six months ended June 30, 2016 and 2015.

As at June 30, 2016, options that are exercisable have an intrinsic value of \$11.0 million and a weighted average remaining contractual life of 3.8 years. The intrinsic value of options exercised in the three and six months ended June 30, 2016 was \$2.1 million and \$2.7 million, respectively (2015 — \$11.1 million and \$20.2 million, respectively).

As at June 30, 2016, a company trustee held 393 shares purchased for less than \$0.1 million in the open market to be issued upon exercise of certain stock option awards. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock on the condensed 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 \$4.5 million and \$7.7 million for the three and six months ended June 30, 2016, respectively (2015 — \$2.8 million and \$4.3 million, respectively), related to RSU grants issued to employees and directors in the plan. In addition, the Company recorded an expense of \$nil and \$nil for the three and six months ended June 30, 2016, respectively (2015 — less than \$0.1 million and less than \$0.1 million, respectively), related to RSU grants issued to certain advisors and strategic partners of the Company.

During the three and six months ended June 30, 2016, in connection with the vesting of RSUs, the Company settled 53,318 and 243,616, respectively (2015 — 41,939 and 159,732, respectively) common shares to IMAX LTIP participants, of which 22,733 and 28,296, respectively (2015 — 15,276 and 21,709, respectively) common shares, net of shares withheld for tax withholdings of nil and 3,508, respectively (2015 — 218 and 218, respectively) were issued from treasury and 30,585 and 211,812, respectively (2015 — 26,445 and 137,805, respectively) common shares were purchased in the open market by the IMAX LTIP trustee.

Total stock-based compensation expense related to non-vested RSUs not yet recognized at June 30, 2016 and the weighted average period over which the awards are expected to be recognized is \$28.6 million and 2.6 years, respectively (2015 — \$17.2 million and 3.1 years, respectively). The Company's actual tax benefits realized for the tax deductions related to the vesting of RSUs was \$0.3 million and \$2.2 million for the three and six months ended June 30, 2016, respectively (2015 — \$0.4 million and \$1.6 million, respectively).

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. 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 for the six months ended June 30:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2016	2015	2016	2015
RSUs outstanding, beginning of period	973,637	595,834	\$ 32.27	\$ 27.13
Granted	397,441	333,096	31.80	34.37
Vested and settled	(243,616)	(159,732)	29.61	29.27
Forfeited	(8,028)	(11,670)	31.43	29.08
RSUs outstanding, end of period	<u>1,119,434</u>	<u>757,528</u>	32.69	29.83

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 in the Company's condensed consolidated financial statements on a modified retrospective basis resulting in a balance sheet reclass of \$4.4 million decrease to Accumulated earnings, \$0.9 million increase to Deferred tax asset and \$5.3 million increase to Other equity. An increase in APIC and a reduction in stock-based compensation expense of \$2.7 million and \$nil for the three and six month periods ended June 30, 2016, respectively was also recorded. Additionally, ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the condensed consolidated statement of cash flows. The Company is required to present excess tax benefits as an operating activity on the condensed 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 condensed consolidated statement of cash flows. This change was reflected in the condensed consolidated statement of cash flows retrospectively. See Notes 2 and 11 for further discussion of the impact from the adoption of ASU 2016-09.

(b) Income Per Share

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income attributable to common shareholders	\$ 7,791	\$ 24,350	\$ 17,318	\$ 24,741
Less: Accretion charges associated with redeemable common stock	—	(262)	—	(484)
Net income applicable to common shareholders	<u>\$ 7,791</u>	<u>\$ 24,088</u>	<u>\$ 17,318</u>	<u>\$ 24,257</u>
Weighted average number of common shares (000's):				
Issued and outstanding, beginning of period	68,276	69,586	69,673	68,988
Weighted average number of shares (repurchased) issued during the period	<u>(508)</u>	<u>257</u>	<u>(1,133)</u>	<u>538</u>
Weighted average number of shares used in computing basic income per share	67,768	69,843	68,540	69,526
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	<u>687</u>	<u>1,845</u>	<u>682</u>	<u>1,823</u>
Weighted average number of shares used in computing diluted income per share	<u>68,455</u>	<u>71,688</u>	<u>69,222</u>	<u>71,349</u>

The calculation of diluted earnings per share excludes 2,652,438 and 2,712,666 shares, respectively that are issuable upon the vesting of 290,303 and 271,664 RSUs, respectively and the exercise of 2,362,135 and 2,441,002 stock options, respectively for the three and six months ended June 30, 2016, as the impact would be antidilutive. The calculation of diluted earnings per share excludes 416,902 and 495,537 shares, respectively that are issuable upon the vesting of nil and nil RSUs, respectively and the exercise of 416,902 and 495,537 stock options, respectively for the three and six months ended June 30, 2015, as the impact would be antidilutive.

As part of the adoption of ASU 2016-09, the excess tax benefit is no longer included in the calculation of diluted shares under the treasury stock method. This has been applied prospectively.

(c) *Shareholder's Equity Attributable to Common Shareholders*

The following summarizes the movement of Shareholders' Equity attributable to common shareholders for the six months ended June 30, 2016:

Balance as at December 31, 2015	\$ 624,791
Net income attributable to common shareholders	17,318
Adjustments to capital stock:	
Cash received from the issuance of common shares	3,537
Issuance of common shares for vested RSUs	560
Fair value of stock options exercised at the grant date	1,278
Average carrying value of repurchased and retired common shares	(17,974)
Share held in Treasury	(13)
Adjustments to other equity:	
Employee stock options granted	6,450
Non-employee stock options granted and vested	30
Fair value of stock options exercised at the grant date	(1,278)
RSUs granted	8,255
RSUs vested	(8,068)
Stock exercised from Treasury shares	(1,215)
Cash received from the issuance of common shares in excess of par value	46
Adjustments to accumulated deficit:	
Common shares repurchased and retired	(67,740)
Adjustments to accumulated other comprehensive loss:	
Unrealized net gain from cash flow hedging instruments	2,158
Realization of cash flow hedging net loss upon settlement	1,993
Foreign currency translation adjustments	(124)
Amortization of actuarial loss on postretirement benefit plan	34
Tax effect of movement in other comprehensive income	(1,089)
Balance as at June 30, 2016	<u><u>\$ 568,949</u></u>

13. 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 to the audited consolidated financial statements included in the Company’s 2015 Form 10-K.

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 among the other segments are not significant.

	Three Months Ended June 30, 2016		2015	Six Months Ended June 30, 2016		2015
Revenue⁽¹⁾						
IMAX theater systems						
IMAX systems	\$	22,961	\$	22,365	\$	34,479
Theater system maintenance		9,912		9,158		18,008
Joint revenue sharing arrangements		23,856		31,594		47,462
		<u>56,729</u>		<u>63,117</u>		<u>99,949</u>
Films						
Production and IMAX DMR		27,413		36,603		54,279
Distribution		890		1,158		2,546
Post-production		1,702		1,608		4,498
		<u>30,005</u>		<u>39,369</u>		<u>61,323</u>
Other		<u>5,009</u>		<u>4,674</u>		<u>8,099</u>
Total	\$	<u>91,743</u>	\$	<u>107,160</u>	\$	<u>169,371</u>
Gross margin						
IMAX theater systems						
IMAX systems ⁽²⁾	\$	13,675	\$	13,537	\$	21,722
Theater system maintenance		3,370		3,089		6,370
Joint revenue sharing arrangements ⁽²⁾		15,744		24,069		34,686
		<u>32,789</u>		<u>40,695</u>		<u>62,778</u>
Films						
Production and IMAX DMR ⁽²⁾		17,127		28,488		41,713
Distribution ⁽²⁾		(577)		(351)		(216)
Post-production		776		317		895
		<u>17,326</u>		<u>28,454</u>		<u>42,392</u>
Other		<u>162</u>		<u>(114)</u>		<u>(154)</u>
Total	\$	<u>50,277</u>	\$	<u>69,035</u>	\$	<u>105,016</u>

(1) The Company's largest customer represented 15.0% and 15.3% of total revenues for the three and six months ended June 30, 2016, respectively (2015 — 17.3% and 17.3%, respectively).

- (2) IMAX systems include marketing and commission costs of \$0.6 million and \$1.1 million for the three and six months ended June 30, 2016, respectively (2015 — \$0.6 million and \$0.9 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.4 million and \$1.5 million for the three and six months ended June 30, 2016, respectively (2015 — \$1.3 million and \$1.4 million, respectively). Production and DMR segment margins include marketing costs of \$5.2 million and \$7.5 million for the three and six months ended June 30, 2016, respectively (2015 — \$3.6 million and \$4.9 million, respectively). Distribution segment margins include marketing expense of \$0.8 million and \$1.5 million for the three and six months ended June 30, 2016, respectively (2015 — cost of less than \$0.1 million and cost recovery of \$0.1 million, respectively).

Geographic Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue				
United States	\$ 32,593	\$ 42,541	\$ 68,137	\$ 68,032
Canada	547	3,145	7,624	5,028
Greater China	30,122	26,117	55,061	43,913
Western Europe	8,896	11,873	20,382	17,039
Asia (excluding Greater China)	8,810	9,949	14,369	15,725
Latin America	3,627	2,955	7,154	5,390
Russia & the CIS	3,595	5,864	5,287	7,805
Rest of the World	3,553	4,716	5,857	6,439
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 91,743</u>	<u>\$ 107,160</u>	<u>\$ 183,871</u>	<u>\$ 169,371</u>

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

15. Financial Instruments

(a) *Financial Instruments*

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

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

(b) *Fair Value Measurements*

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

	As at June 30, 2016		As at December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$ 228,081	\$ 228,081	\$ 317,449	\$ 317,449
Net financed sales receivable	\$ 109,859	\$ 112,505	\$ 106,286	\$ 108,184
Net investment in sales-type leases	\$ 9,025	\$ 9,192	\$ 10,945	\$ 11,154
Available-for-sale investment	\$ 1,000	\$ 1,011	\$ 1,000	\$ 997
Foreign exchange contracts — designated forwards	\$ (271)	\$ (271)	\$ (4,423)	\$ (4,423)
Borrowings under the Playa Vista Loan	\$ (28,667)	\$ (28,667)	\$ (29,667)	\$ (29,667)

Cash and cash equivalents are comprised of cash and interest-bearing investments with original maturity dates 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 June 30, 2016 and December 31, 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 June 30, 2016 and December 31, 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 June 30, 2016 and December 31, 2015, respectively.

The fair value of foreign currency derivatives 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 June 30, 2016 and December 31, 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 Playa Vista Loan are close to June 30, 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 June 30, 2016.

There were no significant transfers between Level 1 and Level 2 during the six months ended June 30, 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 six months ended June 30, 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 June 30, 2016			As at December 31, 2015		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	\$ 8,328	\$ 108,127	\$ 116,455	\$ 10,252	\$ 105,352	\$ 115,604
Pre-approved transactions	—	1,213	1,213	—	757	757
Transactions suspended	1,369	1,162	2,531	1,365	745	2,110
	<u>\$ 9,697</u>	<u>\$ 110,502</u>	<u>\$ 120,199</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 June 30, 2016		As at December 31, 2015	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$ 1,369	\$ (672)	\$ 1,365	\$ (672)
Net financed sales receivables	<u>1,162</u>	<u>(643)</u>	<u>745</u>	<u>(568)</u>
Total	<u>\$ 2,531</u>	<u>\$ (1,315)</u>	<u>\$ 2,110</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 June 30, 2016							Recorded Investment Net of Allowances
	Accrued and Current	30–89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	
Net investment in leases	\$ 139	\$ 23	\$ 721	\$ 883	\$ 8,814	\$ 9,697	\$ (672)	\$ 9,025
Net financed sales receivables	<u>1,891</u>	<u>2,465</u>	<u>2,223</u>	<u>6,579</u>	<u>103,923</u>	<u>110,502</u>	<u>(643)</u>	<u>109,859</u>
Total	<u>\$ 2,030</u>	<u>\$ 2,488</u>	<u>\$ 2,944</u>	<u>\$ 7,462</u>	<u>\$ 112,737</u>	<u>\$ 120,199</u>	<u>\$ (1,315)</u>	<u>\$ 118,884</u>

	As at December 31, 2015							Recorded Investment Net of Allowances
	Accrued and Current	30–89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	
Net investment in leases	\$ 840	\$ 177	\$ 446	\$ 1,463	\$ 10,154	\$ 11,617	\$ (672)	\$ 10,945
Net financed sales receivables	<u>908</u>	<u>1,013</u>	<u>1,177</u>	<u>3,098</u>	<u>103,756</u>	<u>106,854</u>	<u>(568)</u>	<u>106,286</u>
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 June 30, 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	\$ 76	\$ 50	\$ 119	\$ 245	\$ 2,332	\$ —	\$ 2,577
Net financed sales receivables	<u>247</u>	<u>230</u>	<u>1,136</u>	<u>1,613</u>	<u>11,307</u>	<u>—</u>	<u>12,920</u>
Total	<u>\$ 323</u>	<u>\$ 280</u>	<u>\$ 1,255</u>	<u>\$ 1,858</u>	<u>\$ 13,639</u>	<u>\$ —</u>	<u>\$ 15,497</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	<u>129</u>	<u>224</u>	<u>839</u>	<u>1,192</u>	<u>10,795</u>	<u>—</u>	<u>11,987</u>
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:

For the Three Months Ended June 30, 2016					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net financed sales receivables	\$ 748	\$ 269	\$ (643)	\$ 748	\$ —
Recorded investment for which there is no related allowance:					
Net financed sales receivables	—	—	—	—	—
Total recorded investment in impaired loans:					
Net financed sales receivables	<u>\$ 748</u>	<u>\$ 269</u>	<u>\$ (643)</u>	<u>\$ 748</u>	<u>\$ —</u>

For the Three Months Ended June 30, 2015					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net financed sales receivables	\$ 525	\$ 49	\$ (494)	\$ 525	\$ —
Recorded investment for which there is no related allowance:					
Net financed sales receivables	—	—	—	—	—
Total recorded investment in impaired loans:					
Net financed sales receivables	<u>\$ 525</u>	<u>\$ 49</u>	<u>\$ (494)</u>	<u>\$ 525</u>	<u>\$ —</u>

For the Six Months Ended June 30, 2016

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net financed sales receivables	\$ 748	\$ 269	\$ (643)	\$ 748	\$ —
Recorded investment for which there is no related allowance:					
Net financed sales receivables	—	—	—	—	—
Total recorded investment in impaired loans:					
Net financed sales receivables	<u>\$ 748</u>	<u>\$ 269</u>	<u>\$ (643)</u>	<u>\$ 748</u>	<u>\$ —</u>

For the Six Months Ended June 30, 2015

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net financed sales receivables	\$ 525	\$ 49	\$ (494)	\$ 525	\$ —
Recorded investment for which there is no related allowance:					
Net financed sales receivables	—	—	—	—	—
Total recorded investment in impaired loans:					
Net financed sales receivables	<u>\$ 525</u>	<u>\$ 49</u>	<u>\$ (494)</u>	<u>\$ 525</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 are as follows:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
<u>Allowance for credit losses:</u>				
Beginning balance	\$ 672	\$ 643	\$ 672	\$ 568
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Provision	—	—	—	75
Ending balance	<u>\$ 672</u>	<u>\$ 643</u>	<u>\$ 672</u>	<u>\$ 643</u>
Ending balance: individually evaluated for impairment	<u>\$ 672</u>	<u>\$ 643</u>	<u>\$ 672</u>	<u>\$ 643</u>
Financing receivables:				
Ending balance: individually evaluated for impairment	<u>\$ 9,697</u>	<u>\$ 110,502</u>	<u>\$ 9,697</u>	<u>\$ 110,502</u>

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
<u>Allowance for credit losses:</u>				
Beginning balance	\$ 972	\$ 494	\$ 972	\$ 494
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Provision	—	—	—	—
Ending balance	<u>\$ 972</u>	<u>\$ 494</u>	<u>\$ 972</u>	<u>\$ 494</u>
Ending balance: individually evaluated for impairment	<u>\$ 972</u>	<u>\$ 494</u>	<u>\$ 972</u>	<u>\$ 494</u>
Financing receivables: Ending balance: individually evaluated for impairment	<u>\$ 11,594</u>	<u>\$ 98,364</u>	<u>\$ 11,594</u>	<u>\$ 98,364</u>

Derivatives in Foreign Currency Hedging relationships for the six months ended June 30:

		Three Months Ended June 30, 2016		2015	Six Months Ended June 30, 2016		2015
Foreign exchange contracts — Forwards	Derivative (Loss) Gain Recognized in OCI (Effective Portion)	<u>\$ (49)</u>	<u>\$ 352</u>		<u>\$ 2,158</u>	<u>\$ (2,674)</u>	
	Location of Derivative Loss Reclassified from AOCI into Income (Effective Portion)	Three Months Ended June 30, 2016		2015	Six Months Ended June 30, 2016		2015
Foreign exchange contracts — Forwards	Selling, general and administrative expenses	<u>\$ (716)</u>	<u>\$ (516)</u>		<u>\$ (1,993)</u>	<u>\$ (1,151)</u>	

The Company's estimated net amount of the existing gains as at June 30, 2016 is \$1.3 million, which is expected to be reclassified to earnings within the next twelve months.

(d) Investments in New Business Ventures

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 or FASB ASC 320, as appropriate. As at June 30, 2016, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2015 — \$1.0 million). The Company's accumulated losses in excess of its equity investment were \$0.9 million as at June 30, 2016, and are classified in Accrued and other liabilities. For the three months ended June 30, 2016, gross revenues, cost of revenue and net loss for the Company's investments were \$nil, \$2.1 million and \$2.3 million, respectively (2015 — \$nil, \$2.8 million and \$2.7 million, respectively). For the six months ended June 30, 2016, gross revenues, cost of revenue and net loss for the Company's investments were \$0.3 million, \$4.4 million and \$4.1 million, respectively (2015 — \$nil, \$4.5 million and \$4.4 million, respectively). The Company has determined it is not the primary beneficiary of this VIE, and therefore this entity has not been consolidated. In 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 June 30, 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. In the three and six months ended June 30, 2016, respectively, the Company recognized an other-than-temporary impairment of \$0.2 million in the condensed consolidated statement of operations (2015 — \$0.4 million and \$0.4 million, respectively). The total carrying value of investments in new business ventures at June 30, 2016 is \$1.0 million (December 31, 2015 — \$2.2 million) and is recorded in Other assets.

16. 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 68.5% of IMAX China, which remains a consolidated subsidiary of the Company.

The following summarizes the movement of the non-controlling interest in shareholders’ equity, in the Company’s subsidiary for the six months ended June 30, 2016:

Balance as at December 31, 2015	\$	49,959
Net income		5,628
Other comprehensive loss		<u>(1,273)</u>
Balance as at June 30, 2016	\$	<u><u>54,314</u></u>

IMAX CORPORATION

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

OVERVIEW

IMAX Corporation, together with its consolidated subsidiaries (the “**Company**”), is one of the world’s leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as “IMAX theaters”. IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as such, IMAX’s network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 1,102 IMAX theater systems (990 commercial multiplexes, 16 commercial destinations, 96 institutional) operating in 69 countries as of June 30, 2016. This compares to 976 theater systems (852 commercial multiplexes, 20 commercial destinations, 104 institutional) operating in 65 countries as of June 30, 2015.

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 44 films in 2015, up from six films in 2007. The Company expects to release a similar number of IMAX DMR films in 2016 as compared to 2015.

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. Accordingly, one of the Company's key initiatives has been the development of its next-generation laser-based digital projection system, which it began rolling out at the end of 2014. In order to develop the laser-based digital projection system, the Company obtained exclusive rights to certain laser projection technology and other technology with applicability in the digital cinema field from Eastman Kodak Company ("**Kodak**") in 2011 and entered a co-development arrangement with Barco N.V. ("**Barco**") to co-develop a laser-based digital projection system that incorporates Kodak technology in 2012. Furthermore, in 2014, the Company announced an agreement with Necsel IP, Inc. ("**Necsel**") to be the exclusive worldwide provider of specified lasers for IMAX's laser-based digital projection systems in exchange for preferred pricing and supply terms. The Company believes that these arrangements with Kodak, Barco and Necsel have enabled IMAX laser-based projectors to 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 June 30, 2016, 31 laser-based digital systems were operational.

The Company is also undertaking new lines of business, with a focus on location-based experiences, alternative forms of in-cinema entertainment and in-home entertainment. In 2013, the Company announced new 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. To date, the Company has signed agreements for more than 130 premium home theater systems. Beyond its premium home theater, the Company is also developing other components of broader home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*[®] in their homes.

In the second quarter of 2016, the Company announced the development of a virtual reality ("**VR**") camera and its broader strategy to develop a premium, location-based VR offering that will deliver immersive, multi-dimensional experiences, including entertainment content and games, to multiplexes, malls and other commercial destinations. With respect to the VR camera, the Company has partnered with Google to design and develop a cinema-grade IMAX Google VR camera, which will enable filmmakers and content creators to deliver high-quality, 360-degree content experiences to audiences. In addition, the Company has entered into a joint venture with Starbreeze AB ("**Starbreeze**"), a Swedish based independent creator, publisher and distributor

of high-quality VR entertainment content and hardware. Under this arrangement, the Company will leverage Starbreeze's unique, large field-of-view head-mounted display technology to create a premium VR experience based on content developed by the Company's studio partners and independent producers, Starbreeze's existing library of VR entertainment content and games, and premium content created through use of the IMAX Google VR camera. The Company sees a unique opportunity to combine premium equipment, more robust computing power, and expansive spaces to create a highly differentiated, destination-based VR experience that will draw audiences out of their homes, similar to the strategy it has successfully employed in the cinema space.

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;
- operating leverage;
- earnings from operations as adjusted for unusual items that the Company views as non-recurring;
- 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;
- the overall execution, reliability and consumer acceptance of *The IMAX Experience*; and
- the success of new business initiatives (including new content initiatives).

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 collectability 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.

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 462% 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 June 30, 2016, the Company had 559 theaters in operation under joint revenue sharing arrangements, a 17.2% increase as compared to the 477 joint revenue sharing arrangements open as at June 30, 2015. The Company also had contracts in backlog for an additional 264 theaters under joint revenue sharing arrangements as at June 30, 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 June 30, 2016, the Company had three 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" in Item 1 of the Company's Form 10-K for the year ended December 31, 2015 (the "**2015 Form 10-K**") 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 June 30:

	2016 Theater Network Base				2015 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	346	5	44	395	333	7	49	389
Canada	37	2	7	46	37	2	8	47
Greater China ⁽¹⁾	318	—	17	335	232	—	18	250
Asia (excluding Greater China)	86	2	5	93	73	3	6	82
Western Europe	73	6	10	89	62	7	10	79
Russia & the CIS	49	—	—	49	48	—	—	48
Latin America ⁽²⁾	38	—	11	49	33	—	11	44
Rest of the World	43	1	2	46	34	1	2	37
Total	<u>990</u>	<u>16</u>	<u>96</u>	<u>1,102</u>	<u>852</u>	<u>20</u>	<u>104</u>	<u>976</u>

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

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

As of June 30, 2016, 40.0% of IMAX systems in operation were located in the United States and Canada compared to 44.7% as at June 30, 2015.

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 currently believes that over time its commercial multiplex theater network could grow to approximately 2,450 IMAX theaters worldwide from 990 commercial multiplex IMAX theaters operating as June 30, 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 June 30, 2016, 60.0% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 55.3% as at June 30, 2015. Revenues and gross box-office derived from outside the United States and Canada continues to exceed revenues and gross box-office from the United States and Canada. Risks associated with the Company's international business are outlined in Risk Factors — "The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects" in Item 1A of the Company's 2015 Form 10-K.

Greater China continues to be the Company's second-largest and fastest-growing market. The Company's Greater China operations have accounted for an increasingly significant portion of its overall revenues, with nearly 30% of overall revenues generated from the Company's China operations in the six months ended June 30, 2016. As at June 30, 2016, the Company had 335 theaters operating in Greater China with an additional 264 theaters in backlog that are scheduled to be installed in Greater China by 2021. The Company's backlog in Greater China represents 59.7% 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**"). Wanda's total commitment to the Company is for 210 theater systems, of which 195 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 the second quarter of 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 the Company's 2015 Form 10-K.

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, and was paid by the investors in two equal installments on April 8, 2014 and February 10, 2015.

Thereafter, 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 68.5% 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 June 30:

	2016			2015		
	IMAX Commercial Multiplex Theater Network			IMAX Commercial Multiplex Theater Network		
	Sale/Sales-type lease			Sale/Sales-type lease		
	JRSA		Total	JRSA		Total
Domestic Total (United States & Canada)	<u>262</u>	<u>121</u>	<u>383</u>	<u>255</u>	<u>115</u>	<u>370</u>
International:						
Greater China	196	122	318	140	92	232
Asia (excluding Greater China)	48	38	86	39	34	73
Western Europe	42	31	73	35	27	62
Russia & the CIS	—	49	49	—	48	48
Latin America	—	38	38	—	33	33
Rest of the World	<u>11</u>	<u>32</u>	<u>43</u>	<u>8</u>	<u>26</u>	<u>34</u>
International Total	<u>297</u>	<u>310</u>	<u>607</u>	<u>222</u>	<u>260</u>	<u>482</u>
Worldwide Total	<u>559</u>	<u>431</u>	<u>990</u>	<u>477</u>	<u>375</u>	<u>852</u>

As at June 30, 2016, 262 (2015 — 255) of the 559 (2015 — 477) theaters under joint revenue sharing arrangements in operation, or 46.9% (2015 — 53.5%) were located in the United States and Canada, with the remaining 297 (2015 — 222) or 53.1% (2015 — 46.5%) 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:

	June 30, 2016		June 30, 2015	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sales-type lease arrangements	178	\$ 225,906	181	\$ 237,289
Joint revenue sharing arrangements	<u>264</u>	<u>58,652</u>	<u>210</u>	<u>42,427</u>
	<u>442⁽¹⁾⁽²⁾</u>	<u>\$ 284,558</u>	<u>391⁽¹⁾⁽³⁾</u>	<u>\$ 279,716</u>

(1) Includes 19 laser-based digital theater system configurations (2015 — 73), including upgrades. The Company continues to develop and roll out its laser-based digital projection system. See "Research and Development" in Item 2 of this Part I for additional information.

- (2) Includes 7 upgrades to a digital theater system, in existing IMAX theater locations (one xenon configuration and six laser configurations).
- (3) Includes 24 upgrades to a digital theater system, in existing IMAX theater locations (two xenon configurations and 22 laser configurations, of which five are under joint revenue sharing arrangements).

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 lease 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 June 30:

	2016			2015		
	IMAX Theater Backlog JRSA	Sale/Lease	Total	IMAX Theater Backlog JRSA	Sale/Lease	Total
Domestic Total (United States & Canada)	<u>46</u>	<u>14</u>	<u>60</u>	<u>30</u>	<u>22</u>	<u>52</u>
International:						
Greater China	189	75	264	151	67	218
Asia (excluding Greater China)	17	22	39	13	23	36
Western Europe	7	6	13	11	9	20
Russia & the CIS	—	24	24	—	23	23
Latin America	—	19	19	—	22	22
Rest of the World	<u>5</u>	<u>18</u>	<u>23</u>	<u>5</u>	<u>15</u>	<u>20</u>
International Total	<u>218</u>	<u>164</u>	<u>382</u>	<u>180</u>	<u>159</u>	<u>339</u>
Worldwide Total	<u>264</u>	<u>178</u>	<u>442</u>	<u>210</u>	<u>181</u>	<u>391</u>

Approximately 86.4% of IMAX theater system arrangements in backlog as at June 30, 2016 are scheduled to be installed in international markets (2015 — 86.7%).

The following reflects the Company's signings and installations:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Theater System Signings:				
Full new sales and sales-type lease arrangements	19	19 ⁽¹⁾	47	31 ⁽¹⁾
New joint revenue sharing arrangements	<u>75</u>	<u>9</u>	<u>82</u>	<u>17</u>
Total new theaters	94	28	129	48
Upgrades of IMAX theater systems	<u>1</u>	<u>2</u>	<u>2</u>	<u>3</u>
Total theater signings	<u>95</u>	<u>30</u>	<u>131</u>	<u>51</u>

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Theater System Installations:				
Full new sales and sales-type lease arrangements	13 ⁽²⁾	15 ⁽²⁾	18 ⁽²⁾	20 ⁽²⁾
New joint revenue sharing arrangements	25	20	30	26
Total new theaters	38	35	48	46
Upgrades of IMAX theater systems	2 ⁽³⁾	—	11 ⁽⁴⁾⁽⁵⁾	2 ⁽⁴⁾⁽⁵⁾
Total theater installations	40	35	59	48

(1) Includes one signing which replaced a theatre system under an existing arrangement in backlog.

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

(3) Includes one installation of an upgrade to a laser-based digital system and one upgrade to a xenon-based digital system under sales and sales-type lease arrangements.

(4) Includes nine installations of an upgrade to a laser-based digital system under sales and sales-type lease arrangements (2015 — one laser-based digital system under a sales and sales-type lease arrangement).

(5) Includes two installations of an upgrade to a xenon-based digital system under sales arrangements (2015 — one xenon-based digital system under a short-term operating lease arrangement).

The Company estimates that it will install 155 new theater systems (excluding upgrades) in 2016. 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 ranged between 10–15%, of net 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 September 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. 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 first time a full feature length movie will be filmed with the IMAX cameras. In addition, several recent movies, including *Tomorrowland: The IMAX Experience*, released in May 2015, and *Guardians of the Galaxy: An IMAX 3D Experience*, released in August 2014 have featured footage taking advantage of the larger projected IMAX aspect ratio.

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 is an important driver of future growth for the Company. During six months ended June 30, 2016, 62.6% of the Company's gross box-office from IMAX DMR films was generated in international markets, as compared to 62.0% in the six months ended June 30, 2015. 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. During 2015, the Company released eleven local language IMAX DMR films, including eight in China and three in Japan. The Company released one local language IMAX DMR film during the six months ended June 30, 2016 and expects to announce additional local language IMAX DMR films to be released to the IMAX network in the remainder of 2016 and beyond.

In addition to the 21 IMAX DMR films released to the IMAX theater network during the first six months ended June 30, 2016, 19 additional IMAX DMR films have been announced so far to be released in the remaining six months of 2016:

- *Ice Age: Collision Course: An IMAX 3D Experience* (20th Century Fox, July 2016);
- *The BFG: An IMAX 3D Experience* (Walt Disney Studios, July 2016);
- *Cold War 2: An IMAX 3D Experience* (Edko Films, July 2016, China only);
- *Ghostbusters: An IMAX 3D Experience* (Sony Pictures, July 2016);

- *For A Few Bullets: The IMAX Experience* (Wanda Media Co., July 2016, China only);
- *Star Trek Beyond: An IMAX 3D Experience* (Paramount Pictures, July 2016);
- *Skiptrace: An IMAX 3D Experience* (Talent Int., August 2016, China only);
- *Time Raiders: An IMAX 3D Experience* (Le Vision Pictures, August 2016, China only);
- *Suicide Squad: An IMAX 3D Experience* (Warner Bros. Pictures, August 2016);
- *Ben-Hur: An IMAX 3D Experience* (Paramount Pictures, August 2016);
- *Sully: The IMAX Experience* (Warner Bros. Pictures, September 2016);
- *The Magnificent Seven: The IMAX Experience* (Sony Pictures, September 2016);
- *Deepwater Horizon: The IMAX Experience* (Lionsgate Entertainment, September 2016);
- *Interno: The IMAX Experience* (Sony Pictures, October 2016);
- *Jack Reacher: Never Go Back: The IMAX Experience* (Paramount Pictures, October 2016);
- *The Duelist: The IMAX Experience* (Non-Stop Production LLC, October 2016, Russia only);
- *Doctor Strange: An IMAX 3D Experience* (Walt Disney Studios, November 2016);
- *Fantastic Beasts and Where to Find Them: An IMAX 3D Experience* (Warner Bros. Pictures, November 2016); and
- *Rogue One: A Star Wars Story: An IMAX 3D Experience* (Walt Disney Studios, December 2016).

In addition, the Company will be releasing an IMAX documentary film, *Voyage of Time*, on October 7, 2016.

To date, the Company has announced the following 11 titles to be released in 2017 to the IMAX theater network:

- *Attraction: An IMAX 3D Experience* (Art Pictures Studio, January 2017, Russia only);
- *The Maze Runner: The Death Cure: The IMAX Experience* (20th Century Fox, February 2017);
- *Wolverine: The IMAX Experience* (20th Century Fox, March 2017);
- *Kong: Skull Island: An IMAX 3D Experience* (Warner Bros. Pictures, March 2017);
- *Ghost in the Shell: An IMAX 3D Experience* (Paramount Pictures, March 2017);

- *Guardians of the Galaxy Vol. 2: An IMAX 3D Experience* (Walt Disney Studios, May 2017);
- *Pirates of the Caribbean: Dead Men Tell No Tales: An IMAX 3D Experience* (Walt Disney Studios, May 2017);
- *Transformers: The Last Knight: An IMAX 3D Experience* (Paramount Pictures, June 2017);
- *Spider-Man: An IMAX 3D Experience* (Sony Pictures, July 2017);
- *Thor: Ragnarok: An IMAX 3D Experience* (Walt Disney Studios, November 2017);
- *Star Wars: Episode VIII: An IMAX 3D Experience* (Walt Disney Studios, December 2017);

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate, and anticipates that a similar number of IMAX DMR films will be released to the IMAX network in 2016 to the 44 films that were released to the IMAX network in 2015.

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.

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, which will contribute \$9.0 million to the Film Fund over five years starting in 2014, anticipates the Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous flow of high-quality documentary content. To date, the Film Fund has invested \$7.7 million toward the development of original films.

Furthermore, in 2015, the Company announced the creation of the IMAX China Film Fund (the “**China Film Fund**”) with its subsidiary IMAX China and its partner CMC to help fund Mandarin language commercial films. The China Film Fund, which is expected initially to be capitalized with approximately \$50.0 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-CMC controlled greenlight committee, and the Company is in the process of bringing in other investors to increase the size of the China Film Fund.

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

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 13 to the accompanying condensed consolidated financial statements in Item 1, the Company has the following seven reportable segments identified by category of product sold or service provided:

- **IMAX Theater Systems**

- o The IMAX systems segment, which is comprised of the design, manufacture, sale or lease of IMAX theater projection system equipment.
- o The theater system maintenance segment, which is comprised of the maintenance of IMAX theater projection system equipment in the IMAX theater network.
- o 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.
- o The other segment, which includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items.

- **Film**

- o The film production and IMAX DMR segment, which is comprised of the production of films and performance of film re-mastering services.
- o The film distribution segment, which includes the distribution of films for which the Company has distribution rights.
- o The film post-production segment, which includes the provision of film post-production and film print services.

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 management's view of the business and is not expected to have an impact on the readers' ability to understand the Company's business.

Management believes that a discussion and analysis based on its reporting groups is significantly more relevant as the Company's condensed consolidated statements of operations captions combine results from several segments.

Three Months Ended June 30, 2016 versus Three Months Ended June 30, 2015

The Company reported net income of \$10.7 million or \$0.16 per basic and diluted share for the second quarter of 2016 as compared to net income of \$26.4 million or \$0.37 per basic share and \$0.36 per diluted share for the second quarter of 2015. Net income for the second quarter of 2016 includes a \$6.2 million charge or \$0.09 per diluted share (2015 — \$5.1 million or \$0.07 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 \$15.1 million or \$0.22 per diluted share for the second quarter of 2016 as compared to adjusted net income of \$30.7 million or \$0.42 per diluted share for the second quarter of 2015. 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 \$12.1 million or \$0.18 per diluted share for the second quarter of 2016 as compared to adjusted net income attributable to common shareholders of \$28.7 million or \$0.40 per diluted share for the second quarter of 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:

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 10,683	\$ 0.16	\$ 26,380	\$ 0.36 ⁽¹⁾
Adjustments:				
Stock-based compensation	6,205	0.09	5,103	0.07
Tax impact on items listed above	(1,744)	(0.03)	(740)	(0.01)
Adjusted net income	15,144	0.22	30,743	0.42 ⁽¹⁾
Net income attributable to non-controlling interests	(2,892)	(0.04)	(2,030)	(0.02)
Stock-based compensation (net of tax of less than \$0.1 million) attributable to non-controlling interests	(168)	—	—	—
Adjusted net income attributable to common shareholders	\$ 12,084	\$ 0.18	\$ 28,713	\$ 0.40 ⁽¹⁾
Weighted average diluted shares outstanding		68,455		71,688

(1) Includes impact \$0.3 million of accretion charges associated with redeemable Class C shares of IMAX China.

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

<i>(In thousands of U.S. dollars)</i>	Revenue		Gross Margin	
	2016	2015	2016	2015
IMAX Theater Systems				
IMAX Systems				
Sales and sales-type leases ⁽¹⁾	\$ 18,720	\$ 18,674	\$ 9,540	\$ 10,038
Ongoing rent, fees, and finance income ⁽²⁾	4,241	3,691	4,135	3,499
Other	5,009	4,674	162	(114)
	<u>27,970</u>	<u>27,039</u>	<u>13,837</u>	<u>13,423</u>
Theater System Maintenance	<u>9,912</u>	<u>9,158</u>	<u>3,370</u>	<u>3,089</u>
Joint Revenue Sharing Arrangements	<u>23,856</u>	<u>31,594</u>	<u>15,744</u>	<u>24,069</u>
Film				
Production and IMAX DMR	27,413	36,603	17,127	28,488
Film distribution and post-production	<u>2,592</u>	<u>2,766</u>	<u>199</u>	<u>(34)</u>
	<u>30,005</u>	<u>39,369</u>	<u>17,326</u>	<u>28,454</u>
	<u>\$ 91,743</u>	<u>\$ 107,160</u>	<u>\$ 50,277</u>	<u>\$ 69,035</u>

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

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

Revenues and Gross Margin

The Company's revenues for the second quarter of 2016 decreased 14.4% to \$91.7 million from \$107.2 million in 2015, primarily due to a decrease in revenues from the Company's joint revenue sharing arrangements and film segments as a result of lower film box-office performance versus the prior year comparative period. The gross margin across all segments in the second quarter of 2016 was \$50.3 million, or 54.8% of total revenue, compared to \$69.0 million, or 64.4% of total revenue in the second quarter of 2015.

IMAX Systems

IMAX systems revenue increased 3.4% to \$28.0 million in the second quarter of 2016 as compared to \$27.0 million in second quarter of 2015. The Company recognized the installation of 15 theater systems under sales or sales-type lease arrangements in the second quarter of 2016 and 2015, respectively.

Revenue from sales and sales-type leases was \$18.7 million in the second quarter of 2016, and 2015, respectively. The Company recognized revenue on 12 full, new theater systems which qualified as either sales or sales-type leases in the second quarter of 2016, with a total value of \$16.0 million, versus 14 full, new theater systems in the second quarter of 2015 with a total value of \$17.8 million. The Company also recognized revenue on the installation of one laser-based digital upgrade and one xenon-based digital upgrade in the second quarter of 2016, with a total value of \$1.5 million, as compared to no such upgrades in the second quarter of 2015. Digital upgrades typically have lower sales prices and gross margin than full theater system installations. One used xenon-based digital system was installed and recognized in the three months ended June 30, 2016 with a total value of \$0.3 million, as compared to one used xenon-based digital system in the three months ended June 30, 2015 with a total value of \$0.2 million.

Average revenue per full, new sales and sales-type lease systems was \$1.3 million for the three months ended June 30, 2016, which was consistent with the three months ended June 30, 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 digital upgrade was \$0.8 million for the three months ended June 30, 2016. No upgrades were installed in the three months ended June 30, 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 is outlined in the table below:

	Three Months Ended June 30,	
	2016	2015
New IMAX digital theater systems — installed and recognized		
Sales and sales-types lease arrangements	13⁽¹⁾	15
Joint revenue sharing arrangements	25⁽¹⁾	20
Total new theater systems	38	35
IMAX digital theater system upgrades — installed and recognized		
Sales and sales-types lease arrangements	2	—
Total upgraded theater systems	2	—
Total theater systems installed	40	35

(1) Includes four laser-based digital system configurations (two under sales and sales-type lease arrangements and two under joint revenue sharing arrangements).

Settlement revenue was \$0.8 million for the second quarter of 2016, as compared to \$0.1 million for the second quarter of 2015.

IMAX theater system margin from full, new sales and sales-type lease systems was 58.0% in the second quarter of 2016 which was lower than the 65.7% experienced in the second quarter of 2015. Gross margin from digital upgrades was \$0.2 million in the second quarter of 2016. No digital upgrades were installed in second quarter of 2015. The gross margin from used systems was a loss of less than \$0.1 million in the second quarter of 2016, as compared to a loss of \$0.2 million in the second quarter of 2015. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

Ongoing rent revenue and finance income increased 14.9% to \$4.2 million in the second quarter of 2016 compared to \$3.7 million in the second quarter of 2015. Gross margin for ongoing rent and finance income increased to \$4.1 million in the second quarter of 2016 compared to \$3.5 million in the second quarter of 2015. Contingent fees included in this caption amounted to \$1.1 million and \$0.8 million in the three months ended June 30, 2016 and 2015, respectively.

Other revenue increased to \$5.0 million in the second quarter of 2016 as compared to \$4.7 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 the sale of 3D glasses and camera rentals during 2016 as compared to the prior year period.

The gross margin recognized from other revenue was \$0.2 million in the second quarter of 2016 as compared to a loss of \$0.1 million in the second quarter of 2015, primarily driven by higher margins from the Company's after-market sales in the current period versus the prior year comparative period.

Theater System Maintenance

Theater system maintenance revenue increased 8.2% to \$9.9 million in the second quarter of 2016 from \$9.2 million in the second quarter of 2015. Theater system maintenance gross margin increased to \$3.4 million in the second quarter of 2016 from \$3.1 million in the second quarter of 2015. 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 24.5% to \$23.9 million in the second quarter of 2016 from \$31.6 million in the second quarter of 2015. The Company ended the second quarter of 2016 with 559 theaters operating under joint revenue sharing arrangements, as compared to 477 theaters at the end of the second quarter of 2015, an increase of 17.2%. The decrease in revenues from joint revenue sharing arrangements was largely due to lower film box-office performance versus the prior year period. During the second quarter of 2016, the Company installed 25 full, new theaters under joint revenue sharing arrangements, as compared to 20 full new theaters during the second quarter of 2015.

The gross margin from joint revenue sharing arrangements was \$15.7 million in the second quarter of 2016 as compared to \$24.1 million in the second quarter of 2015. Included in the calculation of the second quarter of 2016 gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$1.4 million, as compared to \$1.3 million during the second quarter of 2015.

Film

Revenue from the Company's film segments decreased 23.8% to \$30.0 million in the second quarter of 2016 from \$39.4 million in the second quarter of 2015 primarily due to lower film box-office performance. Gross box-office generated by IMAX DMR films decreased 24.0% to \$260.8 million in the second quarter of 2016 from \$343.0 million in the second quarter of 2015. Film production and IMAX DMR revenues decreased 25.1% to \$27.4 million in the second quarter of 2016 from \$36.6 million in the second quarter of 2015. Gross box-office per screen for the second quarter of 2016 averaged \$268,200, in comparison to \$414,600 in the second quarter of 2015. In the second quarter of 2016, gross box-office was generated primarily by the exhibition of 17 films (10 new and 7 carryovers), as compared to 17 films (10 new and 7 carryovers) exhibited in the second quarter of 2015:

Three Months Ended June 30, 2016 — Films Exhibited

Star Wars: The Force Awakens: An IMAX 3D Experience
The Revenant: The IMAX Experience
Deadpool: The IMAX Experience
Gods of Egypt: An IMAX 3D Experience
Zootopia: An IMAX 3D Experience
10 Cloverfield Lane: The IMAX Experience
Batman v Superman: Dawn of Justice: An IMAX 3D Experience
The Crew: An IMAX 3D Experience
The Jungle Book: An IMAX 3D Experience
Captain America: Civil War: An IMAX 3D Experience
X-Men: Apocalypse: An IMAX 3D Experience
Alice in Wonderland: Through the Looking Glass: An IMAX 3D Experience
Teenage Mutant Ninja Turtles: Out of the Shadows: An IMAX 3D Experience
Warcraft: An IMAX 3D Experience
Finding Dory: An IMAX 3D Experience
Independence Day: Resurgence: An IMAX 3D Experience
The Legend of Tarzan: An IMAX 3D Experience

Three Months Ended June 30, 2015 — Films Exhibited

Night at the Museum: Secret of the Tomb: An IMAX 3D Experience
Kingsman: The Secret Service: The IMAX Experience
Jupiter Ascending: An IMAX 3D Experience
Chappie: The IMAX Experience
Cinderella: The IMAX Experience
The Divergent Series: Insurgent: An IMAX 3D Experience
Furious 7: The IMAX Experience
The Water Diviner: The IMAX Experience
Dragon Ball Z: Resurrection of 'F': An IMAX 3D Experience
The Avengers: Age of Ultron: An IMAX 3D Experience
Tomorrowland: The IMAX Experience
Jurassic World: An IMAX 3D Experience
Terminator Genisys: An IMAX 3D Experience
San Andreas: An IMAX 3D Experience
Mad Max: Fury Road: An IMAX 3D Experience
Inside Out: An IMAX 3D Experience
The Maze Runner: The IMAX Experience

Other revenues attributable to the film segment was \$2.6 million in the second quarter of 2016 as compared to \$2.8 million in the second quarter of 2015 primarily due to a decrease in film distribution revenue from IMAX original films. The second quarter of 2016 includes the release of an IMAX original production, *A Beautiful Planet* on April 29, 2016, whereas no original films were released in the prior year comparative period.

The Company's gross margin from its film segments decreased 39.1% in the second quarter of 2016 to \$17.3 million from \$28.5 million in the second quarter of 2015. Film production and IMAX DMR gross margins decreased to \$17.1 million from \$28.5 million primarily due to lower film box-office performance and higher costs, including marketing. Other gross margin attributable to the film segment was \$0.2 million in the second quarter of 2016 as compared to a loss of less than \$0.1 million in the second quarter of 2015.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$30.4 million in the second quarter of 2016, as compared to \$29.0 million in the second quarter of 2015. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$24.2 million in the second quarter of 2016, as compared to \$23.9 million in the second quarter of 2015. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

- a \$1.1 million increase in the Company's stock-based compensation;
- a \$1.0 million increase due to a change in foreign exchange rates. During the second quarter ended June 30, 2016, the Company recorded a foreign exchange loss of \$0.4 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a gain of \$0.6 million recorded in 2015;
- a \$0.5 million increase in staff costs related to the core business, including salaries and benefits.

These increases were offset by a \$1.2 million net decrease in other general corporate expenditures including consulting, professional fees, travel and entertainment.

Research and Development

Research and development expenses increased to \$3.4 million in the second quarter of 2016 compared to \$2.4 million in the second quarter of 2015 and are primarily attributable to the continued development of the Company's new laser-based digital projection system and its new private home theater. As of June 30, 2016, the Company had 31 laser-based digital theater systems in operation and 19 laser-based digital theater systems in backlog. In 2015, the Company introduced its new private home theater in China. To date, the Company has signed agreements for more than 130 premium home theater systems.

The Company intends for additional research and development to continue throughout 2016 as the Company supports further development of the laser-based projection system. In addition, to continued research and development with respect to its core business, the Company intends to conduct research and development in connection with the previously-announced cinema-grade VR camera to be developed in partnership with Google. The Company also 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, developing and manufacturing more IMAX cameras, 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 further enhancing the IMAX theater and sound system design through the addition of more channels, improvements to the Company's proprietary tuning system and mastering processes.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.2 million in the second quarter of 2016, as compared to \$0.3 million in the second quarter of 2015.

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

In the second quarter of 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. In the second quarter of 2015, the Company recognized a similar charge of \$0.4 million.

Interest Income and Expense

Interest income was \$0.4 million in the second quarter of 2016, as compared to \$0.3 million in the second quarter of 2015.

Interest expense was \$0.5 million in the second quarter of 2016, as compared to \$0.4 million in the second quarter of 2015. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.2 million in the second quarter of 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.

As at June 30, 2016, the Company had a gross deferred income tax asset of \$26.2 million, against which the Company is carrying a \$0.3 million valuation allowance. For the three months ended June 30, 2016, the Company recorded an income tax provision of \$3.4 million, of which a provision of less than \$0.1 million was related to an increase in its provision for uncertain tax positions.

The Company's Chinese subsidiary has made certain enquiries of the Chinese State Administration of Taxation regarding the potential deductibility of the IMAX China IPO expenses and 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. To date, no tax assets have been recorded against these amounts given the significant uncertainty of its deductibility and the possible 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.

Non-Controlling Interests

The Company's condensed 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 three months ended June 30, 2016, the net income attributable to non-controlling interests of the Company's subsidiaries was \$2.9 million (2015 — \$2.0 million).

Six Months Ended June 30, 2016 versus Six Months Ended June 30, 2015

The Company reported net income of \$22.9 million or \$0.33 per basic and diluted share for the six months ended June 30, 2016, as compared to net income of \$27.9 million or \$0.39 per basic share and \$0.38 per diluted share for the six months ended June 30, 2015. Net income for the six months ended June 30, 2016 includes a \$14.7 million charge or \$0.21 per diluted share (2015 — \$10.7 million or \$0.15 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 \$33.4 million or \$0.48 per diluted share for the six months ended June 30, 2016, as compared to adjusted net income of \$36.8 million or \$0.51 per diluted share for the six months ended June 30, 2015. 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 \$27.6 million or \$0.40 per diluted share for the six months ended

June 30, 2016, as compared to adjusted net income attributable to common shareholders of \$33.7 million or \$0.47 per diluted share for the six months ended June 30, 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:

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 22,860	\$ 0.33	\$ 27,865	\$ 0.38 ⁽¹⁾
Adjustments:				
Stock-based compensation	14,743	0.21	10,678	0.15
Tax impact on items listed above	(4,184)	(0.06)	(1,702)	(0.02)
Adjusted net income	33,419	0.48	36,841	0.51 ⁽¹⁾
Net income attributable to non-controlling interests	(5,542)	(0.08)	(3,124)	(0.04)
Stock-based compensation (net of tax of \$0.1 million) attributable to non-controlling interests	(293)	—	—	—
Adjusted net income attributable to common shareholders	<u>\$ 27,584</u>	<u>\$ 0.40</u>	<u>\$ 33,717</u>	<u>\$ 0.47⁽¹⁾</u>
Weighted average diluted shares outstanding		<u>69,222</u>		<u>71,349</u>

(1) Includes impact of \$0.5 million of accretion charges associated with redeemable Class C shares of IMAX China.

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

<i>(In thousands of U.S. dollars)</i>		Revenue		Gross Margin	
		2016	2015	2016	2015
IMAX Theater Systems					
IMAX Systems					
Sales and sales-type leases ⁽¹⁾	\$	36,718	\$ 27,289	\$ 13,859	\$ 14,945
Ongoing rent, fees, and finance income ⁽²⁾		8,103	7,190	7,650	6,777
Other		9,490	8,099	(320)	(154)
		54,311	42,578	21,189	21,568
Theater System Maintenance		19,738	18,008	6,809	6,370
Joint Revenue Sharing Arrangements		47,242	47,462	33,736	34,686
Film					
Production and IMAX DMR		57,218	54,279	39,950	41,713
Film distribution and post-production		5,362	7,044	769	679
		62,580	61,323	40,719	42,392
	\$	183,871	\$ 169,371	\$ 102,453	\$ 105,016

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

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

Revenues and Gross Margin

The Company's revenues for the six months ended June 30, 2016 increased by 8.6% to \$183.9 million from \$169.4 million in the six months ended June 30, 2015, largely due to an increase in revenues from the Company's IMAX systems segment. The gross margin across all segments in the six months ended June 30, 2016 was \$102.5 million, or 55.7% of total revenue, compared to \$105.0 million, or 62.0% of total revenue in the six months ended June 30, 2015. Impacting the gross margin in the six months ended June 30, 2016 was the installation of 11 digital upgrades under sales or sales-type lease arrangements which had lower margins. Gross margin, excluding the impact of these digital upgrades, was 59.1% of total revenue of total revenue in the six months ended June 30, 2016, as compared to 62.3% in the six months ended June 30, 2015.

IMAX Systems

IMAX systems revenue increased 27.6% to \$54.3 million in the six months ended June 30, 2016, as compared to \$42.6 million in the six months ended June 30, 2015. The Company installed 29 theater systems under sales or sales-type lease arrangements in the six months ended June 30, 2016 versus 21 theater systems in the six months ended June 30, 2015.

Revenue from sales and sales-type leases increased 34.6% to \$36.7 million in the six months ended June 30, 2016 from \$27.3 million in the six months ended June 30, 2015. The Company recognized revenue on 17 full, new theater systems which qualified as either sales or sales-type leases in the six months ended June 30, 2016, with a total value of \$21.9 million, versus 19 full, new theater systems in the six months ended June 30, 2015 with a total value of \$24.1 million. The Company also recognized revenue on the installation of nine laser-based digital upgrades and two xenon-based digital upgrades in the six months ended June 30, 2016, with a total value of \$13.6 million, as compared to one laser-based digital upgrade in the six months ended June 30, 2015, with a total value of \$1.9 million. Digital upgrades typically have lower sales prices and gross margin than full theater system installations. There was one used xenon-based theater system installed in the six months ended June 30, 2016 with a total value of \$0.3 million, as compared to one xenon-based digital system installed and recognized in the six months ended June 30, 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 the six months ended June 30, 2016 and 2015, respectively. 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 digital upgrade was \$1.2 million in the six months ended June 30, 2016, as compared to \$1.9 million in the six months ended June 30, 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 is outlined in the table below:

	Six Months Ended June 30,	
	2016	2015
New IMAX xenon-based digital theater systems		
— installed and recognized		
Sales and sales-types lease arrangements	18	20
Joint revenue sharing arrangements	30	26
Total new theater systems	48	46
IMAX xenon-based digital theater system upgrades		
— installed and recognized		
Sales and sales-types lease arrangements	11⁽¹⁾	1 ⁽¹⁾
Short-term operating lease arrangements	—	1
Total upgraded theater systems	11	2
Total theater systems installed	59	48

(1) Includes nine laser-based digital system configurations, which were upgrades from xenon-based digital system configurations (2015 — one).

Revenues from sales and sales-type leases include settlement revenue of \$0.8 million in the six months ended June 30, 2016, as compared to \$0.1 million in the six months ended June 30, 2015.

IMAX theater system margin from full, new sales and sales-type lease systems, excluding the impact of settlements, was 60.8% in the six months ended June 30, 2016, as compared to 65.7% in the six months ended June 30, 2015. Gross margin from digital upgrades was \$1.7 million in the six months ended June 30, 2016, as compared to \$0.6 million in the six months ended June 30, 2015. In addition, in the six months ended June 30, 2016, the Company recorded a charge of \$0.2 million upon the upgrade of xenon-based digital systems under operating lease arrangements to laser-based digital systems under sales arrangements in IMAX systems margin. No such charges were recorded in the prior year comparative period. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

Ongoing rent revenue and finance income increased to \$8.1 million in the six months ended June 30, 2016, as compared to \$7.2 million in the six months ended June 30, 2015. Gross margin for ongoing rent and finance income increased to \$7.7 million in the six months ended June 30, 2016, compared to \$6.8 million in the six months ended June 30, 2015. Contingent fees included in this caption amounted to \$2.2 million and \$1.2 million in the six months ended June 30, 2016 and 2015, respectively.

Other revenue increased to \$9.5 million in the six months ended June 30, 2016, as compared to \$8.1 million in the six months ended June 30, 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 3D glasses in the six months ended June 30, 2016 from the prior year comparative period.

The gross margin recognized from other revenue was a loss of \$0.3 million in the six months ended June 30, 2016, as compared to a loss of \$0.1 million in the six months ended June 30, 2015.

Theater System Maintenance

Theater system maintenance revenue increased 9.6% to \$19.7 million in the six months ended June 30, 2016 from \$18.0 million in the six months ended June 30, 2015. Theater system maintenance gross margin increased to \$6.8 million in the six months ended June 30, 2016 from \$6.4 million in the six months ended June 30, 2015. 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 was \$47.2 million in the six months ended June 30, 2016, as compared to \$47.5 million in the six months ended June 30, 2015. The Company ended the six month period with 559 theaters operating under joint revenue sharing arrangements, as compared to 477 theaters at the end of the six months ended June 30, 2015, an increase of 17.2%. During the six months ended June 30, 2016, the Company installed 30 full, new theaters under joint revenue sharing arrangements, as compared to 26 full new theaters during the six months ended June 30, 2015.

The gross margin from joint revenue sharing arrangements was \$33.7 million in the six months ended June 30, 2016, as compared to \$34.7 million in the six months ended June 30, 2015. Included in the calculation of the six months ended June 30, 2016 gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$1.5 million, as compared to \$1.4 million for such expenses in the six months ended June 30, 2015.

Film

Revenue from the Company's film segments was \$62.6 million in the six months ended June 30, 2016 as compared to \$61.3 million in the six months ended June 30, 2015. Gross box-office generated by IMAX DMR films increased 4.9% to \$532.8 million in the six months ended June 30, 2016 from \$507.7 million in the six months ended June 30, 2015, primarily due to continued network growth. Film production and IMAX DMR revenues increased 5.4% to \$57.2 million in the six months ended June 30, 2016 from \$54.3 million in the six months ended June 30, 2015. Gross box-office per screen for the six months ended June 30, 2016 averaged \$550,800 in comparison to \$614,800 in the six months ended June 30, 2015. In the six months ended June 30, 2016, gross box-office was generated primarily from the exhibition of 27 films listed below (21 new and 6 carryovers), as compared to 33 (23 new and 10 carryover) films exhibited in the six months ended June 30, 2015:

Six Months Ended June 30, 2016 — Films Exhibited

Interstellar: The IMAX Experience
Mad Max: Fury Road: An IMAX 3D Experience
The Walk: The IMAX Experience
The Martian: An IMAX 3D Experience
Mojin: The Lost Legend (aka "The Ghouls"):
An IMAX 3D Experience
Star Wars: The Force Awakens: An IMAX 3D Experience
The Revenant: The IMAX Experience
The Finest Hours: An IMAX 3D Experience
Kung Fu Panda 3: An IMAX 3D Experience
The Monkey King 2: An IMAX 3D Experience
Crouching Tiger, Hidden Dragon: Sword of Destiny: An IMAX 3D Experience
Deadpool: The IMAX Experience
Gods of Egypt: An IMAX 3D Experience
Zootopia: An IMAX 3D Experience
10 Cloverfield Lane: The IMAX Experience
The Divergent Series: Allegiant: The IMAX Experience
Batman v Superman: Dawn of Justice:
An IMAX 3D Experience
The Crew: An IMAX 3D Experience
The Jungle Book: An IMAX 3D Experience
Captain America: Civil War: An IMAX 3D Experience
X-Men: Apocalypse: An IMAX 3D Experience
Alice in Wonderland: Through the Looking Glass: An IMAX 3D Experience

Six Months Ended June 30, 2015 — Films Exhibited

Teenage Mutant Ninja Turtles: An IMAX 3D Experience
Fury: The IMAX Experience
Interstellar: The IMAX Experience
Big Hero 6: An IMAX 3D Experience
Penguins of Madagascar: An IMAX 3D Experience
Exodus: Gods and Kings: An IMAX 3D Experience
The Hobbit: The Battle of the Five Armies:
An IMAX 3D Experience
Gone with the Bullets: An IMAX 3D Experience
Seventh Son: An IMAX 3D Experience
Night at the Museum: Secret of the Tomb:
An IMAX 3D Experience
Taken 3: The IMAX Experience
American Sniper: The IMAX Experience
Game of Thrones: The IMAX Experience
(Season 4, Episodes 9 and 10)
Kingsman: The Secret Service:
The IMAX Experience
Jupiter Ascending: An IMAX 3D Experience
Fifty Shades of Grey: The IMAX Experience
Wolf Totem: An IMAX 3D Experience
Dragon Blade: An IMAX 3D Experience
Focus: The IMAX Experience
Chappie: The IMAX Experience
Cinderella: The IMAX Experience

Six Months Ended June 30, 2016 — Films Exhibited

Teenage Mutant Ninja Turtles: Out of the Shadows: An IMAX 3D Experience
Warcraft: An IMAX 3D Experience
Finding Dory: An IMAX 3D Experience
Independence Day: Resurgence: An IMAX 3D Experience
The Legend of Tarzan: An IMAX 3D Experience

Six Months Ended June 30, 2015 — Films Exhibited

The Divergent Series: Insurgent: An IMAX 3D Experience
Furious 7: The IMAX Experience
The Water Diviner: The IMAX Experience
Dragon Ball Z: Resurrection of 'F': An IMAX 3D Experience
The Avengers: Age of Ultron: An IMAX 3D Experience
Tomorrowland: The IMAX Experience
Jurassic World: An IMAX 3D Experience
Terminator Genisys: An IMAX 3D Experience
San Andreas: An IMAX 3D Experience
Mad Max: Fury Road: An IMAX 3D Experience
Inside Out: An IMAX 3D Experience
The Maze Runner: The IMAX Experience

Other revenues attributable to the film segment decreased to \$5.4 million in the six months ended June 30, 2016 from \$7.0 million in the six months ended June 30, 2015, primarily due to a decrease in film distribution revenue from IMAX original films. The six months ended June 30, 2016 includes the release of an IMAX original production, A Beautiful Planet on April 29, 2016, whereas no original films were released in the prior year comparative period.

The Company's gross margin from its film segments decreased 3.9% in the six months ended June 30, 2016 to \$40.7 million from \$42.4 million in the six months ended June 30, 2015. Film production and IMAX DMR gross margins decreased to \$40.0 million from \$41.7 million primarily due to higher costs, including marketing. Other gross margin attributable to the film segment was \$0.8 million in the six months ended June 30, 2016, as compared to \$0.7 million in the six months ended June 30, 2015.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$62.0 million in the six months ended June 30, 2016, as compared to \$57.4 million in the six months ended June 30, 2015. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$47.3 million in the six months ended June 30, 2016, as compared to \$46.7 million in the six months ended June 30, 2015. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

- a \$4.0 million increase in the Company's stock-based compensation;
- a \$1.9 million increase in staff costs related to the core business, including salaries and benefits; offset by
- a \$0.2 million net decrease in other general corporate expenditures, including travel and entertainment; and

- a \$1.1 million decrease due to a change in foreign exchange rates. During the six months ended June 30, 2016, the Company recorded a foreign exchange gain of \$0.1 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of \$1.0 million recorded in the six months ended June 30, 2015.

Research and Development

Research and development expenses increased to \$7.1 million in the six months ended June 30, 2016 compared to \$6.9 million in the six months ended June 30, 2015 and are primarily attributable to the continued development of the Company's new laser-based digital projection system, its new private home theater and other initiatives. As of June 30, 2016, the Company had 31 laser-based digital theater systems in operation and 19 laser-based digital theater systems in backlog. In 2015, the Company introduced its new private home theater in China. To date, the Company has signed agreements for more than 130 premium home theater systems.

The Company intends for additional research and development to continue throughout 2016 as the Company supports further development of the laser-based projection system. In addition, to continued research and development with respect to its core business, the Company intends to conduct research and development in connection with the previously-announced cinema-grade VR camera to be developed in partnership with Google. The Company also 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, developing and manufacturing more IMAX cameras, 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 further enhancing the IMAX theater and sound system design through the addition of more channels, improvements to the Company's proprietary tuning system and mastering processes.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.4 million in the six months ended June 30, 2016, as compared to \$0.3 million in the six months ended June 30, 2015.

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

In the six months ended June 30, 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. In the six months ended June 30, 2015, the Company recognized a similar charge of \$0.4 million.

Interest Income and Expense

Interest income was \$0.8 million in the six months ended June 30, 2016, as compared to \$0.5 million in the six months ended June 30, 2015.

Interest expense was \$0.9 million in the six months ended June 30, 2016, as compared to \$0.7 million in the six months ended June 30, 2015. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.3 million and \$0.4 million in the six months ended June 30, 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.

As at June 30, 2016, the Company had a gross deferred income tax asset of \$26.2 million, against which the Company is carrying a \$0.3 million valuation allowance. For the six months ended June 30, 2016, the Company recorded an income tax provision of \$7.1 million, of which a provision of less than \$0.1 million was related to an increase in its provision for uncertain tax positions.

The Company's Chinese subsidiary has made certain enquiries of the Chinese State Administration of Taxation regarding the potential deductibility of the IMAX China IPO expenses and 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. To date, no tax assets have been recorded against these amounts given the significant uncertainty of its deductibility and the possible 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 currently unable to reliably estimate the magnitude of the related tax benefits at this time.

Non-Controlling Interests

The Company's condensed 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 six months ended June 30, 2016, the net income attributable to non-controlling interests of the Company's subsidiaries was \$5.5 million (2015 — \$3.1 million).

Liquidity and Capital Resources

On March 3, 2015, the Company amended and restated the terms of its existing senior secured credit facility (the “**Prior Credit Facility**”) in order to, among other things, eliminate the fixed charge coverage ratio under the Prior Credit Facility and reset certain financial maintenance covenants. The amended and restated facility (the “**Credit Facility**”), with a scheduled maturity of March 3, 2020, has a maximum borrowing capacity of \$200.0 million, the same maximum borrowing capacity as under the Prior Credit Facility. Certain of the Company's subsidiaries serve as guarantors (the “**Guarantors**”) of the Company's obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the Guarantors.

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 June 30, 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 six months ended June 30, 2016 was nil, as no amounts were outstanding during the period (2015 — nil).

The Credit Facility 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 EBITDA (as defined in the Credit Agreement) of \$100.0 million. The Company is also required to maintain a Maximum Total Leverage Ratio (as defined in the Credit Agreement) of 2.25:1.0, which requirement decreases to (i) 2.0:1.0 on December 31, 2016; and (ii) 1.75:1.0 on December 31, 2017. The Company was in compliance with all of these requirements at June 30, 2016. The Maximum Total Leverage Ratio was 0.21:1 as at June 30, 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 \$28.7 million. EBITDA is calculated as follows:

	For the Three Months Ended June 30, 2016	For the Twelve Months Ended June 30, 2016 ⁽¹⁾
EBITDA per Credit Facility: <i>(In thousands of U.S. Dollars)</i>		
Net income	\$ 10,683	\$ 59,619
Add (subtract):		
Loss from equity accounted investments	1,340	3,000
Provision for income taxes	3,366	17,205
Interest expense, net of interest income	78	500
Depreciation and amortization, including film asset amortization	11,496	43,252
Write-downs, net of recoveries including asset impairments and receivable provisions	601	3,517
Stock and other non-cash compensation	6,347	26,532
EBITDA before non-controlling interests	33,911	153,625
EBITDA attributable to non-controlling interests ⁽²⁾	(4,876)	(18,667)
EBITDA attributable to common shareholders	<u>\$ 29,035</u>	<u>\$ 134,958</u>

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

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

Cash and Cash Equivalents

As at June 30, 2016, the Company's principal sources of liquidity included cash and cash equivalents of \$228.1 million, the Credit Facility, anticipated collection from trade accounts receivable of \$94.7 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 \$21.6 million and payments expected in the next 12 months on existing backlog deals. As at June 30, 2016, the Company did not have any amount drawn on the Credit Facility (remaining availability of \$200.0 million). As at June 30, 2016, the Company had \$28.7 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 June 30, 2016 was \$138.2 million (December 31, 2015 — \$122.2 million).

During the six months ended June 30, 2016, the Company's operations provided cash of \$36.1 million which reflects a \$6.3 million increase in inventory primarily due to the anticipated roll-out of its theater systems. The Company used cash of \$135.8 million to repurchase common shares, fund capital expenditures, to build equipment for use in joint revenue sharing arrangements, to purchase other intangible assets, and to purchase property, plant and equipment. Based on management's current operating plan for 2016, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements and to fund DMR agreements with studios. Cash flows from joint revenue sharing arrangements are derived from the theater box-office and concession revenues and the Company invested directly in the roll out of 30 new theater systems under joint revenue sharing arrangements during the six months ended June 30, 2016.

In 2014, the Company's Board of Directors approved a \$150.0 million share repurchase program for shares of the Company's common stock. Purchases under the program commenced in 2014. The share repurchase 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. On April 20, 2016, the Company's board of directors approved an incremental \$50.0 million increase to the share repurchase allowance, for an aggregate allowance of \$200.0 million under the program. All other terms remain unchanged. During the six months ended June 30, 2016, the Company repurchased 2,790,512 common shares under the repurchase program at an average price of \$30.69 per share. The retired shares were purchased for \$85.7 million.

The Company has received an exemption decision issued by the Ontario Securities Commission, dated April 1, 2016, for relief from the formal issuer bid requirements under Canadian securities laws. The exemption decision permits the Company to repurchase up to 10% of its outstanding common shares in any twelve-month period through the facilities of the New York Stock Exchange under repurchase programs that the Company may implement from time to time. The Canadian securities laws regulate an issuer's ability to make repurchases of its own securities.

The Company sought the exemption so that it can make repurchases under its repurchase programs in excess of the maximum allowable in reliance on the existing “other published markets” exemption from the formal issuer bid requirements available under Canadian securities laws. The “other published markets” exemption caps the Company’s ability to repurchase its securities through the facilities of the NYSE at 5% of the issuer’s outstanding securities during any 12-month period.

The conditions of the exemption decision are as follows: (i) any repurchases made in reliance on the exemption decision must be permitted under, and part of repurchase programs established and conducted in accordance with, U.S. securities laws and NYSE rules, (ii) the aggregate number of common shares acquired in reliance on the exemption decision by the Company and any person or company acting jointly or in concert with the Company within any 12 months does not exceed 10% of the outstanding common shares at the beginning of the 12-month period, (iii) the common shares are not listed and posted for trading on an exchange in Canada, (iv) the exemption decision applies only to the acquisition of common shares by the Company within 36 months of the date of the decision, and (v) prior to purchasing common shares in reliance on the exemption decision, the Company discloses the terms of the exemption decision and the conditions applicable thereto in a press release that is issued on SEDAR and includes such language as part of the news release required to be issued in accordance with the “other published markets exemption” in respect of any repurchase program that may be implemented by the Company.

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

The Company’s operating cash flow will be adversely affected if management’s projections of future signings for theater systems and film 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 2015 Form 10-K), there is no guarantee that the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company’s typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

Operating Activities

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

Cash provided by operating activities amounted to \$36.1 million for the six months ended June 30, 2016. Changes in other non-cash operating assets as compared to December 31, 2015 include: a decrease of \$2.9 million in accounts receivable; an increase of \$1.0 million in financing receivables; an increase of \$6.3 million in inventories; an increase of \$2.3 million in prepaid expenses; and a change in other assets of \$1.0 million which includes an increase of \$1.2 million in other assets, an increase of less than \$0.1 million in commissions and other deferred selling expenses, offset by a decrease of \$0.1 million in insurance recoveries. Changes in other operating liabilities as compared to December 31, 2015 include: an increase in deferred revenue of \$1.9 million related to backlog payments received in the current period, offset by amounts relieved from deferred revenue related to theater system installations; a decrease in accounts payable of \$1.9 million; and a decrease of \$7.8 million in accrued liabilities.

Investing Activities

Net cash used in investing activities amounted to \$30.9 million in six months ended June 30, 2016, which includes purchases of \$8.5 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$20.7 million and an increase in other intangible assets of \$1.7 million, primarily related to the Company's enterprise resource planning system.

Financing Activities

Net cash used in financing activities in the six months ended June 30, 2016 amounted to \$94.6 million as compared to \$71.1 million provided by financing activities in the six months ended June 30, 2015. In the six months ended June 30, 2016, the Company paid \$85.7 million for the repurchase of common shares under the Company's share repurchase program and \$8.4 million to purchase treasury stock for the issuance of restricted share units and options. In addition, the Company paid \$3.0 million of taxes relating to secondary sales and repatriation dividends and \$0.1 million of taxes relating to employee stock award vesting. Furthermore, the Company also made \$1.0 million in repayments under the Playa Vista Loan. These cash outlays were offset by \$3.6 million received from the issuance of common shares resulting from stock option exercises.

Capital Expenditures

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, other intangible assets and investments in film assets were \$41.8 million for the six months ended June 30, 2016 as compared to \$56.9 million for the six months ended June 30, 2015.

Contractual Obligations

Payments to be made by the Company under contractual obligations as of June 30, 2016 are as follows:

(In thousands of U.S. Dollars)	Total Obligations	Payments Due by Period					
		2016	2017	2018	2019	2020	Thereafter
Purchase obligations ⁽¹⁾	\$ 26,668	\$ 26,608	\$ 30	\$ 30	\$ —	\$ —	\$ —
Pension obligations ⁽²⁾	19,871	—	19,871	—	—	—	—
Operating lease obligations ⁽³⁾	20,384	3,539	5,176	4,616	2,372	581	4,100
Playa Vista Loan ⁽⁴⁾	28,667	1,000	2,000	2,000	2,000	2,000	19,667
Postretirement benefits obligations	2,673	130	155	169	182	151	1,886
	<u>\$ 98,263</u>	<u>\$ 31,277</u>	<u>\$ 27,232</u>	<u>\$ 6,815</u>	<u>\$ 4,554</u>	<u>\$ 2,732</u>	<u>\$ 25,653</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, 2016), although Mr. Gelfond has not informed the Company that he intends to retire at that time, and is currently in discussions regarding an extenuation of his employment agreement with the Company.
- (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.

Off-balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Factors about Market Risk

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

Foreign Exchange Rate Risk

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In addition, IMAX films generate box office in 69 different countries, and therefore unfavorable exchange rates between applicable local currencies and the U.S. dollar could have an impact on the Company's reported gross box office and revenues. The Company has incoming cash flows from its revenue generating theaters and ongoing operating expenses in China through its majority-owned subsidiary IMAX Shanghai Multimedia Technology Co., Ltd. In Japan, the Company has ongoing Yen-denominated operating expenses related to its Japanese operations. Net Renminbi and Japanese Yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Renminbi, Japanese Yen, Euros and Canadian dollars.

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

For the three and six months ended June 30, 2016, the Company recorded a foreign exchange loss of \$0.4 million and a gain of \$0.1 million as compared to a foreign exchange net gain of \$0.6 million and loss of \$1.0 million for the three and six months ended June 30, 2015, associated with the translation of foreign currency denominated monetary assets and liabilities.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 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 condensed 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 June 30, 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 condensed consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statement of operations. The notional value of foreign currency hedging instruments at June 30, 2016 was \$33.4 million (December 31, 2015 — \$30.7 million). A loss of less than \$0.1 million and a gain of \$2.2 million was recorded to Other Comprehensive Income with respect to the depreciation/appreciation in the value of these contracts for the three and six months ended June 30, 2016 (2015 — gain of \$0.4 million and loss of \$2.7 million). A loss of \$0.7 million and a loss of \$2.0 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses for the three and six months ended June 30, 2016 (2015 — loss of \$0.5 million and loss of \$1.2 million). The Company's estimated net amount of the existing gains as at June 30, 2016 is \$1.3 million, which is expected to be reclassified to earnings within the next twelve months. Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses.

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

At June 30, 2016, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros was \$48.0 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at June 30, 2016, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$4.8 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 June 30, 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.

Item 4. Controls and Procedures

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 first half of the year. The Company reviewed the implementation effort as well as the impact on its internal controls over financial reporting and where appropriate, is making changes to these controls over financial reporting to address these system changes. The Company expects the transition period to be completed in 2016 as controls evolve under the new system. 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 controls over financial reporting during the quarter ended at June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

(2) EARNINGS RELEASE EXTRACTS

"Demand for IMAX theatres has never been stronger and bodes well for our business as more signings lead to more installs, which then lead to more box office, and, ultimately, to greater revenue. Including the 95 theatres signed in the second quarter, we have signed nearly as many deals in the first half of 2016 as we did in all of 2015. This robust signings momentum has resulted in a record backlog, which includes a 40-theatre full revenue-share agreement with Guangzhou JinYi Media Corporation, a 25-theatre deal with AMC Theatres and additional multi-theatre agreements with several other key exhibition partners, and improves visibility into installations and ultimately revenue over the next several years. As a result, we are once again raising our installation guidance –this time to 155 theatres, up from our prior guidance range of 135 to 140 theatres and compared to our original 2016 install guidance range of 115 to 120 that was set late last year," said IMAX CEO Richard L. Gelfond.

Second-Quarter Results

During the quarter, the Company installed 40 theatres, of which 38 were for new theatre locations and two were upgrades. The Company also signed contracts for 95 theatres in the second quarter of 2016. The total IMAX theatre network consisted of 1,102 systems as of June 30, 2016, of which 990 were in commercial multiplexes. There were 442 theatres in backlog as of June 30, 2016, up 14% from the 388 in backlog as of March 31, 2016. For a breakdown of theatre system signings, installations, network and backlog by type, please see the end of this press release.

“While IMAX faced a challenging comparison to last year’s second-quarter box office — which was the highest-grossing box office quarter in Company history — considering the strong outperformance in box office we saw in the first quarter, we believe our portfolio of titles released across the full year will result in an annual box office that is relatively consistent with our historical PSA. Looking ahead, we expect our heightened network growth in 2016, which is heavily weighted towards our joint revenue-sharing model, will position us well to capitalize on a promising array of upcoming tentpole franchises and sequels this year and next, including *Suicide Squad*, *Marvel’s Dr. Strange*, *Fantastic Beasts and Where to Find Them*, *Rogue One: A Star Wars Story*, *Kong*, *Skull Island*, *Guardians of the Galaxy Vol. 2*, *Spider-Man Homecoming*, and, of course, *Star Wars: Episode VIII*.”

Other Information

Adjusted Net Income and Adjusted Diluted Per Share Calculations – Quarter Ended June 30, 2016 vs. 2015:

	Quarter Ended June 30,			
	2016		2015	
	Net	Diluted	Net	Diluted
Reported net income	\$ 10,683	\$ 0.16	\$ 26,380	\$ 0.36 ⁽¹⁾
Adjustments:				
Stock-based compensation	6,205	0.09	5,103	0.07
Tax impact on items listed above	(1,744)	(0.03)	(740)	(0.01)
Adjusted net income	15,144	0.22	30,743	0.42 ⁽¹⁾
Net income attributable to non-controlling interests	(2,892)	(0.04)	(2,030)	(0.02)
Stock-based compensation (net of tax of less than \$0.1 million) attributable to non-controlling interests	(168)	—	—	—
Adjusted net income attributable to common shareholders	\$ 12,084	\$ 0.18	\$ 28,713	\$ 0.40 ⁽¹⁾
Weighted average diluted shares outstanding		68,455		71,688

(1) Includes impact of \$0.3 million of accretion charges associated with redeemable Class C shares of IMAX China.

Non-GAAP Financial Measures:

In this release, the Company presents 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 as supplemental measures of performance of the Company, which are not recognized under U.S. GAAP. The Company presents adjusted net income and adjusted net income per diluted share because it believes that they are important supplemental measures of its comparable controllable operating performance and it wants to ensure that its investors fully understand the impact of its 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 and 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 to review operating performance on a comparable basis from period to period. However, these non-GAAP measures may not be comparable to similarly titled amounts reported by other companies. Adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share should be considered in addition to, and not as a substitute for, net income and net income attributable to common shareholders and other measures of financial performance reported in accordance with U.S. GAAP.

DEFINITIONS USED IN THIS ANNOUNCEMENT

“1HFY”	the first half of the financial year, six months ending 30 June
“2HFY”	the second half of the financial year, six months ending 31 December
“Articles of Association”	the articles of association of the Company adopted on 21 September 2015 and effective from the Listing Date, as amended from time to time
“Board” or “Board of Directors”	the board of directors of the Company
“CG Code”	the Corporate Governance Code set out in Appendix 14 of the Listing Rules
“Class C Shareholders’ Agreement”	the shareholders’ agreement in connection with the IMAX China Investment terminated upon completion of the Company’s Global Offering on 8 October 2015
“CMC”	CMC Capital Partners

“Company” or “IMAX China”	IMAX China Holding, Inc., a company incorporated under the laws of the Cayman Islands with limited liability on 30 August 2010
“controlling shareholder”, “subsidiary” and “substantial shareholder”	shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires
“Conversion Options”	certain conversion options embedded within the Class C Shareholders’ Agreement
“Directors”	the directors of the Company and “ Director ” shall be construed accordingly as a director of the Company
“Earnings Release”	the earnings release by IMAX Corporation dated 20 July 2016
“EIT”	enterprise income tax
“FountainVest”	FountainVest Partners
“FY” or “financial year”	financial year ended or ending 31 December
“Global Offering”	the offering of the Shares on the Main Board of the Stock Exchange on 8 October 2015
“Greater China”	for the purposes of this document only, the PRC, Hong Kong, Macau and Taiwan
“Group”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board
“IMAX China Investment”	the investment into the Company by CMC and FountainVest
“IMAX Corporation” or the “Controlling Shareholder”	IMAX Corporation, a company incorporated in Canada with limited liability in 1967 and listed on the New York Stock Exchange (NYSE: IMAX) and our ultimate controlling shareholder, or where the context requires, any of its wholly-owned subsidiaries
“IMAX Hong Kong Holding”	IMAX (Hong Kong) Holding, Limited, a company incorporated in Hong Kong and a direct wholly-owned subsidiary of IMAX Barbados

“IMAX Shanghai Multimedia”	IMAX (Shanghai) Multimedia Technology Co., Ltd., a wholly foreign-owned enterprise established under the laws of the PRC on 31 May 2011 and a direct wholly owned subsidiary of IMAX Hong Kong
“IPO”	initial public offering
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on 8 October 2015
“Listing Date”	8 October 2015
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Macau”	Macau Special Administrative Region of the PRC
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“NYSE”	New York Stock Exchange
“PRC” or “China”	the People’s Republic of China, but for the purposes of this document only, except where the context requires, references in this announcement to PRC or China exclude Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus of the Company dated 24 September 2015
“Quarterly Report”	the Quarterly Report by IMAX Corporation dated 20 July 2016
“Redeemable Class C Shares”	voting shares of a par value of US\$0.01 each designated as common C shares in the authorised capital of the Company and redesignated as ordinary shares of the Company upon Listing on 8 October 2015
“RMB”	Renminbi, the lawful currency of the PRC
“SEC”	the United States Securities and Exchange Commission
“Share(s)”	Ordinary share(s) with a nominal value of US\$0.0001 each in the share capital of the Company and a “ Share ” means any of them
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“TCL-IMAX Entertainment”	TCL-IMAX Entertainment Co., Limited, a company incorporated in Hong Kong with limited liability on 3 January 2014, being the joint venture company jointly owned by IMAX Hong Kong Holding and Sino Leader (Hong Kong) Limited, which is wholly owned by TCL Multimedia Technology Holdings Limited
“U.S.” or “United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“USD”, “US\$”, “\$” or “United States dollars”	U.S. dollars, the lawful currency of the United States of America

GLOSSARY

This glossary contains explanations of certain terms used in this announcement in connection with the Group and its business. The terminologies and their meanings may not correspond to standard industry meanings or usage of those terms.

“3D”	three-dimensional
“backlog”	our backlog comprises the aggregate number of commitments for IMAX theatre installations pursuant to contracts we have entered into with exhibitors
“box office”	the gross aggregate proceeds from ticket sales received by the relevant exhibitor(s) in the relevant market(s) for the relevant type(s) of film. For example, the Greater China box office is the aggregate proceeds from ticket sales received by all exhibitors in Greater China, and the Greater China IMAX box office is the aggregate proceeds from ticket sales received by all the exhibitors in Greater China in respect of IMAX format films and IMAX Original Films. We also use the concept of box office in our revenue sharing arrangements, where it refers to the aggregate proceeds from ticket sales received by exhibitors in respect of IMAX format films with which we have entered into a revenue sharing arrangement
“box office revenue”	the portion of box office that is due to be paid to the Group under revenue sharing arrangements in our theatre systems business and/or arrangements with IMAX Corporation and studios in our films business, as applicable
“Chinese language films”	a motion picture approved for theatrical release in the PRC which has been produced by a PRC producer or jointly produced by a PRC producer and a foreign producer, and which meets the requirements of the relevant laws and regulations of the PRC

“distributor”	an organisation that distributes films to exhibitors or, in the PRC, theatre circuits for exhibition at theatres
“DMR”	the proprietary digital re-mastering process or any other post-production process and/or technology used by IMAX Corporation in connection with the conversion of a conventional film into an IMAX format film
“exhibitor”	exhibitors are theatre investment management companies which own and operate theatres; exhibitors receive copies of films from the theatre circuits but retain control over the screening schedules
“full revenue sharing arrangement”	an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for a portion of that exhibitor’s box office generated from IMAX format films over the term of the arrangement, and no, or a relatively small, upfront payment
“Hollywood films”	an imported motion picture for theatrical release in the PRC where the importation and release of such motion picture has been permitted in accordance with the annual quota imposed by the PRC government
“hybrid revenue sharing arrangement”	an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for an upfront fee that is typically half of the payment under a sales arrangement and a portion of that exhibitor’s box office generated from IMAX format films over the term of the arrangement, that is typically half of that under a full revenue sharing arrangement
“IMAX format film”	a film converted from a conventional film using DMR technology
“IMAX Original Film”	any IMAX format film invested in, produced or co-produced by IMAX Corporation and released to IMAX theatres, and/or for which IMAX Corporation owns and/or controls its theatrical distribution rights
“IMAX theatre”	any movie theatre in which an IMAX screen is installed
“revenue sharing arrangement”	an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for, among other things, a portion of that exhibitor’s box office generated from IMAX format films over the term of the arrangement; our revenue sharing arrangements are either full revenue sharing arrangements or hybrid revenue sharing arrangements (See the separate glossary explanations for these terms)

“sales arrangement”	an arrangement with an exhibitor pursuant to which we sell that exhibitor an IMAX theatre system for a fee and the exhibitor agrees to pay us on-going royalty fees for use of the IMAX brand and technology over the term of the arrangement
“studio”	an organisation that produces films (which may include all or some of script writing, financing, production team and equipment sourcing, casting, shooting and post production), owns the copyright to the films it produces and works with distributors to release those films at theatres
“theatre circuit”	an organisation that distributes newly released films to theatres within that circuit; every theatre in the PRC must be affiliated with a theatre circuit

By Order of the Board
IMAX China Holding, Inc.
Michelle Rosen
Company Secretary

Hong Kong, 21 July 2016

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Jiande Chen

Jim Athanasopoulos

Mei-Hui Chou (Jessie)

Non-Executive Directors:

Richard Gelfond

RuiGang Li

Greg Foster

Independent Non-Executive Directors:

John Davison

Yue-Sai Kan

Dawn Taubin

In the event of any inconsistency between the English version and the Chinese version of this announcement, the English version shall prevail.