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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 2018

INTERIM DIVIDEND ANNOUNCEMENT

CLOSURE OF REGISTER OF MEMBERS

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 2018

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 2018. The interim results have been reviewed by the Group’s external auditor and the Audit Committee.

INTERIM DIVIDEND ANNOUNCEMENT

The Board of Directors of the Company is pleased to announce it has declared an interim dividend of US\$0.02 per share (equivalent to HK\$0.157 per share) for the six months ended 30 June 2018 to the Shareholders.

The interim dividend will be paid on Friday, 31 August 2018 to the Shareholders whose names appear on the register of members of the Company as at the close of business on Monday, 20 August 2018. There will be no scrip dividend option for the 2018 interim dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 16 August 2018 to Monday, 20 August 2018 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for entitlement to the 2018 interim dividend, all share transfers documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration, no later than 4:30 p.m. on Wednesday, 15 August 2018.

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 25 July 2018, at 4:05 p.m. New York time, released its unaudited results, and on or about 25 July 2018, at 4:52 p.m. New York time, released its quarterly report for the second quarter of 2018.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Total revenue (US\$'000)	51,487	51,572
Gross profit (US\$'000)	37,006	32,556
Gross profit %	71.9%	63.1%
Profit for the period (US\$'000)	20,465	16,489
Profit for the period %	39.7%	32.0%
Profit per share (US\$)	0.06	0.05
Adjusted profit (US\$'000)	21,251	17,689
Adjusted profit %	41.3%	34.3%
Total theater system signings	34	83
Sales arrangements	5	43
Revenue sharing arrangements	29	40
Total theater system installations	25	36
Sales arrangements	8	12
Revenue sharing arrangements	17	24
Gross box office (US\$'000)	189,579	167,401
Box office per screen (US\$'000)	361	411

2018 OUTLOOK

The Company expects to install approximately 105 new theatres for the year 2018. Of these installations, roughly 37 are expected to be sales arrangements and 68 are expected to be revenue sharing arrangements. We also expect our sales, general and administrative expenses, excluding share-based compensation to grow roughly 9%, primarily as a result of specifically targeted marketing initiatives over 2017.

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 Statements of Comprehensive Income

		Six months ended 30 June	
	<i>Notes</i>	2018 <i>(Unaudited)</i>	2017 <i>(Unaudited)</i>
Revenues	5	51,487	51,572
Cost of sales	6	(14,481)	(19,016)
Gross profit	5	37,006	32,556
Selling, general and administrative expenses	6	(8,111)	(7,799)
Restructuring expenses	6, 7	—	(584)
Other operating expenses	6	(2,888)	(3,191)
Operating profit		26,007	20,982
Interest income		411	285
Profit before income tax		26,418	21,267
Income tax expense	8	(5,953)	(4,778)
Profit for the period attributable to owners of the Company		20,465	16,489
Other comprehensive (loss) income:			
Items that may be subsequently reclassified to profit or loss:			
Change in foreign currency translation adjustments		(2,428)	3,412
Other comprehensive (loss) income		(2,428)	3,412
Total comprehensive income for the period attributable to owners of the Company		18,037	19,901
Profit per share attributable to owners of the Company			
— basic and diluted (expressed in U.S. dollars per share):			
From profit for the period — basic	9	0.06	0.05
From profit for the period — diluted	9	0.06	0.05

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(In thousands of U.S. dollars)

		As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment	10	90,757	88,620
Other assets		8,777	4,403
Deferred income tax asset	12	2,750	3,291
Financing receivables		38,680	39,319
Interests in a joint venture	13	—	—
		<u>140,964</u>	<u>135,633</u>
Current assets			
Other assets		2,554	2,960
Film assets		9	—
Inventories		6,474	5,612
Prepayments		2,456	1,971
Financing receivables		8,546	8,450
Trade and other receivables	11	49,750	53,995
Cash and cash equivalents		116,602	116,678
		<u>186,391</u>	<u>189,666</u>
Total assets		<u><u>327,355</u></u>	<u><u>325,299</u></u>

		As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
	Notes		
LIABILITIES			
Non-current liabilities			
Deferred revenue	16	21,763	23,876
		<u>21,763</u>	<u>23,876</u>
Current liabilities			
Trade and other payables	15	17,229	18,522
Accruals and other liabilities		10,737	10,161
Income tax liabilities		3,615	4,458
Deferred revenue	16	21,985	23,545
		<u>53,566</u>	<u>56,686</u>
Total liabilities		<u>75,329</u>	<u>80,562</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		36	36
Share premium		362,385	375,296
Shares held for China long-term incentive plan		—	(133)
Capital reserves		(29,889)	(29,821)
Accumulated deficit		(76,524)	(99,087)
Accumulated other comprehensive loss		(3,982)	(1,554)
		<u>252,026</u>	<u>244,737</u>
Total equity		<u>252,026</u>	<u>244,737</u>
Total equity and liabilities		<u>327,355</u>	<u>325,299</u>

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 film 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”.

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**”).

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 2018 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 2017, 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 in note 3, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

Taxes on income in the six months ended 30 June 2018 and 2017 are accrued using the tax rate that would be applicable to expected total annual profits.

(c) Impact of standards issued but not yet applied by the entity

IFRS 16 “Leases”

On 13 January 2016, the International Accounting Standards Board (IASB) published a new standard for the accounting of leases, International Financial Reporting Standard 16 — Leases (“**IFRS 16**”). It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The Group is a lessee of various offices, warehouses and apartments which are currently classified as operating leases. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the statement of financial position. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group’s consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated statement of financial position. In the income statement, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase. This will lead to an improvement in EBITDA.

As a lessor, the Group has a significant portion of its revenue derived from leases and while the lessor accounting model is not fundamentally different, the Group continues to evaluate the effect of the standard on this revenue stream.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

3. New accounting standards and accounting changes

This note explains the impact of the adoption of IFRS 9 “Financial Instruments” (“**IFRS 9**”) and IFRS 15 “Revenue from Contracts with Customers” (“**IFRS 15**”) on the Group’s financial information and the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods. Certain of the Group’s accounting policies have been changed to comply with the adoption of IFRS 9 and IFRS 15.

3.1 Impact on the financial information

As explained in note 3.2.1 and 3.3.1 below, IFRS 9 and IFRS 15 were generally adopted by the Group without restating comparative information. As a result of the changes in the entity’s accounting policies, certain reclassifications and adjustments are therefore not reflected in the restated statement of financial position as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

Condensed consolidated interim statement of financial position (extract)	31 December 2017 As originally presented	IFRS 9	IFRS 15	1 January 2018 Restated
Non-current assets				
Other assets — Financial assets at fair value through other comprehensive income (“FVOCI”)	4,000	—	—	4,000
Deferred income tax asset	3,291	—	(763)	2,528
Other assets — Variable consideration	403	—	2,861	3,264
Equity				
Accumulated losses	(99,087)	—	2,098	(96,989)

**Condensed consolidated interim
statement of comprehensive
income (extract) — 6 months
ended 30 June 2018**

	Pre-adoption	IFRS 9	IFRS 15	As reported
Revenue	53,453	—	(1,966)	51,487
Cost of sales	(16,681)	—	2,200	(14,481)

3.2 Adoption of IFRS 9 “Financial Instruments”

3.2.1 IFRS 9 “Financial Instruments” — Impact of adoption

IFRS 9, “Financial instruments”, addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The adoption of IFRS 9 has resulted in changes in the Group’s accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The new accounting policies are set out in note 3.2.2 below.

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group’s management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 measurement categories including those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss) and those to be measured at amortised cost.

The Group’s financial assets include cash and cash equivalents, trade and other receivables, net investment in finance leases, net financed sales receivable and preferred share investment. See note 4(b) for details about each type of financial asset.

Reclassification from available-for-sale to financial asset with fair value change through other comprehensive income (“FVOCI”)

In 2014, the Group purchased one preferred share of IMAX (Hong Kong) Holdings, Limited at a cost of \$4.0 million and this investment was classified as available-for-sale under previous standard IAS 39. With the adoption of IFRS 9, this investment does not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. Therefore, this equity investment in preferred share is classified as financial asset measured at fair value and the group elected to present any changes in the fair value in other comprehensive income (“FVOCI”), because the investment is held as long-term strategic investments that are not expected to be sold in the short to medium term.

As a result of the adoption of IFRS 9, the above preferred share investment has been fair valued as at 1 January 2018 with reference to the valuation conducted by an independent external valuer. There was no significant difference between the fair value and the carrying amount of the investment as at 1 January 2018, and therefore no adjustment was recorded to opening equity.

Other than that, there were no changes to the classification and measurement of financial instruments.

Summary of effects resulting from adoption of IFRS 9 is as follows:

	IAS 39		IFRS 9	
	Measurement	Carrying	Measurement	Carrying
	category	amount	category	amount
	Available-for-sale investment			
Preferred share investment	<u>stated at cost</u>	<u>4,000</u>	<u>FVOCI</u>	<u>4,000</u>

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The Group has three types of financial assets measured at amortised cost that are subject to IFRS 9’s new expected credit loss model:

- Net financed sales receivable
- Net investment in finance leases
- Trade and other receivable

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group established expected credit losses model and based on historical settlement records, past experience and available forward-looking information. The Group has concluded that the impact of expected credit losses on financial assets is insignificant as at 1 January 2018.

3.2.2 IFRS 9 “Financial Instruments” — Summary of significant accounting policies

The following describes the Group’s updated financial instruments policy to reflect the adoption of IFRS 9:

Classification and measurement of financial instruments

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

Equity investments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of comprehensive income. Dividends from such investments continue to be recognised in the consolidated statement of comprehensive income as other income when the Group's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other income and gains – net' in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at fair value through other comprehensive income are not reported separately from other changes in fair value.

Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses (“ECL”) associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

3.3 Adoption of IFRS 15 “Revenue from Contracts with Customers”

3.3.1 IFRS 15 “Revenue from Contracts with Customers” – Impact of adoption

IFRS 15, “Revenue from contracts with customers” (“**IFRS 15**”) 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 new accounting policies are set out in note 3.3.2 below.

Effective 1 January 2018, for the year ending 31 December 2018, the Group adopted IFRS 15 utilizing the modified retrospective approach with a cumulative catch up adjustment and provided additional disclosures comparing results to previous IFRS in its 2018 consolidated financial statements. The Group applied the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Group’s open contracts at any point in time. Digital Re-Mastering (“**DMR**”) arrangements where the film continues to be shown by the Group’s exhibitor partners, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts.

The Group’s revenues from the sales of theatre systems, provision of maintenance and extended warranty services, sale of aftermarket 3D glasses and parts, DMR revenue from conversion of domestic and imported IMAX film content into the IMAX DMR format are within the scope of the standard. The Group’s joint revenue sharing arrangements are not in scope of IFRS 15 due to their classification as leases.

The Group has assessed its performance obligations under its arrangements pursuant to IFRS 15 and has concluded that there are no significant differences between the performance obligations required to be units of account under IFRS 15 and the deliverables considered to be units of account under IAS 18.

The new standard requires the Group to estimate the total consideration, including an estimate of future variable consideration, received in exchange for the goods delivered or services rendered. Certain of the Group’s revenue streams were impacted by the variable consideration provisions of the new standard. The arrangements for the sale of theatre systems include indexed minimum payment adjustments over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. Both contract provisions constitute variable consideration under the new standard that, subject to constraints to

ensure significant reversal of revenues do not occur, require estimation and recognition at the point of revenue recognition, which is at the earlier of client acceptance of the installation of the system, including projectionist training, and the theater's opening to the public. As this variable consideration extends through the entire term of the arrangement, which typically last 10 years, the Group applies constraints to its estimates and recognizes the variable consideration on a discounted present value basis at recognition. Under the previous standard, these amounts were recognized as reported by exhibitors (or customers) in future periods.

The Group's arrangements include a requirement for the provision of maintenance services over the life of the arrangement, subject to a consumer price index adjustment on renewal each year. Under the new standard, the Group has included the future consideration from the provision of maintenance services in the relative selling price calculation at revenue recognition. The amount allocated to maintenance services is deferred and recognized over the full life of the arrangement. As the maintenance services are a stand ready obligation revenue is recognized evenly over time, which is consistent with past treatment. Under the previous recognition standard, only the first year's extended warranty and maintenance services included as part of the upfront consideration received by the Group was included in the relative selling price allocation to determine the allocation of consideration between deliverables, while the future years maintenance services were recognized and amortized over each year's renewal term. There's no significant change in the allocation of consideration between performance obligations to arise as a result of this change.

The recognition of variable consideration involves a significant amount of judgment. IFRS 15 requires variable consideration to be recognized subject to appropriate constraints to avoid a significant reversal of revenue in future periods. The standard identifies several examples of situations where constraining variable consideration would be appropriate:

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

The Group recorded an increase to opening retained earnings of \$2.1 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting IFRS 15,

with the impact primarily related to revenue from its theatre system business. The impact to revenues as a result of applying IFRS 15 was an increase of \$0.3 million for the six months ended June 30, 2018.

Revenues from IMAX DMR films are recognized when box office receipts are reported by the third party that owns or holds the related film rights, provided collectability is reasonably assured. The Group is entitled to receive a certain percentage of box office for IMAX format films from IMAX Corporation or local studios. DMR services are performed by IMAX Corporation and are based on master distribution and DMR services agreements. Depending on each type of films such as 2D, 3D or others, DMR cost are charged to the Group based on an agreed upon flat-fee for Hollywood films. For films produced by local studios, DMR services are purchased on a cost-plus basis. For films produced by local studios, DMR revenue applies the variable consideration exemption for sales or usage-based royalties. While the Group does not hold rights to the intellectual property in the form of the film content, the Group is receiving revenue for the application of IMAX intellectual property used in the DMR process of creating IMAX DMR version of film. For films with DMR revenue received from IMAX Corporation, the payment of DMR costs to IMAX Corporation is not in exchange for a distinct good or service that IMAX Corporation transfers to the Group. Therefore, the payment of DMR conversion cost for these films is considered as a payment to customer and is net against DMR revenue earned from IMAX Corporation. As a result of the adoption of IFRS 15, both DMR revenue from IMAX Corporation and DMR conversion costs to IMAX Corporation for imported films were reduced by \$2.2 million for the six months period ended June 30, 2018.

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

3.3.2 *IFRS 15 "Revenue from Contracts with Customers"— Summary of significant accounting policies*

The following describes the Group's updated revenue recognition policy to reflect the adoption of IFRS 15:

Contracts with Multiple Performance Obligations

The Group's revenue arrangements with certain customers may involve performance obligations consisting of the delivery of a theater system (projector, sound system, screen system and glasses cleaning machine); services associated with the theatre system (including theatre design support, supervision of installation, and projectionist training); trademark licensing of IMAX; 3D glasses; equipment maintenance and licensing of films. The Group evaluates all of the performance obligations in an arrangement to determine which are considered distinct, either individually or in a group, for accounting purposes and which of the deliverables represent separate units of accounting based on the applicable

accounting guidance in IFRS 15 and IAS 17 “Lease” (“**IAS 17**”). If separate units of accounting are either required under the relevant accounting standards or determined to be applicable under the IFRS 15, the total consideration received or receivable in the arrangement is allocated based on the applicable guidance in the above noted standards.

(a) Theater Systems

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

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

Sales Arrangements

For arrangements qualifying as sales, the revenue allocated to the System Obligation is recognized in accordance with IFRS 15, when all of the following conditions signifying transfer of control have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public

opening of the theater, provided there is persuasive evidence of an arrangement, the price is fixed or determinable and collectability is reasonably assured.

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

The difference between the gross receivable and totals of their present value is recorded as unrealized finance incomes at the beginning of contract term.

Lease Arrangements

The Group uses IAS 17 to evaluate whether an arrangement is a lease within the scope of the accounting standard. Transactions accounted for under IAS 17 are not within the scope of IFRS 15.

For lease arrangements, the Group determines the classification of the lease in accordance with IAS 17. A lease arrangement that transfers substantially all of the benefits and risks incident to ownership of the equipment is classified as a finance leases based on the criteria established by the accounting standard; otherwise the lease is classified as an operating lease.

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

Operating leases include joint revenue sharing arrangements with rental payments that are fully contingent on the box office results reported by the theatre operators. Revenue is calculated as a percentage of box office reported by the theatre operator and is recognised when the amounts are deemed probable and the amounts can be measured reliably.

As lessor, the Group classifies a lease as a finance leases based on the criteria set out in paragraph 10 of IAS 17.

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

The initial revenue is the lower of the asset's fair value or the present value of the minimum lease payments computed at a market rate of interest. Contingent payments in excess of the fixed minimum payments are recognised when reported by theatre operators, provided the amount can be measured reliably and deemed probable of collection. The cost of sales recognised at the commencement of the lease term is the cost (or carrying amount of the asset, if different) less the present value of any unguaranteed residual value.

The difference between the gross receivable and totals of their present value is recorded as unrealized finance incomes at the beginning of lease term. The method for allocating gross earnings to accounting years is referred to as the 'actuarial method'. The actuarial method allocates rentals between finance income and repayment of capital in each accounting year in such a way that finance income will be recognised as a constant rate of return over the lease term.

Minimum lease receipts and unrealised finance income are presented on net basis in financing receivables.

Finance leases include joint revenue sharing arrangements which have upfront payments and meet the finance lease criteria discussed above. The contingent revenues from these arrangements is recognised as box office results are reported by the theatre operator, when the amounts are deemed probable and the amounts can be measured reliably.

Finance Income

Finance income is recognized over the term of the finance leases or financed sales receivable, provided collectability is reasonably assured. Finance income recognition ceases when the Group determines that the associated receivable is not collectible.

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

Improvements and Modifications

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

Cost of sales arrangements and finance leases under joint revenue sharing arrangements

Theater systems and other equipment subject to finance leases under joint revenue sharing arrangements and sales arrangements includes the cost of the equipment and costs related to project management, design, delivery and installation supervision services as applicable.

The costs related to theater systems under sales and finance leases arrangements are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met.

In addition, the Group defers direct selling costs such as sales commissions and other amounts related to these contracts until the related revenue is recognized. The Group may have warranty obligations at or after the time revenue is recognized which require replacement of certain parts that do not affect the functionality of the theater system or services. The costs for warranty obligations for known issues are accrued as charges to costs and expenses applicable to revenues-equipment and product sales at the time revenue is recognized based on the Group's past historical experience and cost estimates.

Cost of operating leases under joint revenue sharing arrangements

For theater systems and other equipment subject to an operating lease or placed in a theater operators' venue under a joint revenue sharing arrangement, the cost of equipment and those costs that result directly from and are essential to the arrangement, is included within property, plant and equipment. Depreciation and impairment losses, if any, are included in cost of rentals based on the accounting policy set out in note 2(k) of the Group's 2017 annual report. Under the new standard, commissions continue to be deferred and recognized as costs and expenses applicable to revenues-rentals in the month they are earned, which is typically the month of installation. Direct advertising and marketing costs for each theatre are charged to cost of sales as incurred.

Maintenance and Extended Warranty Services

Maintenance and extended warranty services may be provided under a multiple element arrangement or as a separately priced contract. Revenues related to these

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

(b) IMAX Digital Re-Mastering (IMAX DMR)

Revenues from IMAX DMR films are recognized when box office receipts are reported by the third party that owns or holds the related film rights, provided collectability is reasonably assured. The Group is entitled to receive a certain percentage of box office for IMAX format films from IMAX Corporation or local studios.

DMR services are performed by IMAX Corporation and are based on master distribution and DMR services agreements. Depending on each type of films such as 2D, 3D or others, DMR cost are charged to the Group based on an agreed upon flat-fee for Hollywood films. For films produced by local studios, DMR services are purchased on a cost-plus basis.

For films produced by local studios, DMR revenue applies the variable consideration exemption for sales or usage-based royalties. While the Group does not hold rights to the intellectual property in the form of the film content, the Group is receiving revenue for the application of IMAX intellectual property used in the DMR process of creating IMAX DMR version of film.

For films with DMR revenue received from IMAX Corporation, the payment of DMR costs to IMAX Corporation is not in exchange for a distinct good or service that IMAX Corporation transfers to the Group. Therefore, the payment of DMR conversion cost for these films is considered as a payment to customer and is net against DMR revenue earned from IMAX Corporation.

Losses on film performance are recognised as cost of sales in the year when it is determined that the Group's estimate of total revenues to be realised by the Group will not exceed estimated total cost of the respective film asset.

(c) Other revenues

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

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

4. 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 Group's financial instruments at the following year/period-ends are comprised of the following:

	Financial assets at amortised costs	Financial assets at FVOCI	Total
30 June 2018 (unaudited)			
Assets as per statement of financial position			
Preferred share investment	—	4,000	4,000
Net financed sales receivable	46,897	—	46,897
Net investment in finance leases	329	—	329
Trade and other receivables	49,750	—	49,750
Cash and cash equivalents	116,602	—	116,602
	<u>213,578</u>	<u>4,000</u>	<u>217,578</u>
Liabilities as per statement of financial position			
Trade and other payables		17,229	17,229
		<u>17,229</u>	<u>17,229</u>

	Financial assets at amortised costs	Available-for- sale investment stated at cost	Total
31 December 2017 (audited)			
Assets as per statement of financial position			
Preferred share investment	—	4,000	4,000
Net financed sales receivable	47,394	—	47,394
Net investment in finance leases	375	—	375
Trade and other receivables	53,995	—	53,995
Cash and cash equivalents	116,678	—	116,678
	<u>218,442</u>	<u>4,000</u>	<u>222,442</u>
		Liabilities at amortised cost	Total
Liabilities as per statement of financial position			
Trade and other payables		<u>18,522</u>	<u>18,522</u>
		<u>18,522</u>	<u>18,522</u>

As explained in note 3.2.1, the preferred share investment is classified as financial asset with fair value change through other comprehensive income under IFRS 9 as effective from 1 January 2018. There was no significant change for the fair value of this investment during the six months ended 30 June 2018.

This preferred share investment is classified as Level 3 financial instrument for fair value assessment purpose. The fair value is determined by using income approach with significant unobservable inputs. The key assumptions include weighted average cost of capital, projected revenue, expenses, capital spending and assumed terminal growth rate.

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.

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 2018 and 31 December 2017, respectively.

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 as at 30 June 2018 and 31 December 2017, respectively.

	As at 30 June 2018		As at 31 December 2017	
	<i>(Unaudited)</i>		<i>(Audited)</i>	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Net financed sales receivable	46,897	47,554	47,394	48,206
Net investment in finance leases	329	329	375	375

5. Revenue and segmented information

Management, including the Group's executive directors, assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, restructuring expenses, other operating expenses, interest income and income tax expense are not allocated to the segments.

The Group has six operating and reportable segments: sales arrangements, theatre system maintenance, revenue sharing arrangements, film, other theatre, new business and other.

The Group's reportable segments are organised under three primary groups identified by nature of product sold or service provided: (1) Network Business, representing variable revenue generated by box office, which includes the reportable segment of film and contingent rent from revenue sharing arrangements and sales arrangements; (2) Theatre Business, representing revenue generated by the sale and installation of theatre systems and maintenance services, primarily related to the sales arrangements and theatre system maintenance reportable segments, fixed hybrid revenues from the revenue sharing arrangements segment and after-market sales of projection system parts and 3D glasses from the other theatre segment; and (3) New Business and Other, which includes all revenue in connection with any other non-core business initiatives that are in development and/or start-up phase. Revenues from the sales arrangements and revenue sharing arrangements segment is separated into Network Business and Theatre Business primarily depending on whether the consideration is based on box office.

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	
	2018 <i>(Unaudited)</i>	2017 <i>(Unaudited)</i>
Revenue		
Network business		
Film	14,933	14,579
Revenue sharing arrangements — contingent rent	12,245	10,908
Sales arrangements — contingent rent	—	176
	27,178	25,663
Theatre business		
Sales arrangements	13,224	16,499
Revenue sharing arrangements — upfront fees	1,022	1,878
Theatre system maintenance	9,554	6,979
Other theatre	422	414
	24,222	25,770
New business and other	87	139
Total	51,487	51,572

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Gross profit		
Network business		
Film	12,728	9,987
Revenue sharing arrangements — contingent rent	6,716	5,743
Sales arrangements — contingent rent	—	176
	19,444	15,906
Theatre business		
Sales arrangements	10,372	11,892
Revenue sharing arrangements — upfront fees	227	222
Theatre system maintenance	6,754	4,281
Other theatre	198	187
	17,551	16,582
New business and other	11	68
Total gross profit	37,006	32,556
Selling, general and administrative expenses	(8,111)	(7,799)
Restructuring expenses	—	(584)
Other operating expenses	(2,888)	(3,191)
Interest income	411	285
Profit before income tax	26,418	21,267

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.

(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 \$15.1 million in the six months ended 30 June 2018 (30 June 2017: \$11.9 million) are derived from a single external customer. These revenues are attributable to film, revenue sharing arrangements, theatre system maintenance, sales arrangements and other segments.

Customer B

Revenues of approximately \$14.7 million in the six months ended 30 June 2018 (30 June 2017: \$12.9 million) are derived from a related party. These revenues are attributable to film, theatre system maintenance and other segments.

Customer C

Revenues of approximately \$5.6 million in the six months ended 30 June 2018 (30 June 2017: \$0.1 million) are derived from a single external customer. These revenues are attributable to film, sales arrangements, theatre system maintenance and other segments.

No other single customers comprises of more than 10% of total revenues in the six months ended 30 June 2018 or 2017.

6. Expenses by nature

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Cost of theatre system sales and finance leases	3,257	6,310
Depreciation, including joint revenue sharing arrangements and film cost	5,784	7,742
Employee salaries and benefits	4,004	4,741
Advertising and marketing expenses	3,183	2,213
Technology and trademark fees	2,859	2,769
Theatre maintenance fees	1,584	1,426
Other employee expenses	1,037	1,100
Professional fees	997	764
Share-based compensation expenses	1,014	1,003
Operating lease rentals in respect of office buildings	555	624
Travel and transportation expenses	476	489
Provision for receivables impairment	—	85
Foreign exchange losses (gains)	116	(146)
Other business expenses	390	975
Other film (recoveries) costs	(97)	103
Auditor's remuneration		
— Non-audit services	91	56
— Audit services	160	217
Utilities and maintenance expenses	70	119
Total costs of sales, selling, general and administrative expenses, restructuring expenses and other operating expenses	25,480	30,590

7. Restructuring expenses

In June 2017, the Company announced the implementation of a cost-reduction plan to create cost savings aimed at increasing profitability, operating leverage and free cash flow. Restructuring expenses are mainly comprised of employee severance costs and expenses of facilities contract termination costs. A liability for expenses associated with an exit is recognized and measured at its fair value in the condensed consolidated statement of financial position in the period in which the liability is incurred.

In connection with the Company's restructuring initiatives, the Company incurred \$0.6 million in restructuring expenses for the six months ended 30 June 2017, to better align its organizational structure and costs with its strategy. There were no restructuring expenses incurred during the six months ended 30 June 2018. A summary of the restructuring expenses recognised during the six months ended 30 June 2017 is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Employee severance and benefits	—	297
Facilities	—	246
Share-based compensation expenses	—	41
Total restructuring expenses	<u>—</u>	<u>584</u>

8. Income tax expense

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Current income tax:		
Current tax on profits for the period	(6,495)	(5,798)
Adjustments in respect of prior years	300	—
Total current income tax	<u>(6,195)</u>	<u>(5,798)</u>
Deferred income tax:		
Origination and reversal of temporary differences	242	1,020
Total deferred income tax	<u>242</u>	<u>1,020</u>
Income tax expense	<u>(5,953)</u>	<u>(4,778)</u>

Income tax expense for the six months ended 30 June 2018 and 2017 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 2018, the estimated average annual tax rate used for the year ending 31 December 2018 was 23%. For the six months ended 30 June 2017, the estimated average annual tax rate used for the year ended 31 December 2017 was 22%.

9. Profit 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	
	2018	2017
	(Unaudited)	(Unaudited)
Profit for the period	20,465	16,489
Weighted average number of common shares (in '000s):		
Issued and outstanding, beginning of period	358,125	356,565
Weighted average number of shares issued during the period	299	19
Weighted average number of shares used in computing basic earnings per share	358,424	356,584
Adjustments for:		
Stock options	3,286	5,282
Restricted share units	195	59
Weighted average number of shares used in computing diluted earnings per share	361,905	361,925

10. Property, plant and equipment

	Theatre System Components	Office and Production Equipment	Leasehold Improvements	Construction in Process	Total
As at 1 January 2018 (audited)					
Cost	112,140	1,725	1,818	1,704	117,387
Accumulated depreciation and impairment	(26,430)	(948)	(1,389)	—	(28,767)
Net book amount	85,710	777	429	1,704	88,620
Six months ended 30 June 2018 (unaudited)					
Opening net book amount	85,710	777	429	1,704	88,620
Exchange differences	(1,100)	(7)	(2)	(37)	(1,146)
Additions	34	12	—	8,485	8,531
Transfers	6,292	—	—	(6,292)	—
Disposals	(26)	—	—	—	(26)
Depreciation charge	(4,854)	(183)	(185)	—	(5,222)
Closing net book amount	86,056	599	242	3,860	90,757
As at 30 June 2018 (unaudited)					
Cost	116,823	1,716	1,792	3,860	124,191
Accumulated depreciation	(30,767)	(1,117)	(1,550)	—	(33,434)
Net book amount	86,056	599	242	3,860	90,757
As at 1 January 2017 (audited)					
Cost	82,408	1,514	1,905	3,042	88,869
Accumulated depreciation	(17,476)	(604)	(1,038)	—	(19,118)
Net book amount	64,932	910	867	3,042	69,751
Six months ended 30 June 2017 (unaudited)					
Opening net book amount	64,932	910	867	3,042	69,751
Exchange differences	1,892	29	31	39	1,991
Additions	—	72	—	12,691	12,763
Transfers	7,681	—	73	(7,754)	—
Disposals	(332)	—	(73)	—	(405)
Depreciation charge	(3,833)	(188)	(222)	—	(4,243)
Closing net book amount	70,340	823	676	8,018	79,857

11. Trade and other receivables

	As at 30 June 2018 <i>(Unaudited)</i>	As at 31 December 2017 <i>(Audited)</i>
Trade receivables	23,587	31,438
Less: provision for impairment of trade receivables	(317)	(321)
Trade receivables — net	23,270	31,117
Receivables from IMAX Corporation	22,454	16,448
Loan receivable from a joint venture	215	2,806
Other accrued receivables	3,811	3,624
	49,750	53,995

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 2018 <i>(Unaudited)</i>	As at 31 December 2017 <i>(Audited)</i>
0–30 days	10,112	7,848
31–60 days	1,777	3,642
61–90 days	3,377	4,797
Over 90 days	30,775	31,599
	46,041	47,886

12. Deferred income tax

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

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Opening balance	3,291	1,830
Exchange differences	(20)	141
Charged to retained earnings	(763)	—
Credited to profit or loss	242	1,320
Closing balance	2,750	3,291

13. Interests in a joint venture

The Group established a joint venture in 2017 with details as below:

Name of the entity	Place of incorporation, kind of legal entity and date of incorporation	Principal activities and place of operation	Issued shares/ registered capital	Paid up capital	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)
IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd.	The People's Republic of China ("PRC") Joint venture invested by foreign invested enterprise and domestic enterprise 25 January 2017	Investment management, investment consulting	Registered capital of RMB 7,000,000	\$nil	—	50%

14. Share capital and reserves

(a) Share capital

	Number of Shares		Share capital	
	2018	2017	2018	2017
			US\$	US\$
Ordinary shares of US\$0.0001 each				
Authorised				
At beginning and end of six months ended	<u>625,625,000</u>	<u>625,625,000</u>	<u>62,562.50</u>	<u>62,562.50</u>
	Number of Shares		Share capital	
	2018	2017	2018	2017
			US\$	US\$
Issued and fully paid				
At beginning of 1 January (audited)	358,125,084	356,565,100	35,812.51	35,656.51
Exercise of stock options	600,000	—	60.00	—
Shares issued for vested restricted share units	56,036	28,501	5.60	2.85
At 30 June (unaudited)	<u>358,781,120</u>	<u>356,593,601</u>	<u>35,878.11</u>	<u>35,659.36</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) Shares held for China long-term incentive plan

These shares are shares in IMAX China Holding, Inc. that are held by Computershare Hong Kong Trustees Limited (the “**Trust**”) for the purpose of issuing shares under China long-term incentive plan (refer to (c) below). Shares issued to employees are recognised on a first-in-first-out basis.

For the six months ended 30 June:

	Number of shares		US\$'000	
	2018	2017	2018	2017
Shares held for China long-term incentive plan				
At beginning of period	43,900	—	133	—
Acquisition of shares by the Trust	84,555	3,081	299	15
Issued to employees for vested restricted share units	(128,455)	(3,081)	(432)	(15)
At end of period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(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 RSUs**”) 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 \$1.0 million in the six months ended 30 June 2018 (30 June 2017: \$1.0 million).

(i) *SOP and IMAX LTIP*

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. Expected volatility rate is estimated based on a blended volatility method which takes into consideration IMAX Corporation’s historical stock price volatility, IMAX Corporation’s implied volatility which is implied by the observed current market prices of IMAX Corporation’s traded options and IMAX Corporation’s peer group volatility. 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 less than \$0.1 million in the six months ended 30 June 2018 (30 June 2017: less than \$0.1 million) related to stock option grants issued to IMAX China employees under the SOP and IMAX LTIP.

The weighted average fair value of all stock options, granted to Group employees in the six months ended 30 June 2017 at the measurement date was \$8.57 per share. The following assumptions were used to estimate the average fair value of the stock options:

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Grant date share price	NA	\$32.45
Exercise price	NA	\$32.45
Average risk-free interest rate	NA	2.40%
Expected option life (in years)	NA	4.80
Expected volatility	NA	30%
Dividend yield	NA	0%
Early exercise multiple	NA	1.28

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	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Options outstanding, beginning of period	37,000	66,911	31.73	30.97
Granted	—	4,204	—	32.45
Expired	(37,000)	—	31.73	—
Options outstanding, end of period	<u>—</u>	<u>71,115</u>	<u>—</u>	<u>31.05</u>
Options exercisable, end of period	<u>—</u>	<u>57,886</u>	<u>—</u>	<u>30.79</u>

No stock options were surrendered or cancelled by Group employees in the six months ended 30 June 2018 (30 June 2017: none).

As at 31 December 2017, the weighted average remaining contractual life of options outstanding is 0.5 years.

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

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.

No China IPO Options were granted after 2015. Both the China IPO Options and Tandem Options have a maximum contractual life of 7 years.

In the six months ended 30 June 2018, the Group recorded an expense of \$nil (30 June 2017: \$0.2 million) related to equity-settled China IPO Options issued under the China LTIP.

China IPO Options were priced using Binomial Model. Expected volatility rate is estimated based on a blended volatility method which take into consideration IMAX Corporation’s historical stock price volatility, IMAX Corporation’s implied volatility which is implied by the observed current market prices of IMAX Corporation’s traded options and IMAX Corporation’s peer group volatility.

The following table summarizes certain information in respect of China IPO Option activity in the Group:

For the six months ended 30 June:

	Number of Shares		Weighted Average Exercise Price	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Options outstanding, beginning of period	6,252,400	7,737,400	1.43	1.42
Exercised	(600,000)	—	1.33	—
Options outstanding, end of period	5,652,400	7,737,400	1.44	1.42
Options exercisable, end of period	5,652,400	5,378,260	1.44	1.41

In respect of China IPO Options exercised in the six months ended 30 June 2018, the weighted average stock price at the dates of exercise is \$3.66. As at 30 June 2018, the weighted average remaining contractual life of options outstanding is 2.1 years (31 December 2017: 2.8 years).

China Options Summary

In the six months ended 30 June 2018, 264,647 (30 June 2017: 278,576) 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.

In the six months ended 30 June 2018, the Group recorded an expense of \$0.1 million (30 June 2017: less than \$0.1 million) related to China Options issued under the China LTIP.

The weighted average fair value of China Options granted in the six months ended 30 June 2018 at the measurement date was \$0.92 per share (30 June 2017: \$1.22 per share). China Options were priced using Binomial Model. Expected volatility is based on the historical volatility of IMAX Corporation's stock price over the past years and the industry average historical volatility. The following inputs were used to estimate the average fair value of the options:

	Six months ended 30 June		
	2018	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)
	A	B	
Grant date share price	HK\$24.45	HK\$28.00	HK\$36.35
Exercise price	HK\$24.45	HK\$28.00	HK\$36.94
Average risk-free interest rate	1.85%	2.02%	1.66%
Expected option life (in years)	4.77	6.45	4.27
Expected volatility	30%	30%	30%
Dividend yield	1.50%	1.50%	0%
Early exercise multiple	2.23	2.23	1.28

The following table summarizes certain information in respect of China Options activity in the Group:

For the six months ended 30 June:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Options outstanding, beginning of period	554,673	139,579	4.53	—
Granted	264,647	278,576	3.18	4.76
Options outstanding, end of period	819,320	418,155	4.10	5.12
Options exercisable, end of period	163,986	27,913	5.44	5.84

As at 30 June 2018, the weighted average remaining contractual life of options outstanding is 5.9 years (31 December 2017: 6.4 years).

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 2017, the Group recorded an expense of less than \$0.1 million related to the CSSBP.

The carrying amount of the liability relating to the CSSBP transactions as of 30 June 2018 is \$nil (31 December 2017: \$nil). In the six months ended 30 June 2017, a portion of the CSSBP awards vested and were settled in cash for \$0.1 million.

(iii) Restricted Share Units

RSUs under IMAX LTIP

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 \$nil for the six months ended 30 June 2018 (30 June 2017: \$0.2 million) related to RSU grants issued to employees in the plan. The annual termination probability assumed for the six months ended 30 June 2018 was zero (30 June 2017: zero).

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.

RSUs under IMAX LTIP Summary

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

For the six months ended 30 June:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
RSUs outstanding, beginning of period	1,296	18,276	36.09	33.21
Granted	—	3,467	—	32.45
Vested and settled	(326)	(4,468)	33.80	30.89
RSUs outstanding, end of period	970	17,275	36.86	33.66

China RSUs under China LTIP

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 the Company and its economic equivalent of one common share of the Company. 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 \$0.9 million for the six months ended 30 June 2018 (30 June 2017: \$0.4 million) related to China RSU grants issued to employees in the plan. The annual termination probability assumed for the six months ended 30 June 2018 was nil (30 June 2017: nil).

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 RSUs under China LTIP Summary

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

For the six months ended 30 June:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
RSUs outstanding, beginning of period	523,829	174,975	4.39	5.81
Granted	475,811	334,211	3.23	4.68
Vested and settled	(184,491)	(31,582)	4.40	5.40
Forfeited	(20,667)	(9,955)	3.88	4.85
RSUs outstanding, end of period	<u>794,482</u>	<u>467,649</u>	<u>3.71</u>	<u>5.05</u>

(d) Reserves

The Group's reserves and movement therein for the current and prior periods are presented in the condensed consolidated interim statement of changes in equity.

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. The Company distributed a dividend of \$14.4 million out of share premium for the six months ended 30 June 2018 (30 June 2017: \$nil).

Capital reserve

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

Statutory reserves

The PRC laws and regulations require companies registered in the PRC to provide certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created

for specific purposes. PRC companies are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the discretionary surplus reserve using its post-tax profits in accordance with resolutions of the Board of Directors. The PRC companies of the Group had not distributed any of their post-tax profits up to 30 June 2018, accordingly, no statutory reserves were appropriated (31 December 2017: \$nil).

15. Trade and other payables

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Trade payables	1,220	2,732
Other payables	413	1,134
Amounts due to IMAX Corporation	15,596	14,656
	17,229	18,522

The aging analysis of trade and other payables based on recognition date is as follows:

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
0–30 days	8,889	8,015
31–60 days	943	2,264
61–90 days	1,380	925
Over 90 days	6,017	7,318
	17,229	18,522

As at 30 June 2018 and 31 December 2017, 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.

16. Deferred revenue

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Theatre system deposits	39,042	41,832
Maintenance prepayments	4,706	5,589
	<u>43,748</u>	<u>47,421</u>
Deferred revenue, current	21,985	23,545
Deferred revenue, non-current	21,763	23,876
	<u>43,748</u>	<u>47,421</u>

17. 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.

IMAX Corporation (incorporated in Canada) is the Controlling Shareholder of the Company who holds 67.80% of the Company's shares as at 30 June 2018.

IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. is the joint venture established by the Group with 50% equity interest.

The following continuing transactions were carried out with related parties:

(a) Purchases and sales of goods and services and other transactions

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Purchase of goods:		
IMAX Corporation (theatres systems)	11,592	18,492
Purchase of services:		
IMAX Corporation (film related transactions)	2,770	3,575
IMAX Corporation (management fees — legal and administration services)	247	346
Other transactions:		
IMAX Corporation (dividends paid to)	9,731	—
IMAX Corporation (reimbursement of compensation of Company employees paid by IMAX Corporation)	851	1,327
IMAX Corporation (trademark and technology fees)	2,851	2,751
IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. (loan to)	—	2,583
IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. (interest income)	88	18
Revenue earned from film services through IMAX Corporation	12,445	12,150
Revenue earned from maintenance services provided to IMAX Corporation	81	111

Goods and services are bought from IMAX Corporation (the Controlling Shareholder) on a cost-plus basis. Management services, trademark and technology fees are paid to IMAX Corporation (the Controlling Shareholder) based on service and fee agreements.

(b) Period/Year-end balances

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Receivables from related parties:		
IMAX Corporation	22,454	16,448
Loan receivable from a joint venture:		
IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd.	215	2,806
Payables to related parties:		
IMAX Corporation	15,596	14,656

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, except that the loan receivable from IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. is unsecured, with a fixed interest rate and repayable within one year. The principal of loan was repaid during the six months ended 30 June 2018.

(c) Other related party transactions

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Investment in IMAX (Hong Kong) Holding, Limited	4,000	4,000

(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 2018 (Unaudited)	2017 (Unaudited)
Salaries and other short-term employee benefits	1,582	2,068
Post-employment benefits	9	14
Other benefits ¹	688	637
Share-based payments	494	749
	2,773	3,468

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The management discussion and analysis is based on the Company's condensed consolidated interim financial information for 1HFY2018 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

In 1HFY2018, the Company adopted *IFRS 15*, "Revenue from contracts with customers" (*IFRS 15*) utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. As such, the current presentation of our segments is not consistent with the prior year period.

Revenue

We derive a majority of our revenue from our three primary groups - the Network Business, the Theatre Business and the New Business and Other.

Network Business

Our Network Business represents all variable revenue generated by box office results and includes three segments:

- Film, pursuant to which the Company generates revenue from a certain percentage of IMAX box office received by our studio partners for the conversion and release of Hollywood and local language films to the IMAX theatre network. Film revenue is recognized when reported by our exhibitor partners;
- Revenue sharing arrangements, of which the Company has two types — full revenue sharing arrangements and hybrid revenue sharing arrangements. Under its full revenue sharing arrangements, the Company leases IMAX theater systems to its exhibitor partners, and provides related services, in return for ongoing fees of contingent rent based on a percentage of the IMAX box office from the relevant IMAX theatre. Under full revenue sharing arrangements, the customer pays no upfront fee. Under hybrid revenue sharing arrangements, the Company receives ongoing fees of contingent rent based on a percentage of IMAX box office from the relevant IMAX theatre. The Company also receives a fixed upfront fee, which is less than the sales price, and which is recorded in the theatre business segment. Contingent rent revenue from revenue sharing arrangements is recognized when reported by our exhibitor partners; and,
- Sales arrangements, consist of variable payments from the Company's sales type leases in excess of certain fixed minimum ongoing payments, under arrangements in the IMAX sales arrangements, which are recognized when reported by exhibitor partners, provided collectability is reasonably assured.

Theatre Business

The Theatre Business represents all fixed revenues that are primarily derived from exhibitor partners through either sales or revenue sharing arrangements, and the revenue generated by maintenance services and aftermarket sales. Theatre Business revenue is revenue not directly tied to box office results and includes the following four segments:

- Sales arrangements, pursuant to which the Company generates revenue from the one-time sale of an IMAX theatre system and related services. The revenue recognized includes the upfront purchase price and fixed, discounted minimum ongoing payments and contingent rent on sales arrangements. Sales arrangements revenue is recognized at the time of installation and exhibitor acceptance of the respective IMAX theatre system;
- Revenue sharing arrangements, pursuant to which the Company receives a reduced, fixed upfront fee under its hybrid revenue sharing arrangement. In addition, the Company receives ongoing fees of contingent rent based on a percentage of IMAX box office from the relevant IMAX theater which is recorded in network business revenue segment described above. Revenue sharing arrangements upfront fees revenue is recognized at the time of installation and exhibitor acceptance of the IMAX theater system;
- Theatre system maintenance, pursuant to which the Company generates revenue from the provision of ongoing maintenance services. The revenue recognized is primarily comprised of an annual maintenance fee payable by exhibitor partners under all sales and revenue sharing arrangements; and,
- Other theatre, pursuant to which the Company generates revenue from the aftermarket sales of 3D glasses, screen sheets, sound, parts and other items.

New Business and Other

New business and other includes all revenue in connection with any other non-core business initiatives that are in development and/or start-up phase.

The following table sets out the revenue for our respective business segments for the periods indicated, as well as the percentage of total revenue they each represent:

	1H FY2018		1H FY2017	
	US\$'000	%	US\$'000	%
Network Business				
Film	14,933	29.0%	14,579	28.3%
Revenue sharing arrangements — contingent rent	12,245	23.8%	10,908	21.2%
Sales arrangements — contingent rent	—	—	176	0.3%
Sub-total	27,178	52.8%	25,663	49.8%
Theatre Business				
Sales arrangements	13,224	25.7%	16,499	32.0%
Revenue sharing arrangements — upfront fees	1,022	2.0%	1,878	3.6%
Theatre system maintenance	9,554	18.6%	6,979	13.5%
Other theatre	422	0.8%	414	0.8%
Sub-total	24,222	47.0%	25,770	50.0%
New Business and Other	87	0.2%	139	0.3%
Total	51,487	100.0%	51,572	100.0%

Cost of Sales

Our cost of sales are primarily comprised of costs for the rights of all digital re-mastered films purchased under our intercompany agreement with IMAX Corporation (excluding Hollywood films which are recorded as a reduction of film revenue received from IMAX Corporation according to *IFRS 15* starting from 2018), the costs of IMAX theatre systems and related services under sales and hybrid revenue sharing arrangements, depreciation of IMAX theater systems capitalized under full revenue sharing arrangements and certain one-time, upfront costs at the time of system installation and exhibitor acceptance of the respective IMAX theater system such as marketing costs for IMAX theater launches, commissions and the cost for providing any maintenance service during a warranty period.

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

	1HFY2018		1HFY2017	
	<i>US\$'000</i>	<i>%</i>	<i>US\$'000</i>	<i>%</i>
Network Business				
Film	2,205	14.8%	4,592	31.5%
Revenue sharing arrangements — contingent rent	5,529	45.2%	5,165	47.4%
Sales arrangements — contingent rent	—	—	—	—
Sub-total	7,734	28.5%	9,757	38.0%
Theatre Business				
Sales arrangements	2,852	21.6%	4,607	27.9%
Revenue sharing arrangements — upfront fees	795	77.8%	1,656	88.2%
Theatre system maintenance	2,800	29.3%	2,698	38.7%
Other theatre	224	53.1%	227	54.8%
Sub-total	6,671	27.5%	9,188	35.7%
New Business and Other	76	87.4%	71	51.1%
Total	14,481	28.1%	19,016	36.9%

Gross Profit and Gross Profit Margin

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

	1HFY2018		1HFY2017	
	US\$'000	%	US\$'000	%
Network Business				
Film	12,728	85.2%	9,987	68.5%
Revenue sharing arrangements — contingent rent	6,716	54.8%	5,743	52.6%
Sales arrangements — contingent rent	—	—	176	100.0%
Sub-total	19,444	71.5%	15,906	62.0%
Theatre Business				
Sales arrangements	10,372	78.4%	11,892	72.1%
Revenue sharing arrangements — upfront fees	227	22.2%	222	11.8%
Theatre system maintenance	6,754	70.7%	4,281	61.3%
Other theatre	198	46.9%	187	45.2%
Sub-total	17,551	72.5%	16,582	64.3%
New Business and Other	11	12.6%	68	48.9%
Total	37,006	71.9%	32,556	63.1%

Selling, General and Administrative Expenses

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

	1HFY2018		1HFY2017	
	US\$'000	%	US\$'000	%
Employee salaries and benefits	2,789	5.4%	3,172	6.2%
Share-based compensation expenses	1,014	2.0%	962	1.9%
Travel and transportation	476	0.9%	489	0.9%
Advertising and marketing	880	1.7%	579	1.1%
Professional fees	1,248	2.4%	1,037	2.0%
Other employee expenses	223	0.4%	161	0.3%
Facilities	625	1.2%	743	1.4%
Depreciation	346	0.7%	394	0.8%
Foreign exchange and other expenses	510	1.0%	262	0.5%
Total	8,111	15.8%	7,799	15.1%

Restructuring Expenses

In June 2017, the Company announced the implementation of a cost-reduction plan to create cost savings aimed at increasing profitability, operating leverage and free cash flow. Restructuring expenses were comprised of employee severance costs and contract termination costs. Our restructuring expenses for 1HFY2017 were US\$0.6 million, and there was no such expense in 1HFY2018.

Other Operating Expenses

Other operating expenses primarily include the annual license fees payable to IMAX Corporation in respect of 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 1HFY2018 and 1HFY2017 were US\$2.9 million and US\$3.2 million, respectively.

Interest Income

Interest income represents interest earned on various term deposits and a related party short-term loan receivable we hold. None of the term deposits had a term of more than 90 days. Our interest income for 1HFY2018 and 1HFY2017 was US\$0.4 million and US\$0.3 million, respectively.

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 1HFY2018 and 1HFY2017 was US\$6.0 million and US\$4.8 million, respectively. Our effective tax rate was at 22.5% during 1HFY2018 and 1HFY2017.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Condensed Consolidated Interim Statements of Comprehensive Income

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

	1H FY2018		1H FY2017	
	US\$'000	%	US\$'000	%
Revenues	51,487	100.0%	51,572	100.0%
Cost of sales	(14,481)	(28.1%)	(19,016)	(36.9%)
Gross profit	37,006	71.9%	32,556	63.1%
Selling, general and administrative expenses	(8,111)	(15.8%)	(7,799)	(15.1%)
Restructuring expenses	—	—	(584)	(1.1%)
Other operating expenses	(2,888)	(5.6%)	(3,191)	(6.2%)
Operating profit	26,007	50.5%	20,982	40.7%
Interest income	411	0.8%	285	0.6%
Profit before income tax	26,418	51.3%	21,267	41.2%
Income tax expense	(5,953)	(11.6%)	(4,778)	(9.3%)
Profit for the period, attributable to owners of the Company	20,465	39.7%	16,489	32.0%
Other comprehensive (loss) income:				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustments	(2,428)	(4.7%)	3,412	6.6%
Other comprehensive (loss) income	(2,428)	(4.7%)	3,412	6.6%
Total comprehensive income for the period, attributable to owners of the Company	18,037	35.0%	19,901	38.6%

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:

	1HFY2018 US\$'000	1HFY2017 US\$'000
Profit for the period	20,465	16,489
Adjustments:		
Share-based compensation	1,014	962
Restructuring expenses	—	584
Tax impact on items listed above	(228)	(346)
Adjusted profit	<u>21,251</u>	<u>17,689</u>

1HFY2018 COMPARED WITH 1HFY2017

Revenue

Our revenue decreased 0.2% from US\$51.6 million in 1HFY2017 to US\$51.5 million in 1HFY2018 driven by a decrease of US\$1.6 million in the Theatre Business revenue and an increase of US\$1.5 million in our Network Business revenue, as explained further below.

Prior to the adoption of the new revenue standard, our revenue would be US\$53.5 million in 1HFY2018, an increase of 3.8%.

Network Business

Revenue from our Network Business increased 5.9% from US\$25.7 million in 1HFY2017 to US\$27.2 million in 1HFY2018 primarily due to a US\$22.2 million, or 13.2% increase in box office revenue in 1HFY2018 compared to the prior year period.

Film

In accordance with *IFRS 15*, for films with DMR revenue received from IMAX Corporation, the payment of DMR costs to IMAX Corporation is not considered in exchange for a distinct good or service that IMAX Corporation transfers to the Group. Therefore, the payment of DMR conversion cost for these films is considered as a payment to customer and is netted against DMR revenue earned from IMAX Corporation. As a result of the adoption of *IFRS 15*, both DMR revenue from IMAX Corporation and DMR conversion costs to IMAX Corporation for imported films were reduced by \$2.2 million for 1HFY2018.

Film revenue increased 2.4% from US\$14.6 million in 1HFY2017 to US\$14.9 million in 1HFY2018 as a result of an increase in box office revenue offset by the impact of IFRS 15 mentioned above. The box office revenue generated by IMAX format films increased 13.2% from US\$167.4 million in 1HFY2017 to US\$189.6 million in 1HFY2018 as a result of the strong performance of the Company's film slate in 1HFY2018, which included *Avengers: Infinity War*, along with *Operation Red Sea* and *Ready Player One*. IMAX formatted Chinese language films, as a percentage of our PRC box office, increased from 11.7% in 1HFY2017 to 26.1% in 1HFY2018, and we shared in a higher percentage of box office for Chinese language films compared to Hollywood films.

Box office revenue per screen decreased 12.2% from US\$0.41 million in 1HFY2017 to US\$0.36 million in 1HFY2018 as a result of continued growth of the IMAX theatre network, which increased 23.7% from 460 IMAX theatres in 1HFY2017 to 569 IMAX theatres in 1HFY2018.

The following table sets out the number of films we released in the IMAX format in 1HFY2018 and 1HFY2017 in Greater China:

	1HFY2018	1HFY2017
Hollywood films	12	17
Hollywood films (Hong Kong and Taiwan only)	5	2
Local language films — Chinese language films	5	2
Local language films — Non-Chinese language films	1	—
Total IMAX films released	23	21

Revenue Sharing Arrangements — Contingent Rent

Contingent rent from revenue sharing arrangements increased 12.3% from US\$10.9 million in 1HFY2017 to US\$12.2 million in 1HFY2018, primarily due to a greater number of IMAX theatres operating under revenue sharing arrangements in 1HFY2018 compared to 1HFY2017, which was partly offset by lower box office revenue per screen. We had 285 theatres operating under revenue sharing arrangements at the end of 1HFY2017 as compared to 357 at the end of 1HFY2018, which represented an increase of 25.3%.

Contingent rent from full revenue sharing arrangements increased 11.1% from US\$9.0 million in 1HFY2017 to US\$10.0 million in 1HFY2018, primarily due to growth in the full revenue sharing network which increased 27.9%, from 215 IMAX theatres in 1HFY2017 to 275 IMAX theatres in 1HFY2018, while offset by lower box office revenue per screen.

Contingent rent from hybrid revenue sharing arrangements increased 15.8% from US\$1.9 million in 1HFY2017 to US\$2.2 million in 1HFY2018, primarily due to growth in the hybrid revenue sharing network which increased 17.1%, from 70 IMAX theatres in 1HFY2017 to 82 IMAX theatres in 1HFY2018, while offset by lower box office revenue per screen.

Sales Arrangements — Contingent Rent

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

Due to the impact of *IFRS15*, contingent rent of US\$0.1 million related to theatre systems under sales arrangement was recognized in the transition adjustment.

Theatre Business

Revenue from our Theatre Business decreased 6.0% from US\$25.8 million in 1HFY2017 to US\$24.2 million in 1HFY2018.

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		
	2018	2017	Growth (%)
The PRC	538	430	25.1%
Hong Kong	5	4	25.0%
Taiwan	9	9	—
	552	443	24.6%
Institutional⁽¹⁾	17	17	—
Total	569	460	23.7%

Note:

- (1) Institutional IMAX theatres include museums, zoos, aquaria and other destination entertainment sites that do not exhibit commercial films.

The following table sets out the number of IMAX theatre systems installed by business arrangements in 1HFY2018 and 1HFY2017:

	1HFY2018	1HFY2017
Sales arrangements	8	12
Revenue sharing arrangements	17	24
Total theatre systems installed	25⁽¹⁾	36

Note:

(1) We installed 25 new IMAX theatre systems including 1 commercial laser (1 revenue sharing arrangement) in 1HFY2018.

Sales Arrangements

Theatre Business revenue from sales arrangements decreased 19.8% from US\$16.5 million in 1HFY2017 to US\$13.2 million in 1HFY2018, primarily due to 4 fewer sales installations in 1HFY2018 over 1HFY2017. We recognised sales revenue on 12 new theatre systems in 1HFY2017 with a total value of US\$15.1 million, compared to 8 new theatre systems in 1HFY2018 with a total value of US\$11.4 million.

Average revenue per new system under sales arrangements increased slightly from US\$1.3 million in 1HFY2017 to US\$1.4 million in 1HFY2018.

Revenue Sharing Arrangements — Upfront Fees

Upfront revenue from hybrid revenue sharing arrangement decreased 45.6% from US\$1.9 million in 1HFY2017 to US\$1.0 million in 1HFY2018, primarily due to 2 fewer hybrid revenue sharing installations in 1HFY2018.

Theatre System Maintenance

Theatre system maintenance revenue increased 36.9% from US\$7.0 million in 1HFY2017 to US\$9.6 million in 1HFY2018. Maintenance revenue increased in 1HFY2018 as a result of a 23.7% increase in the size of the IMAX network, which increased to 569 theaters as at 1HFY2018 from 460 theaters as at 1HFY2017.

New Business and Other

Revenue from new business and other was flat in 1HFY2018 and 1HFY2017 at US\$0.1 million.

Cost of Sales

Our cost of sales decreased 23.8% from US\$19.0 million in 1HFY2017 to US\$14.5 million in 1HFY2018. This decrease was primarily due to a decrease of US\$2.5 million in our Theatre Business and a decrease of US\$2.1 million in our Network Business.

Network Business

The cost of sales for our Network Business decreased 20.7% from US\$9.8 million to US\$7.7 million due to adoption of *IFRS 15* as explained further below, and increased depreciation costs associated with a larger full revenue sharing network, currently 275 theaters as at 1HFY2018 versus 215 theaters as at 1HFY2017.

Film

In accordance with *IFRS 15*, for films with DMR revenue received from IMAX Corporation, the payment of DMR costs to IMAX Corporation is not considered in exchange for a distinct good or service that IMAX Corporation transfers to the Group. Therefore, the payment of DMR conversion cost for these films is considered as a payment to customer and is netted against DMR revenue earned from IMAX Corporation. As a result of the adoption of *IFRS 15*, both DMR revenue from IMAX Corporation and DMR conversion costs to IMAX Corporation for imported films were reduced by \$2.2 million for 1HFY2018. Under the previous recognition standard, the cost of sales for film would be US\$4.4 million in 1HFY2018, a decrease of 4.1% over 1HFY2017.

The cost of sales for film decreased 52.0% from US\$4.6 million in 1HFY2017 to US\$2.2 million in 1HFY2018 driven by the reduction of cost due to adoption of *IFRS 15* mentioned above, as well as fewer DMR conversion costs resulting from 1 less film exhibited in the PRC during 1HFY2018 as compared to 1HFY2017.

Revenue Sharing Arrangements — Contingent Rent

The cost of sales for contingent rent from revenue sharing arrangements increased 7.0% from US\$5.2 million in 1HFY2017 to US\$5.5 million in 1HFY2018, primarily due to increased depreciation costs associated with a larger full revenue sharing network, currently 275 theaters at 1HFY2018 versus 215 theaters as at 1HFY2017, while being offset by decreased one-time upfront costs related to the installation of 5 fewer full revenue sharing arrangements in 1HFY2018 versus 1HFY2017.

Theatre Business

The cost of sales for our Theatre Business decreased 27.4% from US\$9.2 million in 1HFY2017 to US\$6.7 million in 1HFY2018, primarily due to total 6 fewer IMAX theatre systems installations under sales arrangements and hybrid revenue sharing arrangements.

Sales Arrangements

Cost of sales from our Theatre Business under sales arrangements decreased 38.1% from US\$4.6 million in 1HFY2017 to US\$2.9 million in 1HFY2018, primarily due to the costs recognised on 12 theatre systems installations under sales arrangements in 1HFY2017 as compared to 8 in 1HFY2018, as well as lower cost of sales for systems due to depreciation of USD.

Revenue Sharing Arrangements — Upfront Fees

Cost of sales from installation of hybrid revenue sharing arrangements decreased 52.0% from US\$1.7 million in 1HFY2017 to US\$0.8 million in 1HFY2018, primarily due to the costs recognised on 2 theatre system installations under hybrid revenue sharing arrangements in 1HFY2018 as compared to 4 in 1HFY2017.

Theatre System Maintenance

Cost of sales from our Theatre Business with respect to theatre system maintenance increased 3.8% from US\$2.7 million in 1HFY2017 to US\$2.8 million in 1HFY2018 commensurate with the additional costs associated with servicing a larger IMAX theatre network, currently 569 theaters at 1HFY2018 versus 460 theaters as at 1HFY2017.

New Business and Other

Cost from new business and other was flat in 1HFY2018 and 1HFY2017 at US\$0.1 million.

Gross Profit and Gross Profit Margin

Our gross profit in 1HFY2017 was US\$32.6 million, or 63.1% of total revenue, compared to US\$37.0 million, or 71.9% of total revenue, in 1HFY2018. The increase in gross profit was largely attributable to US\$3.5 million increase in our Network Business, and US\$1.0 million increase in our Theatre Business. The increase in gross profit margin was largely attributable to the growth of the IMAX theatre network and higher box office revenue combined with the operating leverage of our business.

Network Business

The gross profit from our Network Business increased 22.2% from US\$15.9 million in 1HFY2017 to US\$19.4 million in 1HFY2018, and the gross profit margin for our Network Business increased from 62.0% in 1HFY2017 to 71.5% in 1HFY2018. The increase was primarily due to an increase in our overall box office revenue, a decrease of one-time upfront costs related to fewer installations under full revenue sharing arrangements, and partly offset by increased depreciation costs associated with continued growth in the IMAX theatre network under revenue sharing arrangements.

Film

The gross profit for film increased 27.4% from US\$10.0 million in 1HFY2017 to US\$12.7 million in 1HFY2018, and the gross profit margin increased from 68.5% to 85.2% during the same period. The increase was primarily due to an increase of 13.2% in our overall box office revenue from US\$167.4 million in 1HFY2017 to US\$189.6 million in 1HFY2018 from a similar number of films, better performance of Chinese language films with higher margin than Hollywood films due to higher percentage of revenue and lower DMR cost and impact of *IFRS 15*.

Revenue Sharing Arrangements — Contingent Rent

The gross profit for contingent rent from revenue sharing arrangements increased 16.9% from US\$5.7 million in 1HFY2017 to US\$6.7 million in 1HFY2018, and the gross profit margin increased from 52.6% to 54.8% during the same period.

The gross profit for contingent rent from full revenue sharing arrangements increased 15.8% from US\$3.8 million in 1HFY2017 to US\$4.4 million in 1HFY2018, and the gross profit margin increased from 42.4% to 43.7% during the same period. Gross profit margin increased primarily due to higher overall box office revenue, decreased one-time upfront costs associated with the installation of 5 fewer systems in 1HFY2018, and partly offset by increased depreciation costs associated with a larger full revenue sharing network.

The gross profit for contingent rent from hybrid revenue sharing arrangements increased 21.1% from US\$1.9 million in 1HFY2017 to US\$2.3 million in 1HFY2018. Lower box office revenue per screen was offset by growth in the hybrid revenue sharing network which increased 17.1%, from 70 IMAX theatres in 1HFY2017 to 82 IMAX theatres in 1HFY2018.

Sales Arrangements — Contingent Rent

Due to the impact of *IFRS 15*, the gross profit for sales arrangements — contingent rent of US\$0.1 million related to theatre systems under sales arrangements was recognized in the transition adjustment.

Theatre Business

The gross profit for our Theatres Business increased 5.8% from US\$16.6 million in 1HFY2017 to US\$17.6 million in 1HFY2018. During the same period, our gross profit margin increased from 64.3% to 72.5%. The increase in gross profit was primarily driven by increased gross profit of theatre system maintenance as a result of certain operating leverage from a larger network of theatres and partially offset by the installation of 4 fewer theatres under sales arrangements and 2 fewer theatres under hybrid revenue sharing arrangements. The increase in gross profit margin was mainly driven higher average revenue per system installed in 1HFY2018 and by a larger network of theatres and lower costs of sales for systems due to depreciation of USD.

Sales Arrangements

The gross profit for our Theatre Business from sales of new IMAX theatre systems decreased 12.8% from US\$11.9 million in 1HFY2017 to US\$10.4 million in 1HFY2018 primarily due to the installation of 4 fewer theatres in 1HFY2018. Our gross profit margin increased from 72.1% in 1HFY2017 to 78.4% in 1HFY2018 due to lower costs of sales for systems resulting from the depreciation of USD and a higher average revenue per system installed in 1HFY2018.

Revenue Sharing Arrangements — Upfront Fees

The gross profit from upfront fees derived from hybrid revenue sharing arrangements was flat at US\$0.2 million in 1HFY2017 and 1HFY2018, primarily due to higher gross profit margin of 11.8% in 1HFY2017 compared to 22.2% in 1HFY2018 due to lower costs of sales resulting from the depreciation of USD, while partially offset by 2 fewer installation under hybrid revenue sharing arrangements.

Theatre System Maintenance

The gross profit for our theatre system maintenance increased 57.8% from US\$4.3 million in 1HFY2017 to US\$6.8 million in 1HFY2018 as a result of certain operating leverage within the maintenance business generated from a larger network of theatres. Our gross profit margin increased from 61.3% in 1HFY2017 to 70.7% in 1HFY2018, partially due to timing of expenses and operating leverage from a larger network.

New Business and Other

The gross profit for new business and other was flat in 1HFY2018 and 1HFY2017 at US\$0.1 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, increased 4.0% from US\$7.8 million in 1HFY2017 to US\$8.1 million in 1HFY2018, primarily due to: (i) a US\$0.3 million increase in advertising and marketing costs commensurate with a growing IMAX theatre network and local language film slate; (ii) a US\$0.2 million increase in professional fees for an ongoing legal matters; (iii) an increase in foreign exchange and other expenses resulting from a foreign exchange loss of US\$0.1 million in 1HFY2018 due to depreciation of USD as compared to a foreign exchange gain of US\$0.1 million in 1HFY2017 when USD appreciated, partially offset by a US\$ 0.4 million decrease related to employee salaries and benefits due to the implementation of cost controls and a cost — reduction plan.

Restructuring Expenses

Restructuring expenses of US\$0.6 million were incurred in 1HFY2017 due to the implementation of a cost-reduction plan to create cost savings aimed at increasing profitability, operating leverage and free cash flow. Restructuring expenses were mainly comprised of US\$0.3 million for employee severance costs, US\$0.2 million for facilities, and US\$0.1 million for share-based compensation expenses. There was no such expense in 1HFY2018.

Other Operating Expenses

Other operating expenses decreased 9.5% from US\$3.2 million in 1HFY2017 to US\$2.9 million in 1HFY2018, primarily due to a custom penalty accrual of US\$0.3 million in 1HFY2017, while there was no such penalty accrual in 1HFY2018, and partially offset by an increase of US\$0.2 million in annual license fees payable to IMAX Corporation in respect of the trademark and technology licensed under the Technology License Agreements and the Trademark License agreements.

Income Tax Expense

Our income tax expense increased 24.6% from US\$4.8 million in 1HFY2017 to US\$6.0 million in 1HFY2018. The increase in income tax expense was primarily due to an increase in our operating profit before income tax of US\$5.0 million from US\$21.0 million in 1HFY2017 to US\$26.0 million in 1HFY2018. Our effective tax rate was unchanged at 22.5% in 1HFY2017 and 1HFY2018.

Profit for the Period

We reported a comprehensive profit for the period of US\$18.0 million in 1HFY2018 as compared to US\$19.9 million in 1HFY2017. The decrease was primarily due to an increase in our profit for the period of US\$4.0 million from US\$16.5 million in 1HFY2017 to US\$20.5 million in 1HFY2018 and offset by a decrease in other comprehensive income of US\$5.8 million from an income of US\$3.4 million in 1HFY2017 to a loss of US\$2.4 million in 1HFY2018. Comprehensive profit for the period in 1HFY2018 included a US\$1.0 million charge (US\$1.0 million in 1HFY2017) for share-based compensation.

Adjusted Profit

Adjusted profit, which consists of profit for the period adjusted for the impact of share-based compensation, restructuring expenses and the related tax impact, was US\$17.7 million in 1HFY2017 as compared to adjusted profit of US\$21.3 million in 1HFY2018, a increase of 20.1%.

LIQUIDITY AND CAPITAL RESOURCES

	As at 30 June 2018 US\$'000	As at 31 December 2017 US\$'000
Current assets		
Other assets	2,554	2,960
Film assets	9	—
Inventories	6,474	5,612
Prepayments	2,456	1,971
Financing receivables	8,546	8,450
Trade and other receivables	49,750	53,995
Cash and cash equivalents	116,602	116,678
Total Current assets	186,391	189,666
Current liabilities		
Trade and other payables	17,229	18,522
Accruals and other liabilities	10,737	10,161
Income tax liabilities	3,615	4,458
Deferred revenue	21,985	23,545
Total Current Liabilities	53,566	56,686
Net Current Assets	132,825	132,980

As at 30 June 2018, we had net current assets of US\$132.8 million compared to net current assets of US\$133.0 million as at 31 December 2017. The decrease in net current assets in 1H FY2018 was mainly attributable to a US\$4.2 million decrease in trade and other receivables. This was offset by a US\$0.9 million increase in inventory, a US\$1.5 million decrease in deferred revenue driven by fewer new signings of sales arrangements in 1H FY2018 which are scheduled to install in the next 12 months, and a US\$1.3 million decrease in trade and other payables.

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 2018	As at 31 December 2017
Cash and cash equivalents denominated in US\$	\$70,803	\$79,572
Cash and cash equivalents denominated in RMB (in thousands)	¥296,133	¥213,487
Cash denominated in Hong Kong dollars HK\$ (in thousands)	<u>\$8,127</u>	<u>\$34,657</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 make 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 ongoing 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 from operating activities, net cash used in investing activities and net cash used in financing activities for the periods indicated:

	1HFY2018 US\$'000	1HFY2017 US\$'000
Net cash provided by operating activities	17,801	17,156
Net cash used in investing activities	(4,295)	(10,616)
Net cash used in financing activities	(13,860)	(122)
Effects of exchange rate changes on cash	278	616
(Decrease) Increase in cash and cash equivalents during period	(76)	7,034
Cash and cash equivalents, beginning of period	116,678	105,903
Cash and cash equivalents, end of period	<u>116,602</u>	<u>112,937</u>

Cash From Operating Activities

1HFY2018

Our net cash provided by operations was approximately US\$17.8 million in 1HFY2018. We had profit before income tax for the period of US\$26.4 million in 1HFY2018 and positive adjustments for amortisation of film assets of US\$2.8 million, depreciation of property, plant and equipment of US\$5.2 million, and settlement of equity and other non-cash compensation of US\$1.0 million, reduced by our taxes paid of US\$9.1 million, our net investment in film assets of US\$2.8 million and changes in working capital of US\$5.7 million. Changes in working capital primarily consisted of: (i) a decrease in trade and other payables of US\$3.1 million; (ii) a decrease in deferred revenue of US\$3.1 million; (iii) a increase in inventories of US\$1.0 million; and (iv) a decrease of prepayments of US\$0.6 million, partially offset by: (i) a decrease in trade and other receivables of US\$1.3 million; (ii) an increase in accruals and other liabilities of US\$1.0 million.

1HFY2017

Our net cash provided by operations was approximately US\$17.2 million in 1HFY2017. We had profit before income tax for the period of US\$21.3 million in 1HFY2017 and positive adjustments for amortisation of film assets of US\$3.5 million, depreciation of property, plant and equipment of US\$4.2 million, and settlement of equity and other non-cash compensation of US\$1.0 million, reduced by our taxes paid of US\$5.1 million, our net investment in film assets of US\$3.5 million and changes in working capital of US\$4.6 million. Changes in working capital primarily consisted of: (i) an increase in trade and other receivables of US\$3.1 million; (ii) an increase in financing receivable of US\$2.3 million; (iii) an increase in inventories of US\$4.0 million; (iv) a decrease in trade and other payables of US\$3.0 million; (v) a decrease in accruals and other liabilities of US\$2.8 million; and (vi) a decrease of prepayments of US\$1.5 million, partially offset by an increase in deferred revenue of US\$12.1 million.

Cash Used in Investing Activities

1HFY2018

Our net cash used in investing activities was approximately US\$4.3 million for 1HFY2018, primarily related to investments in IMAX theatre equipment amounting to US\$6.1 million installed in our exhibitor partners' theatres under full revenue sharing arrangements, partially offset by a loan repayment from a joint venture of US\$2.6 million.

1HFY2017

Our net cash used in investing activities was approximately US\$10.6 million for 1HFY2017, primarily related to: (i) investments in IMAX theatre equipment amounting to US\$8.0 million installed in our exhibitor partners' theatres under full revenue sharing arrangements, and (ii) a loan to a joint venture of US\$2.6 million.

Cash Used in Financing Activities

1HFY2018

Our net cash used in financing activities was approximately US\$13.9 million for 1HFY2018 primarily due to: (i) dividends paid to owners of the Company amounting to US\$14.4 million; and (ii) settlement of restricted share units of US\$0.3 million; partially offset by proceeds from issuance of common shares of US\$0.8 million.

1HFY2017

Our net cash used in financing activities was approximately US\$0.1 million for 1HFY2017 primarily related to settlement of restricted share units and options of US\$0.3 million.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

Lease Commitments

We have lease commitments within one year and between one and two years amounting to US\$1.0 million and US\$0.1 million respectively related primarily to leased office and warehouse space in Shanghai.

Capital Commitments

As at 30 June 2018, we had capital expenditures contracted but not provided for of US\$34.6 million (31 December 2017: US\$30.0 million).

CAPITAL EXPENDITURES AND CONTINGENT LIABILITIES

Capital Expenditures

Our capital expenditures primarily relate to the acquisition of IMAX theatre systems and acquisition of films. During 1HFY2018 and 1HFY2017, our capital expenditures were US\$9.7 million and US\$11.6 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. We expect to incur capital expenditures of approximately US\$29.3 million in FY2018, which will be primarily used to expand the IMAX theatre network under full revenue sharing and invest in a China film fund.

Contingent Liabilities

Lawsuits, claims and proceedings arise in the ordinary course of business. In accordance with our internal policies, in connection with any such lawsuits, claims or proceedings, 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, the Company's wholly-owned subsidiary in the PRC, received notice from the Shanghai office of the General Administration of Customs ("Customs Authority") that it had been selected for a customs audit (the "Audit"). In the course of the Audit, the Customs Authority discovered the underpayment by IMAX Shanghai Multimedia of the freight and insurance portion of the customs duties and taxes applicable to the importation of certain IMAX theatre systems during the period from October, 2011 through March, 2013. Though IMAX Shanghai Multimedia's importation agent accepted responsibility for the error giving rise to the underpayment, the matter was transferred first to the Anti-Smuggling Bureau (the "ASB") of the Customs Authority and then to the Third Division of Shanghai People's Procuratorate for further review. During the year ended 31 December 2017, at the request of the ASB, the Company paid RMB1 million (approximately US\$0.15 million) to the ASB to satisfy the amount owing as a result of the underpayment. Given that the amount of the underpayment exceeds RMB200, 000, the Company has been advised that the matter may be treated as a criminal rather than as an administrative matter. During the year ended 31 December 2017, the Company accrued US\$0.3 million in respect of fines that it believes are likely to result from the matter. The Company has been advised that the range of potential penalties is between three and five times the underpayment depending on whether the matter is assessed as criminal or administrative; however, the actual amount of any fines or other penalties remains unknown and the Company cautions that these actual fines or other penalties may be greater or less than the amount accrued or the expected range. As of 30 June 2018, there were no updates of this matter and the accrued penalties were kept at US\$0.3 million.

Except as disclosed above or as otherwise disclosed herein, as at 30 June 2018, 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 2018.

WORKING CAPITAL

We finance our working capital needs primarily through cash flow from operating activities. Cash flow generated from operating activities was US\$17.8 million in 1H FY2018 and US\$17.2 million in 1H FY2017. 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 2018:

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

Since 30 June 2018, being the latest date of our condensed interim statements, there has been no material adverse change to our indebtedness.

RECENT DEVELOPMENTS

Subsequent to 30 June 2018, we entered into an unsecured revolving facility for up to RMB200 million (approximately US\$30 million) on 5 July 2018 to fund ongoing working capital requirements.

OFF BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We had no off-balance sheet arrangements as at 30 June 2018.

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, restructuring expenses, and the related tax impact.

	As at 30 June 2018	As at 31 December 2017
Gearing ratio ⁽¹⁾	<u>29.9%</u>	<u>32.9%</u>
	1HFY2018	1HFY2017
Adjusted profit margin ⁽²⁾	<u>41.3%</u>	<u>34.3%</u>

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 decreased from 32.9% as at 31 December 2017 to 29.9% as at 30 June 2018, primarily due to a decrease in deferred revenue of US\$3.7 million and a decrease in trade and other payables of US\$1.3 million.

Adjusted Profit Margin

Our adjusted profit margin increased from 34.3% as at 30 June 2017 to 41.3% as at 30 June 2018, primarily due to increased gross profit margin from 63.1% in 1HFY2017 to 71.9% in 1HFY2018, driven by the growth of the IMAX theatre network and higher box office revenue.

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. Our Board recommended the payment of an interim dividend, for 1HFY2018, of US\$0.02 per share (equivalent to HK\$0.157 per share). The distribution of any final dividend shall also be subject to the approval of our Shareholders in a Shareholders' meeting.

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 2018, the Company had a total equity of US\$91.3 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.

DIVIDEND

During the Company’s board meeting held on 25 July 2018, the Board of Directors approved an interim dividend of US\$0.02 per share (equivalent to HK\$0.157 per share) for the six months ended 30 June 2018 to the Shareholders.

The interim dividend will be paid on Friday, 31 August 2018 to the shareholders whose names appear on the register of members of the Company as at the close of business on Monday, 20 August 2018. There will be no scrip dividend option for the 2018 interim dividend.

MATERIAL ACQUISITIONS OR DISPOSALS

We have not undertaken any material acquisition or disposal for the period ended 30 June 2018.

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 2016. We did not receive any distributions or dividends from TCL-IMAX Entertainment during the period ended 30 June 2018.

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.

RELATED PARTY TRANSACTIONS

For details of the related party transactions, see note 17 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.

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 set out in Appendix 14 of the Listing Rules (the "CG Code").

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

During the six months ended 30 June 2018, the Company has complied with all the code provisions of the CG Code.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

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 2018 to 30 June 2018, other than the purchase of 84,555 listed Shares conducted through Computershare Hong Kong Trustees Limited, the professional trustee engaged by the Company for administering its share option schemes, on 7 May 2018 at an average price per Share of HK\$27.8 on the Stock Exchange, for satisfying the vesting of the relevant options and/or RSUs.

SUPPLEMENTAL INFORMATION RELATING TO GRANT OF RSUS

We refer to the announcements by the Company dated 7 March 2018, 3 May 2018 and 4 May 2018. The Company has appointed a professional trustee to make on-market purchases of shares in respect of the satisfaction of RSUs granted to the Independent Non-executive Directors (84,555 RSUs). With respect to the satisfaction of RSUs granted to employees (other than our Executive Directors) (247,086 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 2018.

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 2018.

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 chair 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 2018.

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 are 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 chair 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 chair 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 2018 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 2018.

INTERIM DIVIDEND ANNOUNCEMENT

The Board of Directors of the Company is pleased to announce it has declared an interim dividend of US\$0.02 per share (equivalent to HK\$0.157 per share) for the six months ended 30 June 2018 to the Shareholders.

The interim dividend will be paid on Friday, 31 August 2018 to the Shareholders whose names appear on the register of members of the Company as at the close of business on Monday, 20 August 2018. There will be no scrip dividend option for the 2018 interim dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 16 August 2018 to Monday, 20 August 2018 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for entitlement to the 2018 interim dividend, all share transfers documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration, no later than 4:30 p.m. on Wednesday, 15 August 2018.

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 67.8% of the issued share capital of the Company.

On or about 25 July 2018, at 4:05 p.m. New York time, IMAX Corporation made an announcement regarding its unaudited results for the second quarter of 2018 (the “**Earnings Release**”). If you wish to review the Earnings Release, please visit: <https://www.sec.gov/Archives/edgar/data/921582/000119312518225931/d503867dex991.htm>. Unless otherwise provided therein, all dollar amounts in the Earnings Release are denominated in United States dollars.

On or about 25 July 2018, at 4:52 p.m. New York time, IMAX Corporation filed its unaudited quarterly report on the Form 10-Q for the second quarter of 2018 (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/921582/000119312518226023/d503863d10q.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.

The Earnings Release and Quarterly Report include certain quarterly financial information and operating statistics regarding the Company. To ensure that all shareholders of and potential investors in our Company have equal and timely access to the information pertaining to our Company, we have provided links to the Earnings Release and Quarterly Report above. We have also set forth below key highlights of the Quarterly Report that relate to our Company, some of which may constitute material inside information about our Company:

(1) QUARTERLY REPORT EXTRACTS

IMAX CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

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

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

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

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

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)

(In thousands of U.S. dollars)

(Unaudited)

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

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

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

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

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

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

1. Basis of Presentation

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

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

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

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

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company’s 2017 Annual Report on Form 10-K for the year ended December 31, 2017 (“**the 2017 Form 10-K**”) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company’s financial statements for the year ended December 31, 2017, except as noted below.

2. New Accounting Standards and Accounting Changes

Adoption of New Accounting Policies

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

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

Recently Issued FASB Accounting Standard Codification Updates

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

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

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

4. Financing Receivables

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

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

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

5. Inventories

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

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

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

6. Property, Plant and Equipment

	As at June 30, 2018		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	\$ 271,303	\$ 113,578	\$ 157,725
Camera equipment	5,757	4,220	1,537
	<u>277,060</u>	<u>117,798</u>	<u>159,262</u>
Assets under construction	<u>24,435</u>	<u>—</u>	<u>24,435</u>
Other property, plant and equipment			
Land	8,203	—	8,203
Buildings	75,880	18,659	57,221
Office and production equipment	45,620	25,250	20,370
Leasehold improvements	11,044	4,406	6,638
	<u>140,747</u>	<u>48,315</u>	<u>92,432</u>
	<u>\$ 442,242</u>	<u>\$ 166,113</u>	<u>\$ 276,129</u>

	As at December 31, 2017		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	\$ 264,259	\$ 103,922	\$ 160,337
Camera equipment	<u>5,757</u>	<u>3,939</u>	<u>1,818</u>
	<u>270,016</u>	<u>107,861</u>	<u>162,155</u>
Assets under construction	<u>23,398</u>	<u>—</u>	<u>23,398</u>
Other property, plant and equipment			
Land	8,203	—	8,203
Buildings	74,478	17,364	57,114
Office and production equipment	40,442	22,164	18,278
Leasehold improvements	<u>10,974</u>	<u>3,341</u>	<u>7,633</u>
	<u>134,097</u>	<u>42,869</u>	<u>91,228</u>
	<u>\$ 427,511</u>	<u>\$ 150,730</u>	<u>\$ 276,781</u>

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

9. Commitments, Contingencies and Guarantees

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

10. Condensed Consolidated Statements of Operations Supplemental Information

(a) Selling Expenses

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

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

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

(b) Foreign Exchange

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

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

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

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

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

12. Income Taxes

(a) Income Taxes

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

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

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

Cash held outside of North America as at June 30, 2018 was \$121.3 million (December 31, 2017 — \$119.4 million), of which \$44.7 million was held in the People's Republic of China ("**PRC**") (December 31, 2017 — \$32.6 million). The Company's intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be \$8.2 million.

13. Capital Stock

(a) *Stock-Based Compensation*

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

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

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

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

Stock Option Summary

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

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

Restricted Share Units ("RSU") Summary

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

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

14. Segmented Information

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue⁽¹⁾				
Network business				
IMAX DMR	\$ 36,161	\$ 27,757	\$ 63,214	\$ 51,166
Joint revenue sharing				
arrangements — contingent rent ⁽²⁾	24,730	18,896	42,593	34,130
IMAX systems — contingent rent ⁽²⁾	—	790	—	1,478
	<u>60,891</u>	<u>47,443</u>	<u>105,807</u>	<u>86,774</u>
Theater business				
IMAX systems ⁽²⁾	15,263	18,738	36,130	28,265
Joint revenue sharing				
arrangements — fixed fees ⁽²⁾	1,022	1,408	1,022	1,878
Theater system maintenance	12,335	10,904	25,047	21,949
Other theater	2,255	1,699	3,631	3,864
	<u>30,875</u>	<u>32,749</u>	<u>65,830</u>	<u>55,956</u>
New business	<u>3,116</u>	<u>1,311</u>	<u>3,723</u>	<u>2,591</u>
Other				
Film post-production	1,087	4,149	4,250	7,220
Film distribution	1,273	938	1,844	1,450
Other	1,103	1,168	1,875	2,423
	<u>3,463</u>	<u>6,255</u>	<u>7,969</u>	<u>11,093</u>
Total	\$ 98,345	\$ 87,758	\$ 183,329	\$ 156,414

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gross Margin				
Network business				
IMAX DMR ⁽³⁾	\$ 24,280	\$ 16,998	\$ 43,063	\$ 34,466
Joint revenue sharing arrangements — contingent rent ⁽²⁾⁽³⁾	18,621	13,668	31,362	23,920
IMAX systems — contingent rent ⁽²⁾	—	790	—	1,478
	<u>42,901</u>	<u>31,456</u>	<u>74,425</u>	<u>59,864</u>
Theater business				
IMAX systems ⁽²⁾⁽³⁾	10,133	12,263	24,425	18,004
Joint revenue sharing arrangements — fixed fees ⁽²⁾⁽³⁾	246	176	246	264
Theater system maintenance	5,088	4,434	11,292	8,683
Other theater	563	405	517	834
	<u>16,030</u>	<u>17,278</u>	<u>36,480</u>	<u>27,785</u>
New business	<u>1,906</u>	<u>(1,183)</u>	<u>436</u>	<u>(1,520)</u>
Other				
Film post-production	(150)	2,425	1,535	3,525
Film distribution ⁽³⁾	(237)	(427)	(1,476)	(4,190)
Other	(46)	(90)	(304)	(234)
	<u>(433)</u>	<u>1,908</u>	<u>(245)</u>	<u>(899)</u>
Total	<u>\$ 60,404</u>	<u>\$ 49,459</u>	<u>\$ 111,096</u>	<u>\$ 85,230</u>

(1) The Company's largest customer represented 18.7% and 18.0% of total revenues for the three and six months ended June 30, 2018, respectively (2017 —15.1% and 15.8%, respectively).

(2) On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company's open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company's exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts. Refer to note 3 for additional information.

- (3) IMAX DMR segment margins include marketing costs of \$6.5 million and \$10.6 million for the three and six months ended June 30, 2018, respectively (2017 — \$4.7 million and \$7.3 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.0 million and \$1.2 million for the three and six months ended June 30, 2018, respectively (2017 — \$0.8 million and \$1.2 million, respectively). IMAX systems segment margins include marketing and commission costs of \$0.5 million and \$1.2 million for the three and six months ended June 30, 2018, respectively (2017 — \$0.8 million and \$1.1 million, respectively). Film distribution segment margins include marketing expense of \$0.8 million and \$2.0 million for the three and six months ended June 30, 2018, respectively (2017 — a recovery of \$0.6 million and a recovery of \$0.7 million, respectively).

Geographic Information

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

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

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

16. Financial Instruments

(a) *Financial Instruments*

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

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

(b) *Fair Value Measurements*

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

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

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

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

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

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

(c) *Financing Receivables*

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

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

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

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

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

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

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

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

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

While recognition of finance income is suspended, payments received by a customer are applied against the outstanding balance owed. If payments are sufficient to cover any unreserved receivables, a recovery of provision taken on the billed amount, if applicable, is recorded to the extent of the residual cash received. Once the collectibility issues are resolved and the customer has returned to being in good standing, the Company will resume recognition of finance income.

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

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

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

The Company's aged financing receivables are as follows:

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

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

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

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

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

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

For the Three Months Ended June 30, 2018					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>With an allowance recorded:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	869	12	(739)	930	—
<u>With no related allowance recorded:</u>					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
<u>Total:</u>					
Net investment in leases	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net financed sales receivables	<u>\$ 869</u>	<u>\$ 12</u>	<u>\$ (739)</u>	<u>\$ 930</u>	<u>\$ —</u>

For the Three Months Ended June 30, 2017					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>With an allowance recorded:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	427	—	(427)	463	—
<u>With no related allowance recorded:</u>					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
<u>Total:</u>					
Net investment in leases	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net financed sales receivables	<u>\$ 427</u>	<u>\$ —</u>	<u>\$ (427)</u>	<u>\$ 463</u>	<u>\$ —</u>

For the Six Months Ended June 30, 2018

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	869	12	(739)	991	—
<u>Recorded investment for which there is no related allowance:</u>					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
<u>Total recorded investment in impaired loans:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	\$ 869	\$ 12	\$ (739)	\$ 991	\$ —

For the Six Months Ended June 30, 2017

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	427	—	(427)	494	—
<u>Recorded investment for which there is no related allowance:</u>					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
<u>Total recorded investment in impaired loans:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	\$ 427	\$ —	\$ (427)	\$ 494	\$ —

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, 2018		Six Months Ended June 30, 2018	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
<u>Allowance for credit losses:</u>				
Beginning balance	\$ 155	\$ 922	\$ 155	\$ 922
Charge-offs	—	(183)	—	(183)
Recoveries	—	—	—	—
Provision	—	100	—	100
Ending balance	<u>\$ 155</u>	<u>\$ 839</u>	<u>\$ 155</u>	<u>\$ 839</u>
Ending balance: individually evaluated for impairment	<u>\$ 155</u>	<u>\$ 839</u>	<u>\$ 155</u>	<u>\$ 839</u>
<u>Financing receivables:</u>				
Ending balance: individually evaluated for impairment	<u>\$ 6,935</u>	<u>\$ 119,815</u>	<u>\$ 6,935</u>	<u>\$ 119,815</u>

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Net Investment	Net Financed Sales	Net Investment	Net Financed Sales
	in Leases	Receivables	in Leases	Receivables
<u>Allowance for credit losses:</u>				
Beginning balance	\$ 672	\$ 494	\$ 672	\$ 494
Charge-offs	(351)	(67)	(351)	(67)
Recoveries	—	—	—	—
Provision	—	—	—	—
Ending balance	<u>\$ 321</u>	<u>\$ 427</u>	<u>\$ 321</u>	<u>\$ 427</u>
Ending balance: individually evaluated for impairment	<u>\$ 321</u>	<u>\$ 427</u>	<u>\$ 321</u>	<u>\$ 427</u>
<u>Financing receivables:</u>				
Ending balance: individually evaluated for impairment	<u>\$ 6,698</u>	<u>\$ 113,329</u>	<u>\$ 6,698</u>	<u>\$ 113,329</u>

(d) Foreign Exchange Risk Management

The Company is exposed to market risk from changes in foreign currency rates. A majority portion of the Company's revenues is denominated in U.S. dollars while a substantial portion of its costs and expenses is denominated in Canadian dollars. A portion of the net U.S. dollar cash flows of the Company is periodically converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In China and Japan, the Company has ongoing operating expenses related to its operations in Chinese Renminbi and Japanese yen, respectively. Net cash flows are converted to and from U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Chinese Renminbi, Japanese yen, Canadian dollars and Euros which are converted to U.S. dollars through the spot market. In addition, because IMAX films generate box office in 79 different countries, unfavourable exchange rates between applicable local currencies, and the U.S. dollar affect the Company's reported gross box-office and revenues, further impacting the Company's results of operations. The Company's policy is to not use any financial instruments for trading or other speculative purposes.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at June 30, 2018 (the "**Foreign Currency Hedges**"), with settlement dates throughout 2018 and 2019. Foreign currency derivatives are recognized and measured

in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statements of operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. For foreign currency cash flow hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statements of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The Company currently does not hold any derivatives which are not designated as hedging instruments.

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

Notional value of foreign exchange contracts:

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

Fair value of derivatives in foreign exchange contracts:

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

Derivatives in Foreign Currency Hedging relationships are as follows:

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

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

17. Non-Controlling Interests

(a) IMAX China Non-Controlling Interest

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

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

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

(b) Other Non-Controlling Interest

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

18. Exit costs, restructuring charges and associated impairments

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

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

(a) *Restructuring charges*

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

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

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

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

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

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

IMAX CORPORATION

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

OVERVIEW

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

NETWORK BUSINESS: DIGITAL RE-MASTERING (IMAX DMR) AND JOINT REVENUE SHARING ARRANGEMENTS

Digital Re-Mastering (IMAX DMR)

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

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

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

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

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

- *Ant-Man and the Wasp: The IMAX Experience* (Walt Disney Studios, July 2018);
- *Dying to Survive: The IMAX Experience* (Beijing Culture, July 2018);
- *Hidden Man: The IMAX Experience* (Maoyan, July 2018);
- *Skyscraper: The IMAX Experience* (Universal Pictures, July 2018, select international markets);
- *Mamma Mia! Here We Go Again: The IMAX Experience* (Universal Pictures, July 2018);
- *The Equalizer 2: The IMAX Experience* (Sony Pictures, July 2018);
- *Mission: Impossible – Fallout: The IMAX Experience* (Paramount Pictures, July 2018);
- *Detective Dee: The Four Heavenly Kings: The IMAX Experience* (Huayi Bros., July 2018);
- *Hello Mr. Billionaire: The IMAX Experience* (New Classics, July 2018);
- *Along with the Gods 2: The IMAX Experience* (Lotte, August 2018, Korea and select international markets);
- *The Meg: The IMAX Experience* (Warner Bros. Pictures, August 2018);

- *The Nun: The IMAX Experience* (Warner Bros. Pictures, September 2018);
- *The Predator: The IMAX Experience* (20th Century Fox, September 2018);
- *Venom: The IMAX Experience* (Sony Pictures Entertainment, October 2018);
- *First Man: The IMAX Experience* (Universal Pictures, October 2018);
- *Fantastic Beasts: The Crimes of Grindelwald: The IMAX Experience* (Warner Bros. Pictures, November 2018);
- *Thugs of Hindustan: The IMAX Experience* (Yash Raj Films, November 2018, India and select international markets);
- *Ralph Breaks the Internet: The IMAX Experience* (Walt Disney Studios, December 2018, select international markets);
- *Mortal Engines: The IMAX Experience* (Universal Pictures, December 2018);
- *Alita: Battle Angel: The IMAX Experience* (20th Century Fox, December 2018); and
- *Aquaman: The IMAX Experience* (Warner Bros. Pictures, December 2018).

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

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

- *Ad Astra: The IMAX Experience* (20th Century Fox, January 2019);
- *Glass: The IMAX Experience* (Universal Pictures and Disney Studios, January 2019);
- *X-Men: Dark Phoenix: The IMAX Experience* (20th Century Fox, February 2019);
- *How to Train Your Dragon: The Hidden World: The IMAX Experience* (Universal Pictures, March 2019);
- *Captain Marvel: The IMAX Experience* (Walt Disney Studios, March 2019);
- *Shazam!: The IMAX Experience* (Warner Bros. Pictures, April 2019);
- *Avengers 4: The IMAX Experience* (Walt Disney Studios, April 2019);
- *Godzilla: King of Monsters: The IMAX Experience* (Warner Bros. Pictures, May 2019);

- *Toy Story 4: The IMAX Experience* (Walt Disney Studios, June 2019);
- *Spider-Man: Far From Home: The IMAX Experience* (Sony Pictures, July 2019);
- *Lion King: The IMAX Experience* (Walt Disney Studios, July 2019);
- *The New Mutants: The IMAX Experience* (20th Century Fox, August 2019);
- *Artemis Fowl: The IMAX Experience* (Walt Disney Studios, August 2019);
- *IT: Chapter 2: The IMAX Experience* (TBD, September 2019);
- *Wonder Woman 1984: The IMAX Experience* (Warner Bros. Pictures, November 2019);
- *Frozen 2: The IMAX Experience* (Walt Disney Studios, November 2019); and
- *Star Wars: Episode IX: The IMAX Experience* (Walt Disney Studios, December 2019).

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

Joint Revenue Sharing Arrangements – Contingent Rent

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

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

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

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

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

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

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

IMAX Systems – Contingent Rent

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

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

IMAX Systems

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

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

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

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

Joint Revenue Sharing Arrangements – Fixed Fees

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

Theater System Maintenance

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

Other Theater Revenues

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

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

New Business

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

Virtual Reality

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

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

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

Original Content

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

IMAX Home Entertainment

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

Other

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

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

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

IMAX Theater Network and Backlog

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

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

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

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

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

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

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

2018					
IMAX Commercial Multiplex Theater Network					
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale/Sales- type lease	Total
Domestic Total (United States & Canada)	<u>274</u>	<u>5</u>	<u>279</u>	<u>127</u>	<u>406</u>
International:					
Greater China	275	82	357	195	552
Asia (excluding Greater China)	29	1	30	73	103
Western Europe	36	22	58	35	93
Russia & the CIS	—	—	—	57	57
Latin America	—	—	—	44	44
Rest of the World	<u>14</u>	<u>—</u>	<u>14</u>	<u>45</u>	<u>59</u>
International Total	<u>354</u>	<u>105</u>	<u>459</u>	<u>449</u>	<u>908</u>
Worldwide Total	<u>628</u>	<u>110</u>	<u>738</u>	<u>576⁽¹⁾</u>	<u>1,314</u>

2017					
IMAX Commercial Multiplex Theater Network					
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale/Sales- type lease	Total
Domestic Total (United States & Canada)	<u>267</u>	<u>4</u>	<u>271</u>	<u>120</u>	<u>391</u>
International:					
Greater China	215	70	285	158	443
Asia (excluding Greater China)	34	20	54	41	95
Western Europe	25	21	46	31	77
Russia & the CIS	—	—	—	57	57
Latin America	—	—	—	40	40
Rest of the World	<u>13</u>	<u>2</u>	<u>15</u>	<u>36</u>	<u>51</u>
International Total	<u>287</u>	<u>113</u>	<u>400</u>	<u>363</u>	<u>763</u>
Worldwide Total	<u>554</u>	<u>117</u>	<u>671</u>	<u>483</u>	<u>1,154</u>

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

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

Sales Backlog

The Company's current sales backlog is as follows:

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

(1) Includes 22 hybrid sales theater systems which were previously classified under joint revenue sharing arrangements – hybrid sales arrangements.

(2) Includes a variable consideration estimate of \$17.4 million in accordance with the new revenue standard. See “Critical Accounting Policies and Estimates” for further details of the adoption impact of ASC Topic 606 on the Company's revenues.

(3) Includes 49 theater systems where the customer has the option to convert from a joint revenue sharing arrangement to a sales arrangement.

(4) Reflects contractual upfront payments. Future contingent payments are not reflected as these are based on negotiated shares of box office results.

(5) Includes 75 new laser projection system configurations and 101 upgrades of existing locations to laser projection system configurations (99 of the 101 upgrades are for the new next generation laser projection system configurations).

(6) Includes 24 new laser projection system configurations and four upgrades of existing locations to laser projection system configurations.

The number of theater systems in the backlog reflects the minimum number of commitments under signed contracts. The dollar value fluctuates depending on the number of new theater system arrangements signed from year to year, which adds to backlog, and the installation and acceptance of theater systems and the settlement of contracts, both of which reduce backlog. Sales backlog typically represents the fixed contracted revenue under signed theater system sale and lease agreements that the Company believes will be recognized as revenue upon installation and acceptance of the associated theater. Sales backlog includes initial fees along with the estimated present value of contractual ongoing fees due over the term. These arrangements also include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater

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

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

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

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

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

(1) Includes 22 theater systems which were previously classified under joint revenue sharing arrangements – hybrid sales arrangements. See “Critical Accounting Policies and Estimates” for further details of the adoption impact of ASC Topic 606 on the Company’s revenues.

(2) Includes 56 new next generation laser projection system configurations and 99 upgrades of existing locations to laser projection system configurations.

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

The following reflects the Company’s signings and installations:

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

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

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

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

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

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

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

Constraints on the Recognition of Variable Consideration

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

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

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

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

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

Impact of Recently Issued Accounting Pronouncements

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

RESULTS OF OPERATIONS

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

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

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

- **Network Business**
 - o The IMAX DMR segment consists of variable revenues from studios for the conversion of films into the IMAX DMR format generated by the box office results from the exhibition of those films in the IMAX theater network.
 - o Joint revenue sharing arrangements — contingent rent, consists of variable rent revenues from box office exhibited in IMAX theaters in exchange for the provision of IMAX theater projection system equipment to exhibitors. This excludes fixed hybrid revenues and upfront installation costs from the Company's hybrid joint revenue sharing arrangements, which are included in theater business. Effective January 1, 2018, the Company no longer includes hybrid joint revenue sharing arrangements which take the form of a sale under the joint revenue sharing arrangement reportable segment. These arrangements are now reflected under the IMAX systems segment of Theater Business.

- o IMAX systems — contingent rent, consists of variable payments from the Company’s sales-type leases in excess of certain fixed minimum ongoing payments, under arrangements in the IMAX systems segment, which are recognized when reported by theater operators, provided collectability is reasonably assured.
- **Theater Business**
 - o The IMAX systems segment consists of the design, manufacture and installation of IMAX theater projection system equipment under sales or sales-type lease arrangements for fixed upfront and ongoing consideration (including ongoing fees and finance income) and contingent rent on sales arrangements.
 - o Joint revenue sharing arrangements — fixed fee, consists of fixed hybrid revenues and upfront installation costs from the joint revenue sharing arrangements segment for all arrangements which take the form of a lease.
 - o The theater system maintenance segment consists of the provision of IMAX theater projection system equipment maintenance services to the IMAX theater network and the associated costs of those services.
 - o Other theater includes after-market sales of IMAX theater projection system parts and 3D glasses from the other segment.
- **New Business**
 - o The new business segment consists of content licensing and distribution fees associated with the Company’s original content investments, VR initiatives, IMAX Home Entertainment, and other new business initiatives that are in the development and/or start-up phase.
- **Other**
 - o The film distribution segment consists of revenues and costs associated with the distribution of documentary films for which the Company has distribution rights.
 - o The film post-production segment consists of the provision of film post-production, and their associated costs.
 - o The other segment consists of certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items.

The Company’s Management’s Discussion and Analysis (“**MD&A**”) of Financial Condition and Results of Operations has been organized by the Company into four primary groups — Network Business, Theater Business, New Business and Other. Each of the Company’s reportable segments, as identified above, has been classified into one of these broader groups for purposes of MD&A discussion. The Company believes that this approach is consistent with how the CODM reviews the financial performance of the business and makes strategic decisions regarding resource

allocation and investments to meet long-term business goals. Management believes that a discussion and analysis based on these groups is significantly more relevant and useful to readers, as the Company's condensed consolidated statements of operations captions combine results from several segments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) Variable consideration of \$1.7 million relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the quarter and the fixed consideration recognized for theater systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement – fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.

(3) Finance income of \$0.5 million was recognized on the future consideration related to contracts.

(4) Fixed consideration of \$1.7 million related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and Sales-type leases.

Revenues and Gross Margin

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

Network Business

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

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

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

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

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

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

Theater Business

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

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

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

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

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

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

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

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

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

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

New Business

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

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

Other

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

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

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

Selling, General and Administrative Expenses

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

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

Exit costs, restructuring charges and associated impairments

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

Income Taxes

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

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

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

Non-Controlling Interests

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

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

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

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

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

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

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

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

<i>(In thousands of U.S. dollars, except per share amounts)</i>	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 22,322	\$ 0.35	\$ 922	\$ 0.01
Adjustments:				
Stock-based compensation	11,603	0.18	12,057	0.18
Exit costs, restructuring charges and associated impairments	1,158	0.02	10,258	0.15
Legal arbitration award	7,500	0.12	—	—
Tax impact on items listed above	(3,787)	(0.06)	(6,723)	(0.10)
Adjusted net income	38,796	0.61	16,514	0.24
Net income attributable to non-controlling interests ⁽¹⁾	(6,192)	(0.10)	(2,559)	(0.04)
Stock-based compensation (net of tax of \$0.1 million and \$0.1 million, respectively) ⁽¹⁾	(204)	—	(281)	—
Exit costs, restructuring charges and associated impairments (net of tax of less than \$0.1 million) ⁽¹⁾	—	—	(168)	—
Adjusted net income attributable to common shareholders	<u>\$ 32,409</u>	<u>\$ 0.51</u>	<u>\$ 13,506</u>	<u>\$ 0.20</u>
Weighted average diluted shares outstanding		<u>64,006</u>		<u>66,548</u>

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

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

(In thousands of U.S. dollars)

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

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

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

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

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

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

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

(1) Contingent rent of \$1.8 million related to theater systems under hybrid sales arrangements and \$1.3 million related to theater systems under sales arrangements was recognized in the Company's transition adjustment.

(2) Variable consideration of \$3.3 million relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the quarter and the fixed consideration recognized for theater systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement – fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.

(3) Finance income of \$0.6 million was recognized on the future consideration related to contracts.

(4) Fixed consideration of \$2.9 million related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and Sales-type leases.

Revenues and Gross Margin

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

Network Business

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

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

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

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

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

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

Theater Business

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

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

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

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

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

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

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

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

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

Other theater revenue decreased to \$3.6 million in the six months ended June 30, 2018 as compared to \$3.9 million in the six months ended June 30, 2017. Other theater revenue primarily includes revenue generated from the Company's after-market sales of projection system parts and 3D glasses. The gross margin recognized from other theater revenue was \$0.5 million in the six months ended June 30, 2018 as compared to \$0.8 million in the six months ended June 30, 2017.

New Business

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

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

Other

Film distribution and post-production revenues was \$6.1 million in the six months ended June 30, 2018 versus \$8.7 million in the six months ended June 30, 2017, primarily due to a decrease in film distribution revenue from IMAX original films. Film distribution and post-production gross margin

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

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

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

Selling, General and Administrative Expenses

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

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

Exit costs, restructuring charges and associated impairments

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

Income Taxes

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

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

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

Non-Controlling Interests

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

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

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

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

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

Foreign Exchange Rate Risk

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

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

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

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

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 2018 and 2019. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statements of operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. All foreign currency forward contracts held by the Company as at June 30, 2018, are designated and qualify as foreign currency cash flow hedging instruments. For foreign currency cash flow hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statements of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The notional value of foreign currency cash flow hedging instruments at June 30, 2018 was \$43.4 million (December 31, 2017 — \$35.2 million). A loss of \$0.7 million and a loss of \$1.7 million was recorded to Other Comprehensive Income with respect to the change in fair value of these contracts for the three and six months ended June 30, 2018, respectively (2017 — gain of \$0.8 million and gain of \$1.1 million, respectively). A gain of \$0.1 million and a gain of \$0.3 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses for the three and six months ended June 30, 2018, respectively (2017 — gain of \$0.1 million and loss of \$0.2 million, respectively). The Company's estimated net amount of the existing losses as at June 30, 2018 is \$0.2 million, which is expected to be reclassified to earnings within the next twelve months. Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses.

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

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

(2) EARNINGS RELEASE EXTRACTS

“Building on our first quarter momentum, we continued to demonstrate the value of our differentiated consumer experience, expanding global footprint and focus on blockbuster content from around the world. These factors, coupled with our continued focus on controlling costs, helped drive second quarter adjusted EBITDA of \$39.5 million, a 35% increase compared to the second quarter last year. Through the first six months of 2018, adjusted EBITDA is up 49% compared to the same period last year,” said IMAX CEO Richard L. Gelfond. “Not only are studios emphasizing blockbuster-type content, consumers are increasingly seeking differentiated ways to experience that content. We believe IMAX is uniquely positioned to benefit from these trends, especially with the roll out of our new IMAX with Laser experience, which we expect will further increase the differentiation of The IMAX Experience®.”

Second Quarter 2018 Results

Network Update

During the quarter, the Company installed 31 theater systems, 30 of which were for new theater locations. The total IMAX® theater network consisted of 1,410 systems as of June 30, 2018, of which 1,314 were in commercial multiplexes. There were 635 theaters in backlog as of June 30, 2018, compared to the 580 in backlog as of June 30, 2017.

IMAX also signed contracts for 40 new theaters and 98 upgrades in the second quarter of 2018. For a breakdown of theater system signings, installations, network and backlog by type for the second quarter of 2018, please see the end of this press release.

Box Office Update

Gross box office from IMAX DMR® films increased 27.4% to \$342.6 million in the second quarter of 2018 from \$268.9 million in the second quarter of 2017. Gross box office was generated primarily by the exhibition of 14 films (10 new and 4 carryovers), as compared to 16 films (11 new and 5 carryovers) exhibited in the second quarter of 2017.

Second Quarter Consolidated Results

The gross margin across all segments in the second quarter of 2018 was \$60.4 million, or 61.4% of total revenues, compared to \$49.5 million, or 56.4% of total revenues, in the second quarter of 2017. Operating expenses (which includes SG&A, excluding stock-based compensation, plus R&D) were \$30.3 million in the quarter.

Gelfond continued, “Blockbuster content from Hollywood, China, India and South Korea will hit IMAX screens across the globe this year. Expanding our content offering by including more local-language titles is a key initiative of the Company, given our 1,300-plus screens span nearly 80 countries. We believe that tailoring our slate to the varying consumer preferences in diverse markets such as China will increase the box office productivity of our network. In addition to the compelling mix of global blockbusters, we are also confident that the launch of our new global brand campaign will more effectively communicate to consumers the benefits of the premium IMAX experience. We expect the new brand campaign, combined with the launch of IMAX with Laser and our growing global footprint, to drive incremental attendance at IMAX screens around the world.”

OTHER INFORMATION

(in thousands of U.S. dollars)

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, EBITDA and adjusted EBITDA 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.

Adjusted Net Income and Adjusted Diluted Per Share Calculations – Quarter Ended June 30, 2018 vs. 2017:

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

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

Adjusted Net Income and Adjusted Diluted Per Share Calculations – Six Months Ended June 30, 2018 vs. 2017:

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

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

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

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

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

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

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

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, 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
“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
“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 on 25 July 2018 New York time
“EIT”	enterprise income tax
“FY” or “financial year”	financial year ended or ending 31 December

“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 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 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 on 25 July 2018 New York time
“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 DMR”	the proprietary digital re-mastering process or any other postproduction process and/or technology used by IMAX Corporation in connection with the conversion of a conventional film into an IMAX film
“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
“take rate”	a film studio’s share of box office generated from a particular film, after making certain tax and other deductions
“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.
Zi Maggie Chen
Company Secretary

Hong Kong, 26 July 2018

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.