



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 2019

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 2019

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 2019. 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\$0.156 per share) for the six months ended 30 June 2019 to the Shareholders.

The interim dividend will be paid on Friday, 30 August 2019 to the Shareholders whose names appear on the register of members of the Company as at the close of business on Monday, 19 August 2019. There will be no scrip dividend option for the 2019 interim dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 15 August 2019 to Monday, 19 August 2019 (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for entitlement to the 2019 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, 14 August 2019.

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 30 July 2019, at 4:19 p.m. New York time, released its unaudited results for the second quarter of 2019, and on or about 30 July 2019, at 4:55 p.m. New York time, released its quarterly report for the second quarter of 2019.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Total revenue (US\$'000)	59,256	51,487
Gross profit (US\$'000)	41,047	37,006
Gross profit %	69.3%	71.9%
Profit for the period (US\$'000)	23,965	20,465
Profit for the period %	40.4%	39.7%
Profit per share (US\$)	0.07	0.06
Adjusted profit (US\$'000)	24,894	21,251
Adjusted profit %	42.0%	41.3%
Total theater system signings	51	34
Total theater system installations	30	25
Sales arrangements	5	8
Revenue sharing arrangements	19	17
IMAX with Laser upgrades	6	—
Total network	662	569
Total backlog	298	318
Gross box office (US\$'000)	235,959	189,579
Box office per screen (US\$'000)	379	361

2019 OUTLOOK

The Company expects to install approximately 90–95 new theatres for the year 2019. We expect the mix and pace of these installations to be roughly similar to last year. We also expect our selling, general and administrative expenses, excluding share-based compensation to roughly be flat over 2018.

FINANCIAL INFORMATION

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

Condensed Consolidated Interim Statement of Comprehensive Income
(In thousands of U.S. dollars)

		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenues	5	59,256	51,487
Cost of sales	6	(18,209)	(14,481)
Gross profit	5	41,047	37,006
Selling, general and administrative expenses	6	(7,838)	(8,111)
Other operating expenses	6	(3,404)	(2,888)
Operating profit		29,805	26,007
Interest income		984	411
Interest expense		(44)	—
Profit before income tax		30,745	26,418
Income tax expense	7	(6,780)	(5,953)
Profit for the period attributable to owners of the Company		23,965	20,465
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss:			
Change in foreign currency translation adjustments		(550)	(2,428)
Items that may not be subsequently reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income (“FVOCI”)		(4,436)	—
Other comprehensive loss:		(4,986)	(2,428)
Total comprehensive income for the period, attributable to owners of the Company		18,979	18,037
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	8	0.07	0.06
From profit for the period — diluted	8	0.07	0.06

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(In thousands of U.S. dollars)

		As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment	9	104,833	98,471
Other assets	10	13,892	3,271
Variable consideration receivable from contracts		3,148	3,488
Deferred income tax asset	12	3,709	2,928
Financing receivables		40,139	42,000
Interests in a joint venture	13	—	—
		<u>165,721</u>	<u>150,158</u>
Current assets			
Other assets	10	3,543	2,405
Film assets		219	221
Inventories		5,983	3,434
Prepayments		3,075	3,399
Financing receivables		9,991	8,785
Variable consideration receivable from contracts		283	—
Trade and other receivables	11	56,041	40,717
Cash and cash equivalents		96,980	120,224
		<u>176,115</u>	<u>179,185</u>
Total assets		<u><u>341,836</u></u>	<u><u>329,343</u></u>

		As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
	Notes		
LIABILITIES			
Non-current liabilities			
Accruals and other liabilities		1,521	—
Deferred revenue	16	23,988	23,646
		<u>25,509</u>	<u>23,646</u>
Current liabilities			
Trade and other payables	15	26,944	18,395
Accruals and other liabilities		16,626	8,838
Income tax liabilities		5,333	6,334
Deferred revenue	16	17,188	18,453
		<u>66,091</u>	<u>52,020</u>
Total liabilities		<u>91,600</u>	<u>75,666</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		35	36
Share premium and reserves		280,460	307,865
Accumulated deficit		<u>(30,259)</u>	<u>(54,224)</u>
Total equity		<u>250,236</u>	<u>253,677</u>
Total equity and liabilities		<u><u>341,836</u></u>	<u><u>329,343</u></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 2019 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 2018, 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 2018, as described in those annual financial statements.

Taxes on income in the six months ended 30 June 2019 and 2018 are accrued using the tax rate that would be applicable to expected total annual profits.

3. New accounting standards and accounting changes

This note explains the impact of the adoption of IFRS 16 “Leases” (“**IFRS 16**”) on the Group’s financial information and the new accounting policies that have been applied from 1 January 2019, where they are different to those applied in prior periods.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

As a lessee, the Group's leases are mainly rentals of offices. The right-of-use assets were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Condensed consolidated interim statement of financial position (extract)	31 December 2018		1 January 2019
	As originally presented	IFRS 16	Restated
Non-current assets			
Property, plant and equipment	98,471	3,056	101,527
Liabilities			
Accrued and other liabilities	8,838	3,056	11,894

As a lessor, depending on the terms of arrangements entered into with customers, the Group's leases of IMAX theatre systems are classified as operating leases or finance leases. The accounting treatment of its lease arrangements for IMAX theatre systems has not changed compared with IAS 17.

(b) The Group's leasing activities and how these are accounted for

The Group's leases are mainly rentals of offices. Rental contracts are typically made for fixed periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of office were classified as operating leases and the payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments: fixed payments (including in-substance fixed payments) and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

4. Financial instruments

(a) *Financial instruments*

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 2019 (unaudited)			
Assets as per statement of financial position			
Investment in an equity security	—	13,100	13,100
Investment in preferred share	—	500	500
Net financed sales receivable	46,623	—	46,623
Net investment in finance leases	3,507	—	3,507
Trade and other receivables	56,041	—	56,041
Variable consideration receivable from contracts	3,431	—	3,431
Cash and cash equivalents	96,980	—	96,980
	<u>206,582</u>	<u>13,600</u>	<u>220,182</u>

	Liabilities at amortised cost	Total
Liabilities as per statement of financial position		
Trade and other payables	26,944	26,944
Lease liabilities (note below)	2,175	2,175
	<u>29,119</u>	<u>29,119</u>

Note:

Lease liabilities represent liabilities arising from leases as a result of adoption of IFRS 16 and are recorded in accruals and other liabilities.

	Financial assets at amortised costs	Financial assets at FVOCI	Total
31 December 2018 (audited)			
Assets as per statement of financial position			
Investment in preferred share	—	2,374	2,374
Investment in a virtual reality fund	—	587	587
Net financed sales receivable	47,097	—	47,097
Net investment in finance leases	3,688	—	3,688
Trade and other receivables	40,717	—	40,717
Variable consideration receivable from contracts	3,488	—	3,488
Cash and cash equivalents	120,224	—	120,224
	<u>215,214</u>	<u>2,961</u>	<u>218,175</u>

	Liabilities at amortised cost	Total
Liabilities as per statement of financial position		
Trade and other payables	18,395	18,395
	<u>18,395</u>	<u>18,395</u>

(b) Fair value measurements

The Group has classified its financial instruments into the three levels prescribed under the accounting standards.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

The investments in an equity security, preferred share and in a virtual reality fund are classified as financial asset with fair value change through other comprehensive income under IFRS 9. As of 30 June 2019, the fair value of investments in an equity security, preferred share and in a virtual reality fund was \$13.1 million, \$0.5 million and \$nil, respectively. Refer to note 10 for details.

The investment in an equity security is classified as Level 1 financial instrument for fair value assessment purpose. The fair value of the equity security is determined by using quoted market prices at the end of the reporting period.

The investments in preferred share and in a virtual reality fund are classified as Level 3 financial instrument for fair value assessment purpose. The fair value of preferred share and a virtual reality fund is determined by valuation techniques.

The carrying value 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 2019 and 31 December 2018, respectively.

The estimated fair values of the net financed sales receivable, net investment in finance leases, variable consideration receivable from contracts and lease liabilities are estimated based on discounting future cash flows at currently available interest rates with comparable terms as at 30 June 2019 and 31 December 2018, respectively.

	As at 30 June 2019		As at 31 December 2018	
	<i>(Unaudited)</i>		<i>(Audited)</i>	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Net financed sales receivable	46,623	47,179	47,097	47,626
Net investment in finance leases	3,507	3,507	3,688	3,688
Variable consideration receivable from contracts	3,431	3,431	3,488	3,488
Lease liabilities	2,175	2,175	N/A	N/A

There were no transfers within Level 1, Level 2 and Level 3 during the six months ended 30 June 2019 (30 June 2018: none). When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

5. Segment 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, other operating expenses, interest income, interest expense and income tax expense are not allocated to the segments.

The Group now has six operating and reportable segments: sales and sales-type lease 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 and sales-type lease arrangements; (2) Theatre Business, representing revenue generated by the sale and installation of theatre systems and maintenance services, primarily related to the sales and sales-type lease 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 and sales-type lease 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	
	2019	2018
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue		
Network business		
Film	17,921	14,933
Revenue sharing arrangements — contingent rent	15,824	12,245
	33,745	27,178
Theatre business		
Sales and sales-type lease arrangements	10,364	13,224
Revenue sharing arrangements — upfront fees	3,537	1,022
Theatre system maintenance	10,859	9,554
Other theatre	606	422
	25,366	24,222
New business and other	145	87
Total	59,256	51,487

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Gross profit		
Network business		
Film	15,268	12,728
Revenue sharing arrangements — contingent rent	10,079	6,716
	<u>25,347</u>	<u>19,444</u>
Theatre business		
Sales and sales-type lease arrangements	7,831	10,372
Revenue sharing arrangements — upfront fees	1,034	227
Theatre system maintenance	6,474	6,754
Other theatre	250	198
	<u>15,589</u>	<u>17,551</u>
New business and other	<u>111</u>	<u>11</u>
Total gross profit	41,047	37,006
Selling, general and administrative expenses	(7,838)	(8,111)
Other operating expenses	(3,404)	(2,888)
Interest income	984	411
Interest expense	(44)	—
Profit before income tax	<u>30,745</u>	<u>26,418</u>

The Group's operating assets and liabilities 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) are as follows:

Customer A

Revenues of approximately \$17.3 million in the six months ended 30 June 2019 (30 June 2018: \$15.1 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 \$16.4 million in the six months ended 30 June 2019 (30 June 2018: \$14.7 million) are derived from a related party. These revenues are attributable to film, theatre system maintenance and other segments.

Customer C

Revenues of approximately \$1.7 million in the six months ended 30 June 2019 (30 June 2018: \$5.6 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 2019 or 2018.

6. Expenses by nature

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

	Six months ended 30 June	
	2019 <i>(Unaudited)</i>	2018 <i>(Unaudited)</i>
Cost of theatre system sales and finance leases	5,192	3,257
Depreciation, including joint revenue sharing arrangements and film cost	7,059	5,784
Employee salaries and benefits	4,299	5,041
Advertising and marketing expenses	3,506	3,183
Technology and trademark fees	3,374	2,859
Theatre maintenance fees	2,998	1,584
Share-based compensation expenses	1,175	1,014
Professional fees	604	997
Lease expenses	36	555
Travel and transportation expenses	490	476
Provision for receivables impairment	230	—
Foreign exchange (gains)/losses	(134)	116
Other film costs/(recoveries)	109	(97)
Other business expenses	82	390
Auditor's remuneration		
— Non-audit services	118	91
— Audit services	184	160
Utilities and maintenance expenses	129	70
Total costs of sales, selling, general and administrative expenses and other operating expenses	29,451	25,480

7. Income tax expense

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Current income tax:		
Current tax on profits for the period	(7,606)	(6,495)
Adjustments in respect of prior years	39	300
Total current income tax	(7,567)	(6,195)
Deferred income tax:		
Origination and reversal of temporary differences	787	242
Total deferred income tax	787	242
Income tax expense	(6,780)	(5,953)

Income tax expense for the six months ended 30 June 2019 and 2018 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 2019, the estimated average annual tax rate used for the year ending 31 December 2019 was 22% (2018: 23%).

8. 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	
	2019	2018
	(Unaudited)	(Unaudited)
Profit for the period	<u>23,965</u>	<u>20,465</u>
Weighted average number of common shares (in '000s):		
Issued and outstanding, beginning of period	356,255	358,125
Weighted average number of shares (decreased) increased during the period	<u>(1,371)</u>	<u>299</u>
Weighted average number of shares used in computing basic earnings per share	354,884	358,424
Adjustments for:		
Stock options	2,364	3,286
Restricted share units	<u>367</u>	<u>195</u>
Weighted average number of shares used in computing diluted earnings per share	<u>357,615</u>	<u>361,905</u>

9. Property, plant and equipment

	Theatre System Components	Office and Production Equipment	Right-of-use Assets	Leasehold Improvements	Construction in Process	Total
As at 1 January 2019 (audited)						
Cost	126,997	2,392	—	1,753	3,959	135,101
Accumulated depreciation and impairment	<u>(33,738)</u>	<u>(1,228)</u>	<u>—</u>	<u>(1,664)</u>	<u>—</u>	<u>(36,630)</u>
Net book amount (as previously presented)	<u>93,259</u>	<u>1,164</u>	<u>—</u>	<u>89</u>	<u>3,959</u>	<u>98,471</u>
Change in accounting policy						
Cost	<u>—</u>	<u>—</u>	<u>3,056</u>	<u>—</u>	<u>—</u>	<u>3,056</u>
Restated as at 1 January 2019						
Cost	126,997	2,392	3,056	1,753	3,959	138,157
Accumulated depreciation and impairment	<u>(33,738)</u>	<u>(1,228)</u>	<u>—</u>	<u>(1,664)</u>	<u>—</u>	<u>(36,630)</u>
Net book amount (restated)	<u>93,259</u>	<u>1,164</u>	<u>3,056</u>	<u>89</u>	<u>3,959</u>	<u>101,527</u>

	Theatre System Components	Office and Production Equipment	Right-of-use Assets	Leasehold Improvements	Construction in Process	Total
Six months ended						
30 June 2019 (unaudited)						
Opening net book amount	93,259	1,164	3,056	89	3,959	101,527
Exchange differences	88	4	(53)	2	(45)	(4)
Additions	—	20	—	15	10,017	10,052
Transfers	7,171	—	—	—	(7,171)	—
Disposals	(173)	—	—	—	—	(173)
Depreciation charge	(5,774)	(253)	(474)	(68)	—	(6,569)
Closing net book amount	94,571	935	2,529	38	6,760	104,833
As at 30 June 2019 (unaudited)						
Cost	132,906	2,408	2,993	1,763	6,760	146,830
Accumulated depreciation and impairment	(38,335)	(1,473)	(464)	(1,725)	—	(41,997)
Net book amount	94,571	935	2,529	38	6,760	104,833
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

The recognised right-of-use assets all relate to the type of properties.

10. Other assets

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Commissions and other deferred selling expenses	2,487	1,359
Deposits	50	72
Other	1,006	974
Other assets, current	3,543	2,405
Investment in an equity security (note i)	13,100	—
Investment in preferred share (note ii)	500	2,374
Deposits over one year	292	310
Investment in a virtual reality fund (note iii)	—	587
Other assets, non-current	13,892	3,271
Other assets	17,435	5,676

Notes:

- (i) On 4 February 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of the Company, purchased 7,949,000 shares (representing approximately 0.706% equity at the time) in Maoyan Entertainment (“Maoyan”) with the amount of \$15.2 million at the final offer price pursuant to the global offering of the shares of Maoyan. This investment is subject to, among other restrictions, a lock-up period of six months following 4 February 2019, the date of Maoyan’s global offering. As of 30 June 2019, the fair value of this investment was \$13.1 million, which is \$2.1 million lower than the carrying value of \$15.2 million, and the difference of \$2.1 million was recorded in other comprehensive loss for the six months ended 30 June 2019 (30 June 2018: N/A).
- (ii) In 2014, the Group purchased one preferred share of IMAX (Hong Kong) Holdings, Limited at a cost of \$4.0 million. IMAX (Hong Kong) Holdings, Limited is a wholly owned subsidiary of IMAX Corporation and holds an investment in a joint venture. According to the key terms, as fully defined in the agreement, the Group has the right to dividends and other distributions, redemption rights should IMAX Corporation sell all or part of its interest in the investment and the right to nominate one representative to the Board of Directors. As of 30 June 2019, the fair value of this investment was \$0.5 million, which was \$1.9 million lower than the carrying value of \$2.4 million, and the difference of \$1.9 million was recorded in other comprehensive loss for the six months ended 30 June 2019 (30 June 2018: \$nil).
- (iii) In 2017, the Group entered into a subscription agreement to invest in IMAX Virtual Reality Fund (the “VR Fund”) with the total committed subscription amount of \$5.0 million representing 19.5% interests of the VR Fund. The VR Fund was established by IMAX Corporation to help finance the creation of interactive VR content experiences for use across all VR platforms. As of 31 December 2018, the total investment amounted to \$1.0 million. During the six months ended 30 June 2019, IMAX Corporation, the Group’s controlling shareholder, decided to dissolve the VR Fund and shut down the operation of VR Fund. Therefore, the Group remeasured the fair value of investment in VR Fund based on the recoverable amount of \$0.1 million and recorded a loss of \$0.5 million in other comprehensive loss for the six-month period ended 30 June 2019 (30 June 2018: \$nil). The remaining commitment of investment in the VR Fund was exempted accordingly.

11. Trade and other receivables

	As at 30 June 2019 <i>(Unaudited)</i>	As at 31 December 2018 <i>(Audited)</i>
Trade receivables	18,704	21,903
Less: provision for impairment of trade receivables	(444)	(404)
Trade receivables — net	18,260	21,499
Receivables from IMAX Corporation	29,285	13,427
Loan and interest receivables from a joint venture	521	509
Less: provision for impairment of loan and interest receivables	(396)	(207)
Loan and interest receivables from a joint venture — net	125	302
Other accrued receivables	8,371	5,489
	56,041	40,717

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 2019 <i>(Unaudited)</i>	As at 31 December 2018 <i>(Audited)</i>
0–30 days	7,939	8,494
31–60 days	968	2,788
61–90 days	7,182	1,950
Over 90 days	31,900	22,098
	47,989	35,330

12. Deferred income tax

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

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Opening balance	2,928	2,528
Exchange differences	(6)	(124)
Credited to profit or loss	787	524
Closing balance	<u>3,709</u>	<u>2,928</u>

13. Interests in a joint venture

The Group's investment in a joint venture as of 30 June 2019 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	
	2019	2018	2019	2018
			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	
	2019	2018	2019	2018
			US\$	US\$
Issued and fully paid				
At beginning of 1 January (audited)	357,944,820	358,125,084	35,794.48	35,812.51
Exercise of stock options	488,600	600,000	48.86	60.00
Shares issued for vested restricted share units	96,982	56,036	9.70	5.60
Share cancellation	<u>(8,715,700)</u>	<u>—</u>	<u>(871.57)</u>	<u>—</u>
Number of shares as at 30 June (unaudited)	<u>349,814,702</u>	<u>358,781,120</u>	<u>34,981.47</u>	<u>35,878.11</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) Treasury shares

For the six months ended 30 June:

	Notes	Number of shares		US\$'000	
		2019	2018	2019	2018
Treasury shares					
At beginning of period		1,775,148	43,900	4,358	133
Acquisition of shares by the Trust	(i)	122,901	84,555	302	299
Issued to employees for vested restricted share units		(208,049)	(128,455)	(532)	(432)
Shares bought back on-market	(ii)	7,025,700	—	16,729	—
Buy-back transaction costs	(ii)	—	—	84	—
Shares cancelled	(ii)	<u>(8,715,700)</u>	<u>—</u>	<u>(20,941)</u>	<u>—</u>
At end of period		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes:

- (i) 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. Shares issued to employees are recognised on a first-in-first-out basis.
- (ii) During the six months ended 30 June 2019, the Company conducted shares buy-back pursuant to the general mandates granted by the shareholders to the Company’s directors during the Annual General Meetings held on 3 May 2018 and 6 June 2019. The repurchases may be made in the open market or through other means permitted by applicable laws. The Company has no obligation to repurchase its shares and the share repurchase program may be suspended or discontinued by the Company at any time.

During the six months ended 30 June 2019, the Company purchased 7,025,700 shares on-market and 8,715,700 shares were cancelled. The shares were acquired at an average price of \$2.38, with prices ranging from \$2.20 to \$2.60.

(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 \$1.2 million in the six months ended 30 June 2019 (30 June 2018: \$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 \$nil in the six months ended 30 June 2019 (30 June 2018: less than \$0.1 million) related to stock option grants issued to IMAX China employees under the SOP and IMAX LTIP.

No stock options granted to Group employees in the six months ended 30 June 2019 (30 June 2018: none).

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	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Options outstanding, beginning of period	—	37,000	—	31.73
Expired	—	(37,000)	—	31.73
Options outstanding, end of period	—	—	—	—
Options exercisable, end of period	—	—	—	—

No stock options were surrendered or cancelled by Group employees in the six months ended 30 June 2019 (30 June 2018: none).

(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 2019, the Group recorded an expense of \$nil (30 June 2018: \$nil) 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 Per Share	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Options outstanding, beginning of period	5,652,400	6,252,400	1.44	1.43
Exercised	<u>(488,600)</u>	<u>(600,000)</u>	<u>1.33</u>	<u>1.33</u>
Options outstanding, end of period	<u>5,163,800</u>	<u>5,652,400</u>	<u>1.45</u>	<u>1.44</u>
Options exercisable, end of period	<u>5,163,800</u>	<u>5,652,400</u>	<u>1.45</u>	<u>1.44</u>

In respect of China IPO Options exercised in the six months ended 30 June 2019, the weighted average stock price at the dates of exercise is \$2.66 (30 June 2018: \$3.66). As at 30 June 2019, the weighted average remaining contractual life of options outstanding is 1.1 years (31 December 2018: 1.6 years).

China Options Summary

In the six months ended 30 June 2019, 417,764 (30 June 2018: 264,647) 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 2019, the Group recorded an expense of \$0.2 million (30 June 2018: \$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 2019 at the measurement date was \$0.58 per share (30 June 2018: \$0.92 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		
	2019 <i>(Unaudited)</i>	2018 <i>(Unaudited)</i> A	2018 <i>(Unaudited)</i> B
Grant date share price	HK\$19.96	HK\$24.45	HK\$28.00
Exercise price	HK\$20.71	HK\$24.45	HK\$28.00
Average risk-free interest rate	1.60%	1.85%	2.02%
Expected option life (in years)	3.70	4.77	6.45
Expected volatility	29%	30%	30%
Dividend yield	2.20%	1.50%	1.50%
Early exercise multiple	2.35	2.23	2.23

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	
	2019 <i>(Unaudited)</i>	2018 <i>(Unaudited)</i>	2019 <i>(Unaudited)</i>	2018 <i>(Unaudited)</i>
Options outstanding, beginning of period	941,780	554,673	3.95	4.53
Granted	417,764	264,647	2.64	3.18
Options outstanding, end of period	1,359,544	819,320	3.55	4.10
Options exercisable, end of period	393,080	163,986	4.46	5.44

As at 30 June 2019, the weighted average remaining contractual life of options outstanding is 5.6 years (31 December 2018: 5.6 years).

(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 2019 (30 June 2018: \$nil) related to RSU grants issued to employees in the plan. The annual termination probability assumed for the six months ended 30 June 2019 was zero (30 June 2018: 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	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
RSUs outstanding, beginning of period	—	1,296	—	36.09
Vested and settled	—	(326)	—	33.80
RSUs outstanding, end of period	—	970	—	36.86

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 \$1.0 million for the six months ended 30 June 2019 (30 June 2018: \$0.9 million) related to China RSU grants issued to employees in the plan. The annual termination probability assumed for the six months ended 30 June 2019 was nil (30 June 2018: 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	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
RSUs outstanding, beginning of period	849,293	523,829	3.64	4.39
Granted	626,581	475,811	2.52	3.23
Vested and settled	(298,724)	(184,491)	3.53	4.40
Forfeited	(2,535)	(20,667)	2.76	3.88
RSUs outstanding, end of period	<u>1,174,615</u>	<u>794,482</u>	<u>3.08</u>	<u>3.71</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 \$7.1 million out of share premium for the six months ended 30 June 2019 (30 June 2018: \$14.4 million).

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 2019, accordingly, no statutory reserves were appropriated (31 December 2018: \$nil).

FVOCI reserve

The FVOCI reserve represents the changes in fair value net of tax of financial assets at FVOCI of the Group. Refer to Note 10 for details.

15. Trade and other payables

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Trade payables	1,508	2,094
Other payables	644	1,321
Amounts due to IMAX Corporation	24,792	14,980
	26,944	18,395

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

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
0–30 days	15,819	8,824
31–60 days	1,874	1,609
61–90 days	1,669	761
Over 90 days	7,582	7,201
	26,944	18,395

As at 30 June 2019 and 31 December 2018, 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 2019 (Unaudited)	As at 31 December 2018 (Audited)
Theatre system deposits	36,027	35,725
Maintenance prepayments	5,149	6,374
	<u>41,176</u>	<u>42,099</u>
Deferred revenue, current	17,188	18,453
Deferred revenue, non-current	23,988	23,646
	<u>41,176</u>	<u>42,099</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 69.54% of the Company's shares as at 30 June 2019.

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

IMAX (Barbados) Holding, Inc. and IMAX Virtual Reality Content Fund, LLC are subsidiaries of IMAX Corporation.

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	
	2019	2018
	(Unaudited)	(Unaudited)
Purchase of goods:		
IMAX Corporation (theatres systems)	14,828	11,592
Purchase of services:		
IMAX Corporation (film related transactions)	3,755	2,770
IMAX Corporation (management fees		
— legal and administration services)	244	247
Other transactions:		
IMAX (Barbados) Holding, Inc. (dividends paid to)	—	9,731
IMAX Corporation (reimbursement of		
compensation of Company employees paid		
by IMAX Corporation)	596	851
IMAX Corporation (trademark and technology fees)	3,362	2,851
IMAX Virtual Reality Content Fund, LLC (invest in)	—	873
IMAX Virtual Reality Content Fund, LLC		
(proceeds from dissolution)	78	—
IMAX Fei Er Mu (Shanghai) Investment		
Management Co., Ltd. (interest income)	—	88
Suzhou IMAX Fei Er Mu Project Investment		
Partnership Enterprise (Limited Partnership)		
(interest income)	9	—
Gross revenue earned from film services through		
IMAX Corporation (Note below)	16,349	12,445
Revenue earned from maintenance services provided		
to IMAX Corporation	74	81

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.

Note:

The amounts shown in the table are gross amount for transactions with IMAX Corporation. For the six months ended 30 June 2019, conversion cost of \$3.3 million (2018: \$2.2 million) paid to IMAX Corporation in relation to Hollywood films is considered as a payment to customer and is net against DMR revenue earned from IMAX Corporation as presented in the revenues of condensed consolidated interim statement of comprehensive income, with the adoption of IFRS 15.

(b) Period/Year-end balances

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Receivables from related parties		
IMAX Corporation	29,285	13,427
Loan and interest receivables from a joint venture		
Suzhou IMAX Fei Er Mu Project Investment Partnership Enterprise (Limited Partnership)	311	303
IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd.	210	206
Payables to related parties:		
IMAX Corporation	24,792	14,980
Dividends payable to owners of the Company:		
IMAX (Barbados) Holding, Inc.	4,865	—

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. and Suzhou IMAX Fei Er Mu Project Investment Partnership Enterprise (Limited Partnership) are unsecured, with fixed interest rates and repayable within one year.

(c) Balances related to other related party transactions

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Investment in IMAX (Hong Kong) Holding, Limited	500	2,374
Investment in IMAX Virtual Reality Content Fund, LLC	—	587

(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	
	2019	2018
	(Unaudited)	(Unaudited)
Salaries and other short-term employee benefits	1,695	1,582
Post-employment benefits	15	9
Other benefits ¹	452	688
Share-based payments	577	494
	2,739	2,773

- 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 1HFY2019 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

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 Chinese 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,
- Sale and sales-type lease 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 sale and sales-type lease 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 and sales-type lease 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 and sales-type lease arrangements. Sales and sales-type lease 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 group 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 FY2019		1H FY2018	
	US\$'000	%	US\$'000	%
Network Business				
Film	17,921	30.2%	14,933	29.0%
Revenue sharing arrangements — contingent rent	15,824	26.7%	12,245	23.8%
Sub-total	33,745	56.9%	27,178	52.8%
Theatre Business				
Sales and sales-type lease arrangements	10,364	17.5%	13,224	25.7%
Revenue sharing arrangements — upfront fees	3,537	6.0%	1,022	2.0%
Theatre system maintenance	10,859	18.3%	9,554	18.6%
Other theatre	606	1.0%	422	0.8%
Sub-total	25,366	42.8%	24,222	47.0%
New Business and Other	145	0.2%	87	0.2%
Total	59,256	100.0%	51,487	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, 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:

	1H FY2019		1H FY2018	
	US\$'000	%	US\$'000	%
Network Business				
Film	2,653	14.8%	2,205	14.8%
Revenue sharing arrangements — contingent rent	5,745	36.3%	5,529	45.2%
Sub-total	8,398	24.9%	7,734	28.5%
Theatre Business				
Sales and sales-type lease arrangements	2,533	24.4%	2,852	21.6%
Revenue sharing arrangements — upfront fees	2,503	70.8%	795	77.8%
Theatre system maintenance	4,385	40.4%	2,800	29.3%
Other theatre	356	58.7%	224	53.1%
Sub-total	9,777	38.5%	6,671	27.5%
New Business and Other	34	23.4%	76	87.4%
Total	18,209	30.7%	14,481	28.1%

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:

	1H FY2019		1H FY2018	
	US\$'000	%	US\$'000	%
Network Business				
Film	15,268	85.2%	12,728	85.2%
Revenue sharing arrangements — contingent rent	10,079	63.7%	6,716	54.8%
Sub-total	25,347	75.1%	19,444	71.5%
Theatre Business				
Sales and sales-type lease arrangements	7,831	75.6%	10,372	78.4%
Revenue sharing arrangements — upfront fees	1,034	29.2%	227	22.2%
Theatre system maintenance	6,474	59.6%	6,754	70.7%
Other theatre	250	41.3%	198	46.9%
Sub-total	15,589	61.5%	17,551	72.5%
New Business and Other	111	76.6%	11	12.6%
Total	41,047	69.3%	37,006	71.9%

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:

	1H FY2019		1H FY2018	
	US\$'000	%	US\$'000	%
Employee salaries and benefits	3,330	5.2%	3,012	5.4%
Share-based compensation expenses	1,175	2.0%	1,014	2.0%
Travel and transportation	490	0.8%	476	0.9%
Advertising and marketing	842	1.4%	880	1.7%
Professional fees	905	1.5%	1,248	2.4%
Facilities	639	1.1%	625	1.2%
Depreciation	299	0.5%	346	0.7%
Foreign exchange and other expenses	158	0.3%	510	1.0%
Total	7,838	13.2%	8,111	15.8%

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 1H FY2019 and 1H FY2018 were US\$3.4 million and US\$2.9 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 1H FY2019 and 1H FY2018 was US\$1.0 million and US\$0.4 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 1H FY2019 and 1H FY2018 was US\$6.8 million and US\$6.0 million, respectively. Our effective tax rate was at 22.1% and 22.5% during 1H FY2019 and 1H FY2018.

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 FY2019		1H FY2018	
	US\$'000	%	US\$'000	%
Revenues	59,256	100.0%	51,487	100.0%
Cost of sales	(18,209)	(30.7%)	(14,481)	(28.1%)
Gross profit	41,047	69.3%	37,006	71.9%
Selling, general and administrative expenses	(7,838)	(13.2%)	(8,111)	(15.8%)
Other operating expenses	(3,404)	(5.7%)	(2,888)	(5.6%)
Operating profit	29,805	50.3%	26,007	50.5%
Interest income	984	1.7%	411	0.8%
Interest expense	(44)	(0.1%)	—	0%
Profit before income tax	30,745	51.9%	26,418	51.3%
Income tax expense	(6,780)	(11.4%)	(5,953)	(11.6%)
Profit for the period, attributable to owners of the Company	23,965	40.4%	20,465	39.7%
Other comprehensive loss:				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustments	(550)	(0.9%)	(2,428)	(4.7%)
Items that may not be subsequently reclassified to profit or loss:				
Change in fair value of financial assets at fair value through other comprehensive income (“FVOCI”)	(4,436)	(7.5%)	—	—
Other comprehensive loss	(4,986)	(8.4%)	(2,428)	(4.7%)
Total comprehensive income for the period, attributable to owners of the Company	18,979	32.0%	18,037	35.0%

Adjusted Profit

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

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

	1HFY2019 US\$'000	1HFY2018 US'000
Profit for the period	23,965	20,465
Adjustments:		
Share-based compensation	1,175	1,014
Tax impact on items listed above	(260)	(228)
Adjusted profit	24,880	21,251

1HFY2019 COMPARED WITH 1HFY2018

Revenue

Our revenue increased 15.1% from US\$51.5 million in 1HFY2018 to US\$59.3 million in 1HFY2019 driven by an increase of US\$6.5 million in our Network Business revenue and an increase of US\$1.2 million in the Theatre Business revenue, as explained further below.

Network Business

Revenue from our Network Business increased 24.2% from US\$27.2 million in 1HFY2018 to US\$33.7 million in 1HFY2019 primarily due to a US\$46.4 million, or 24.5% increase in box office revenue in 1HFY2019 compared to the prior year period.

Film

Film revenue increased 20.0% from US\$14.9 million in 1HFY2018 to US\$17.9 million in 1HFY2019 as a result of an increase in box office revenue. The box office revenue generated by IMAX formatted films increased 24.5% from US\$189.6 million in 1HFY2018 to US\$236.0 million in 1HFY2019 as a result of the strong performance of the Company's film slate in 1HFY2019, which included *The Wandering Earth* and *Avengers: Endgame*.

Box office revenue per screen increased 4.7% from US\$0.36 million in 1HFY2018 to US\$0.38 million in 1HFY2019 as a result of the strong performance of the Company's film slate, which was partly offset by continued growth of the IMAX theatre network, which increased 16.3% from 569 IMAX theatres in 1HFY2018 to 662 IMAX theatres in 1HFY2019.

The following table sets out the number of films we released in the IMAX format in 1H FY2019 and 1H FY2018 in Greater China:

	1H FY2019	1H FY2018
Hollywood films	18	13
Hollywood films (Hong Kong and Taiwan only)	4	5
Chinese language films	4	5
Total IMAX films released	26	23

Revenue Sharing Arrangements — Contingent Rent

Contingent rent from revenue sharing arrangements increased 29.2% from US\$12.2 million in 1H FY2018 to US\$15.8 million in 1H FY2019, primarily due to a greater number of IMAX theatres operating under revenue sharing arrangements in 1H FY2019 compared to 1H FY2018 and higher box office revenue per screen. We had 357 theatres operating under revenue sharing arrangements at the end of 1H FY2018 as compared to 428 at the end of 1H FY2019, which represented an increase of 19.9%.

Contingent rent from full revenue sharing arrangements increased 30.0% from US\$10.0 million in 1H FY2018 to US\$13.0 million in 1H FY2019, primarily due to growth in the full revenue sharing network which increased 19.3%, from 275 IMAX theatres in 1H FY2018 to 328 IMAX theatres in 1H FY2019 and higher box office revenue per screen.

Contingent rent from hybrid revenue sharing arrangements increased 27.3% from US\$2.2 million in 1H FY2018 to US\$2.8 million in 1H FY2019, primarily due to growth in the hybrid revenue sharing network which increased 22.0%, from 82 IMAX theatres in 1H FY2018 to 100 IMAX theatres in 1H FY2019 and higher box office revenue per screen.

Theatre Business

Revenue from our Theatre Business increased 4.7% from US\$24.2 million in 1HFY2018 to US\$25.4 million in 1HFY2019.

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 2019	2018	Growth (%)
The PRC ⁽¹⁾	632	538	17.5%
Hong Kong	5	5	—
Taiwan	10	9	11.1%
	647	552	17.2%
Institutional⁽²⁾	15	17	(11.8%)
Total	662	569	16.3%

Note:

- (1) Total excludes the temporary closure of one theatre during 1HFY2019.
- (2) Institutional IMAX theatres include museums, zoos, aquaria and other destination entertainment sites that do not exhibit commercial films. 2 institutional theatres were closed during FY2018.

The following table sets out the number of IMAX theatre systems installed by business arrangements in 1HFY2019 and 1HFY2018:

	1HFY2019	1HFY2018
Sales and sales-type lease arrangements	5	8
Revenue sharing arrangements	19	17
IMAX with Laser upgrades	6	—
Total theatre systems installed	30⁽¹⁾	25

Note:

- (1) We installed 24 new IMAX theatre systems plus 6 IMAX with Laser upgrades (1 sales and sales-type lease upgrade and 5 revenue sharing upgrades) in 1HFY2019.

Sales and Sales-type Lease Arrangements

Theatre Business revenue from sales and sales-type lease arrangements decreased 21.6% from US\$13.2 million in 1HFY2018 to US\$10.4 million in 1HFY2019, primarily due to 2 fewer sales and sales-type lease arrangements including 1 IMAX with Laser upgrade in 1HFY2019 over 1HFY2018. We recognised sales revenue on 8 new theatre systems in 1HFY2018 with a total value of US\$11.4 million, compared to 6 new theatre systems in 1HFY2019 with a total value of US\$8.5 million.

Average revenue per new system under sales and sales-type lease arrangements was unchanged in 1HFY2019 and 1HFY2018 at US\$1.4 million.

Revenue Sharing Arrangements — Upfront Fees

Upfront revenue from hybrid revenue sharing arrangement increased 246.1% from US\$1.0 million in 1HFY2018 to US\$3.5 million in 1HFY2019, primarily due to 5 additional hybrid revenue sharing installations in 1HFY2019.

Theatre System Maintenance

Theatre system maintenance revenue increased 13.7% from US\$9.6 million in 1HFY2018 to US\$10.9 million in 1HFY2019. Maintenance revenue increased in 1HFY2019 as a result of a 16.3% increase in the size of the IMAX network, which increased to 662 theaters as at 30 June 2019 from 569 theaters as at 30 June 2018.

New Business and Other

Revenue from new business and other was flat in 1HFY2019 and 1HFY2018 at US\$0.1 million.

Cost of Sales

Our cost of sales increased 25.7% from US\$14.5 million in 1HFY2018 to US\$18.2 million in 1HFY2019. This increase was primarily due to an increase of US\$0.7 million in our Network Business and an increase of US\$3.1 million in our Theatre Business.

Network Business

The cost of sales for our Network Business increased 8.6% from US\$7.7 million to US\$8.4 million due to increased depreciation costs associated with a larger full revenue sharing network, currently 328 theaters as at 1HFY2019 versus 275 theaters as at 1HFY2018, and increased film marketing costs due to 4 additional films exhibited in the PRC during 1HFY2019 as compared to 1HFY2018, which was partly offset by the decreased one-time upfront costs related to the installation of 3 fewer full revenue sharing arrangements in 1HFY2019 versus 1HFY2018.

Film

The cost of sales for film increased 20.3% from US\$2.2 million in 1HFY2018 to US\$2.7 million in 1HFY2019 driven by the increased film marketing costs resulting from 4 additional films exhibited in the PRC during 1HFY2019 as compared to 1HFY2018.

Revenue Sharing Arrangements — Contingent Rent

The cost of sales for contingent rent from revenue sharing arrangements increased 3.9% from US\$5.5 million in 1HFY2018 to US\$5.7 million in 1HFY2019, primarily due to increased depreciation costs associated with a larger full revenue sharing network, currently 328 theaters at 1HFY2019 versus 275 theaters as at 1HFY2018, while being offset by decreased one-time upfront costs related to the installation of 3 fewer full revenue sharing arrangements in 1HFY2019 versus 1HFY2018.

Theatre Business

The cost of sales for our Theatre Business increased 46.6% from US\$6.7 million in 1HFY2018 to US\$9.8 million in 1HFY2019, primarily due to total 3 additional IMAX theatre systems installations under sales and sales-type lease arrangements and hybrid revenue sharing arrangements including 1 IMAX with Laser upgrade in 1HFY2019 and increased theater maintenance cost.

Sales and Sales-type Lease Arrangements

Cost of sales from our Theatre Business under sales and sales-type lease arrangements decreased 11.2% from US\$2.9 million in 1HFY2018 to US\$2.5 million in 1HFY2019, primarily due to the costs recognised on 8 theatre systems installations under sales and sales-type lease arrangements in 1HFY2018 as compared to 6 in 1HFY2019 which includes 1 IMAX with Laser upgrade.

Revenue Sharing Arrangements — Upfront Fees

Cost of sales from installation of hybrid revenue sharing arrangements increased 214.8% from US\$0.8 million in 1HFY2018 to US\$2.5 million in 1HFY2019, primarily due to the costs recognised on 7 theatre system installations under hybrid revenue sharing arrangements in 1HFY2019 as compared to 2 in 1HFY2018.

Theatre System Maintenance

Cost of sales from our Theatre Business with respect to theatre system maintenance increased 56.6% from US\$2.8 million in 1HFY2018 to US\$4.4 million in 1HFY2019 commensurate with the additional costs associated with servicing a larger IMAX theatre network, currently 662 theaters at 1HFY2019 versus 569 theaters as at 1HFY2018 and the timing of replacement of certain service parts for several theaters.

New Business and Other

Cost from new business and other was flat in 1HFY2019 and 1HFY2018 below US\$0.1 million.

Gross Profit and Gross Profit Margin

Our gross profit in 1HFY2018 was US\$37.0 million, or 71.9% of total revenue, compared to US\$41.0 million, or 69.3% of total revenue, in 1HFY2019. The increase in gross profit was largely attributable to US\$5.9 million increase in our Network Business, and US\$2.0 million decrease in our Theatre Business. The decrease in gross profit margin was largely attributable to higher cost mix of systems due to installation of IMAX with Laser in 1HFY2019.

Network Business

The gross profit from our Network Business increased 30.4% from US\$19.4 million in 1HFY2018 to US\$25.3 million in 1HFY2019, and the gross profit margin for our Network Business increased from 71.5% in 1HFY2018 to 75.1% in 1HFY2019. 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 setoff by increased depreciation costs associated with continued growth in the IMAX theatre network under revenue sharing arrangements.

Film

The gross profit for film increased 20.0% from US\$12.7 million in 1HFY2018 to US\$15.3 million in 1HFY2019, and the gross profit margin was flat at 85.2% during the same period. The increase was primarily due to an increase of 24.5% in our overall box office revenue from US\$189.6 million in 1HFY2018 to US\$236.0 million in 1HFY2019.

Revenue Sharing Arrangements — Contingent Rent

The gross profit for contingent rent from revenue sharing arrangements increased 50.1% from US\$6.7 million in 1HFY2018 to US\$10.1 million in 1HFY2019, and the gross profit margin increased 54.8% to 63.7% during the same period.

The gross profit for contingent rent from full revenue sharing arrangements increased 70.5% from US\$4.4 million in 1HFY2018 to US\$7.5 million in 1HFY2019, and the gross profit margin increased from 43.7% to 57.8% 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 3 fewer systems in 1HFY2019, and partly setoff by increased depreciation costs associated with a larger full revenue sharing network.

The gross profit for contingent rent from hybrid revenue sharing arrangements increased 13.0% from US\$2.3 million in 1HFY2018 to US\$2.6 million in 1HFY2019, driven by higher box office revenue per screen and growth in the hybrid revenue sharing network which increased 22.0%, from 82 IMAX theatres in 1HFY2018 to 100 IMAX theatres in 1HFY2019.

Theatre Business

The gross profit for our Theatres Business decreased 11.2% from US\$17.6 million in 1HFY2018 to US\$15.6 million in 1HFY2019. During the same period, our gross profit margin decreased from 72.5% to 61.5%. The decrease in gross profit was primarily driven by the installation of 2 fewer system under sales and sales-type lease arrangements including 1 IMAX with Laser upgrade, and partially setoff by 5 more theatres under hybrid revenue sharing arrangements. The decrease in gross profit margin was mainly driven by higher maintenance costs and higher costs of sales for systems due to 1 IMAX with Laser upgrade.

Sales and Sales-type Lease Arrangements

The gross profit for our Theatre Business from sales of new IMAX theatre systems decreased 24.5% from US\$10.4 million in 1HFY2018 to US\$7.8 million in 1HFY2019 primarily due to the installation of 2 fewer systems including 1 IMAX with Laser upgrade in 1HFY2019. Our gross profit margin decreased from 78.4% in 1HFY2018 to 75.6% in 1HFY2019 due to higher costs of sales for systems resulting from 1 IMAX with Laser upgrade.

Revenue Sharing Arrangements — Upfront Fees

The gross profit from upfront fees derived from hybrid revenue sharing arrangements was increased from US\$0.2 million in 1HFY2018 to US\$1.1 million in 1HFY2019, primarily due to 5 more installations under hybrid revenue sharing arrangements and higher gross profit margin of 22.2% in 1HFY2018 compared to 29.2% in 1HFY2019 due to adjustment of one-time upfront costs associated with the installations.

Theatre System Maintenance

The gross profit for our theatre system maintenance decreased 4.1% from US\$6.8 million in 1H FY2018 to US\$6.5 million in 1H FY2019 and our gross profit margin decreased from 70.7% in 1H FY2018 to 59.6% in 1H FY2019, mainly due to the timing of replacement of certain service parts for several theatres.

New Business and Other

The gross profit for new business and other was flat in 1H FY2019 and 1H FY2018 at US\$0.1 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, decreased 3.4% from US\$8.1 million in 1H FY2018 to US\$7.8 million in 1H FY2019, primarily due to: (i) a US\$0.4 million decrease in professional fee due to higher legal and litigation fees incurred in 1H FY2018 for an ongoing legal matters; (ii) a decrease in foreign exchange and other expenses resulting from a foreign exchange gain of US\$0.1 million in 1H FY2019 due to appreciation of USD as compared to a foreign exchange loss of US\$0.1 million in 1H FY2018 when USD depreciated, partially offset by a US\$ 0.4 million increase related to employee salaries and benefits and share-based compensation expenses due as a result of increased head count and salary increases to manage the growing IMAX theatre network.

Other Operating Expenses

Other operating expenses increased 17.9% from US\$2.9 million in 1H FY2018 to US\$3.4 million in 1H FY2019, primarily due to an increase of US\$0.5 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 13.9% from US\$6.0 million in 1H FY2018 to US\$6.8 million in 1H FY2019. The increase in income tax expense was primarily due to an increase in our operating profit before income tax of US\$4.3 million from US\$26.4 million in 1H FY2018 to US\$30.7 million in 1H FY2019. Our effective tax rate was decreased from 22.5% in 1H FY2018 to 22.1% in 1H FY2019.

Profit for the Period

We reported a comprehensive profit for the period of US\$19.0 million in 1H FY2019 as compared to US\$18.0 million in 1H FY2018. The increase was primarily due to an increase in our profit for the period of US\$3.5 million from US\$20.5 million in 1H FY2018 to US\$24.0 million in 1H FY2019 and setoff by an increase in other comprehensive loss of US\$2.4 million (including a loss of US\$2.4 million related to foreign currency translation adjustment) in 1H FY2018 to a loss of US\$5.0 million (including a loss of US\$0.6 million resulted by foreign currency translation adjustment and a loss of US\$4.4 million related to change in fair value net of tax of financial assets at FVOCI) in 1H FY2019. Comprehensive profit for the period in 1H FY2019 included a US\$1.2 million charge (US\$1.0 million in 1H FY2018) for share-based compensation.

Adjusted Profit

Adjusted profit, which consists of profit for the period adjusted for the impact of share-based compensation and the related tax impact, was US\$21.3 million in 1H FY2018 as compared to adjusted profit of US\$24.9 million in 1H FY2019, an increase of 17.1%.

LIQUIDITY AND CAPITAL RESOURCES

	As at 30 June 2019 US\$'000	As at 31 December 2018 US\$'000
Current assets		
Other assets	3,543	2,405
Film assets	219	221
Inventories	5,983	3,434
Prepayments	3,075	3,399
Variable consideration receivable from contracts	283	—
Financing receivables	9,991	8,785
Trade and other receivables	56,041	40,717
Cash and cash equivalents	96,980	120,224
Total Current Assets	176,115	179,185
Current liabilities		
Trade and other payables	26,944	18,395
Accruals and other liabilities	16,626	8,838
Income tax liabilities	5,333	6,334
Deferred revenue	17,188	18,453
Total Current Liabilities	66,091	52,020
Net Current Assets	110,024	127,165

As at 30 June 2019, we had net current assets of US\$110.0 million compared to net current assets of US\$127.2 million as at 31 December 2018. The decrease in net current assets in 1H FY2019 was mainly attributable to a US\$23.2 million decrease in cash and cash equivalents, a US\$8.5 million increase in trade and other payables and a US\$7.8 million increase in accruals and other liabilities. This was offset by a US\$15.3 million increase in trade and other receivables, a US\$2.6 million increase in inventory, a US\$1.3 million decrease in deferred revenue and a US\$1.1 million increase in other assets.

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 2019	As at 31 December 2018
Cash and cash equivalents denominated in US\$	\$31,628	\$64,664
Cash and cash equivalents denominated in RMB (in thousands)	¥446,630	¥377,779
Cash denominated in Hong Kong dollars HK\$ (in thousands)	\$2,903	\$4,159

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 on-going basis and believes that this approach, given the relative size of the Group, is reasonable.

CASH FLOW ANALYSIS

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

	1H FY2019 US\$'000	1H FY2018 US\$'000
Net cash provided by operating activities	17,125	17,801
Net cash used in investing activities	(20,803)	(4,295)
Net cash used in financing activities	(19,247)	(13,860)
Effects of exchange rate changes on cash	(319)	278
Decrease in cash and cash equivalents during period	(23,244)	(76)
Cash and cash equivalents, beginning of period	120,224	116,678
Cash and cash equivalents, end of period	96,980	116,602

Cash From Operating Activities

1H FY2019

Our net cash provided by operations was approximately US\$17.1 million in 1H FY2019. We had profit before income tax for the period of US\$30.7 million in 1H FY2019 and positive adjustments for amortisation of film assets of US\$3.8 million, depreciation of property, plant and equipment of US\$6.6 million, and settlement of equity and other non-cash compensation of US\$1.2 million, reduced by our taxes paid of US\$10.3 million, our net investment in film assets of US\$3.8 million and changes in working capital of US\$11.5 million. Changes in working capital primarily consisted of: (i) an increase in trade and other receivables of US\$14.4 million; (ii) an increase in inventories of US\$2.6 million; (iii) an increase in other assets of US\$1.1 million, partially offset by: (i) an increase in trade and other payables of US\$4.5 million; (ii) an increase in accruals and other liabilities of US\$2.0 million; and (iii) a decrease of financing receivables of US\$0.6 million.

1H FY2018

Our net cash provided by operations was approximately US\$17.8 million in 1H FY2018. We had profit before income tax for the period of US\$26.4 million in 1H FY2018 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) an 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.

Cash Used in Investing Activities

1H FY2019

Our net cash used in investing activities was approximately US\$20.8 million for 1H FY2019, primarily related to investments in IMAX theatre equipment amounting to US\$5.7 million installed in our exhibitor partners' theatres under full revenue sharing arrangements, and investment in an equity security of US\$15.2 million.

1H FY2018

Our net cash used in investing activities was approximately US\$4.3 million for 1H FY2018, 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.

Cash Used in Financing Activities

1HFY2019

Our net cash used in financing activities was approximately US\$19.2 million for 1HFY2019 primarily due to: (i) payment for share buy-back of US\$16.8 million and (ii) dividends paid to owners of the Company amounting to US\$2.3 million.

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 and options of US\$0.3 million; partially offset by issuance of common shares of US\$0.8 million.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

Lease Commitments

We have lease commitments within one year amounting to less than US\$0.1 million related primarily to leased office and apartment space in Shanghai.

Capital Commitments

As at 30 June 2019, we had capital expenditures contracted but not provided for of US\$25.8 million (31 December 2018: US\$29.0 million).

CAPITAL EXPENDITURES AND CONTINGENT LIABILITIES

Capital Expenditures

Our capital expenditures primarily relate to the acquisition of IMAX theatre systems and acquisition of films and investment in an equity security. During 1HFY2019 and 1HFY2018, our capital expenditures were US\$24.6 million and US\$9.7 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\$26.6 million in FY2019, which will be primarily used to expand the IMAX theatre network under full revenue sharing.

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 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, IMAX Shanghai Multimedia paid approximately US\$0.15 million to the ASB to satisfy the amount owing as a result of the underpayment and accrued approximately \$0.3 million in respect of the fines that it believed to be likely to result from the matter. Given that the amount of the underpayment exceeded RMB0.2 million, the applicable threshold for treatment as a criminal matter, on 8 August 2018, IMAX Shanghai Multimedia was informed that its logistics function, but not IMAX Shanghai Multimedia itself, would face criminal charges. A preliminary court conference was held on 5 September 2018, and hearings took place on 24 October 2018 and 22 January 2019. On 6 March 2019, the Shanghai No. 3 Intermediate People’s Court imposed a fine of RMB0.6 million, approximately \$0.1 million or 75% of the underpayment, on IMAX Shanghai Multimedia’s logistics function. During the year ended 31 December 2018, the Company did not make any additional accrual for the matter. As of 31 March 2019, this fine has been paid and the legal proceedings were concluded. IMAX Shanghai Multimedia has accordingly reversed the remainder of the accrual previously made.

Except as disclosed above or as otherwise disclosed herein, as at 30 June 2019, 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 2019.

WORKING CAPITAL

We finance our working capital needs primarily through cash flow from operating activities. Cash flow generated from operating activities was US\$17.1 million in 1H FY2019 and US\$17.8 million in 1H FY2018. 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 2019:

- except for an unsecured revolving facility for up to RMB200 million, we did not have any bank borrowings or committed bank facilities;
- we did not have any borrowing from IMAX Corporation or any related parties; and
- we did not have any hire purchase commitments or bank overdrafts.

Since 30 June 2019, being the latest date of our condensed interim statements, there has been no material adverse change to our indebtedness.

RECENT DEVELOPMENTS

Subsequent to June 30, 2019, we renewed an unsecured revolving facility for up to RMB200 million (US\$30 million) to fund ongoing working capital requirements.

OFF BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We had no off-balance sheet arrangements as at 30 June 2019.

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 and the related tax impact.

	As at 30 June 2019	As at 31 December 2018
Gearing ratio ⁽¹⁾	<u>36.6%</u>	<u>29.9%</u>
	1HFY2019	1HFY2018
Adjusted profit margin ⁽²⁾	<u>42.0%</u>	<u>41.3%</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 increased from 29.9% as at 31 December 2018 to 36.6% as at 30 June 2019, primarily due to an increase in trade and other payables of US\$8.5 million and an increase in accruals and other liabilities of US\$7.8 million.

Adjusted Profit Margin

Our adjusted profit margin increased from 41.3% as at 30 June 2018 to 42.0% as at 30 June 2019, primarily due to the growth of the IMAX theatre network and higher box office revenue, and decreased selling, general and administrative expenses.

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 1HFY2019, of US\$0.02 per share (equivalent to approximately HK\$0.156 per share). Any dividend distribution 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 2019, the Company had a total equity of US\$55.5 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 30 July 2019, the Board of Directors approved an interim dividend of US\$0.02 per share (equivalent to HK\$0.156 per share) for the six months ended 30 June 2019 to the Shareholders.

The interim dividend will be paid on Friday, 30 August 2019 to the shareholders whose names appear on the register of members of the Company as at the close of business on Monday, 19 August 2019. There will be no scrip dividend option for the 2019 interim dividend.

MATERIAL ACQUISITIONS OR DISPOSALS

We have not undertaken any material acquisition or disposal for the period ended 30 June 2019.

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 2019.

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.

In February 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of the Company, purchased 7,949,000 shares (representing approximately 0.706% equity at the time) in Maoyan Entertainment ("**Maoyan**") with the amount of US\$15.2 million at the final offer price pursuant to the global offering of the share capital of Maoyan. This investment is subject to, among other restrictions, a lock-up period of six months following 4 February 2019, the date of Maoyan's global offering. We did not receive any distributions or dividends from Maoyan during the period ended 30 June 2019.

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

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 2019, the Company has complied with all the code provisions of the CG Code.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2019, the Company conducted share repurchases of 7,025,700 listed Shares on the Stock Exchange pursuant to a general mandate granted by the shareholders to the Directors during the Annual General Meeting held on 3 May 2018 and resolutions of the Board adopted on 27 October 2018, and a general mandate granted by the shareholders to the Directors during the Annual General Meeting held on 6 June 2019 and resolutions of the Board adopted on 6 June 2019. The following table outlines details of the shares repurchased on a monthly basis.

Month	Number of shares repurchased	Highest price per share HK\$	Lowest price paid per share HK\$	Average price paid per share HK\$	Aggregate price paid HK\$
March 2019	709,800	19.84	19.04	19.53	13,863,730.52
May 2019	4,377,100	20.70	16.96	18.48	80,898,142.44
June 2019	1,938,800	19.56	18.30	19.02	36,870,693.79
	7,025,700				131,632,566.75

In addition, 122,901 listed Shares were purchased through Computershare Hong Kong Trustees Limited, the trustee engaged by the Company for administering its share option schemes, on 10 June 2019 at an average price per share of HK\$19.2408 on the Stock Exchange, for satisfying the vesting of the relevant options and/or restricted share units.

Save for the above, there have been no convertible securities issued or granted by the Group, no exercise of any conversion or subscription rights, nor any purchase, sale or redemption by the Group of its listed Shares during the six months ended 30 June 2019.

SUPPLEMENTAL INFORMATION RELATING TO GRANT OF RSUS

We refer to the announcements by the Company dated 8 March 2019 and 11 June 2019. The Company has appointed a professional trustee to make on-market purchases of shares during the six months ended 30 June 2019 in respect of the satisfaction of RSUs granted to the Executive Directors (85,148 RSUs) and the Independent Non-executive Directors (122,901 RSUs). With respect to the satisfaction of RSUs granted to employees (other than the Executive Directors) (326,709 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 2019.

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 2019.

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 terms of reference were updated on 30 November 2018. 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 of the Group for the six months ended 30 June 2019.

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 Ms. Megan Colligan, 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 review the time and contribution required from Directors. 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.

Pursuant to the Director Nomination Policy and the Board Diversity Policy adopted by the Company in November 2018, in selecting candidates, the Board and the nomination committee should consider a large number of factors including but not limited to character and integrity, independence, diversity, gender, age, cultural and educational background, 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. In addition, the nomination committee reports on the composition of the Board from the perspective of diversity, and sets and reviews measurable objectives for the implementation of the Board Diversity 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 2019 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 2019.

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\$0.156 per share) for the six months ended 30 June 2019 to the Shareholders.

The interim dividend will be paid on Friday, 30 August 2019 to the Shareholders whose names appear on the register of members of the Company as at the close of business on Monday, 19 August 2019. There will be no scrip dividend option for the 2019 interim dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 15 August 2019 to Monday, 19 August 2019 (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for entitlement to the 2019 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, 14 August 2019.

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 69.54% of the issued share capital of the Company.

On or about 30 July 2019, at 4:19 p.m. New York time, IMAX Corporation made an announcement regarding its unaudited results for the second quarter of 2019 (the “**Earnings Release**”). If you wish to review the Earnings Release, please visit: <https://www.sec.gov/Archives/edgar/data/921582/000119312519207062/d765320dex991.htm>. Unless otherwise provided therein, all dollar amounts in the Earnings Release are denominated in United States dollars.

On or about 30 July 2019, at 4:55 p.m. New York time, IMAX Corporation filed its unaudited quarterly report on the Form 10-Q for the second quarter of 2019 (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/ix?doc=/Archives/edgar/data/921582/000156459019027035/imax-10q_20190630.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. These principles are different from the IFRS, 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, 2019	December 31, 2018
Assets		
Cash and cash equivalents	\$ 106,451	\$ 141,590
Accounts receivable, net of allowance for doubtful accounts of \$4,641 (December 31, 2018 — \$3,174)	91,490	93,309
Financing receivables, net of allowance for uncollectible amounts	121,649	127,432
Variable consideration receivable from contracts	36,347	35,985
Inventories	47,976	44,560
Prepaid expenses	11,447	10,294
Film assets	17,266	16,367
Property, plant and equipment	308,326	280,658
Investment in equity securities	14,149	1,022
Other assets	19,946	17,997
Deferred income taxes	29,638	31,264
Other intangible assets	32,176	34,095
Goodwill	39,027	39,027
Total assets	\$ 875,888	\$ 873,600
Liabilities		
Bank indebtedness	\$ 22,976	\$ 37,753
Accounts payable	22,155	32,057
Accrued and other liabilities	114,150	97,724
Deferred revenue	105,384	106,709
Total liabilities	264,665	274,243
Commitments and contingencies		
Non-controlling interests	7,172	6,439
Shareholders' equity		
Capital stock common shares — no par value. Authorized — unlimited number. 61,432,275 issued and 61,331,289 outstanding (December 31, 2018 — 61,478,168 issued and 61,433,589 outstanding)	423,676	422,455
Less: Treasury stock, 77,607 shares at cost (December 31, 2018 — 44,579)	(1,575)	(916)
Other equity	166,232	179,595
Accumulated deficit	(66,828)	(85,385)
Accumulated other comprehensive loss	(2,926)	(3,588)
Total shareholders' equity attributable to common shareholders	518,579	512,161
Non-controlling interests	85,472	80,757
Total shareholders' equity	604,051	592,918
Total liabilities and shareholders' equity	\$ 875,888	\$ 873,600

(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,	
	2019	2018	2019	2018
Revenues				
Equipment and product sales	\$ 19,694	\$ 15,368	\$ 34,894	\$ 34,881
Services	56,662	54,785	100,809	99,531
Rentals	25,863	25,124	44,033	43,326
Finance income	2,578	3,068	5,259	5,591
	<u>104,797</u>	<u>98,345</u>	<u>184,995</u>	<u>183,329</u>
Costs and expenses applicable to revenues				
Equipment and product sales	11,939	7,549	21,374	15,521
Services	26,781	23,633	46,024	43,984
Rentals	6,524	6,759	12,904	12,728
	<u>45,244</u>	<u>37,941</u>	<u>80,302</u>	<u>72,233</u>
Gross margin	59,553	60,404	104,693	111,096
Selling, general and administrative expenses	32,136	32,484	59,785	60,443
Research and development	1,222	3,922	2,358	7,514
Amortization of intangibles	1,218	965	2,293	1,857
Receivable provisions, net of recoveries	927	355	1,358	806
Legal arbitration award	—	7,500	—	7,500
Exit costs, restructuring charges and associated impairments	—	456	850	1,158
	<u>24,050</u>	<u>14,722</u>	<u>38,049</u>	<u>31,818</u>
Income from operations	24,050	14,722	38,049	31,818
Change in fair value of equity investment	(4,544)	—	(2,053)	—
Retirement benefits non-service expense	(160)	(124)	(320)	(248)
Interest income	572	243	1,142	490
Interest expense	(636)	(851)	(1,317)	(1,345)
	<u>19,282</u>	<u>13,990</u>	<u>35,501</u>	<u>30,715</u>
Income before income taxes	19,282	13,990	35,501	30,715
Provision for income taxes	(5,308)	(3,635)	(8,956)	(8,088)
Loss from equity-accounted investments, net of tax	(138)	(100)	(222)	(305)
	<u>13,836</u>	<u>10,255</u>	<u>26,323</u>	<u>22,322</u>
Net income	13,836	10,255	26,323	22,322
Less: net income attributable to non-controlling interests	(2,439)	(2,630)	(6,661)	(6,192)
	<u>11,397</u>	<u>7,625</u>	<u>19,662</u>	<u>16,130</u>
Net income attributable to common shareholders	\$ 11,397	\$ 7,625	\$ 19,662	\$ 16,130
Net income per share attributable to common shareholders				
— basic and diluted:				
Net income per share — basic and diluted	<u>\$ 0.19</u>	<u>\$ 0.12</u>	<u>\$ 0.32</u>	<u>\$ 0.25</u>

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

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	<u>\$ 13,836</u>	<u>\$ 10,255</u>	<u>\$ 26,323</u>	<u>\$ 22,322</u>
Unrealized net gain (loss) from cash flow hedging instruments	297	(679)	365	(1,686)
Realization of cash flow hedging net (gain) loss upon settlement	374	(112)	693	(332)
Foreign currency translation adjustments	<u>(1,257)</u>	<u>(3,003)</u>	<u>(172)</u>	<u>(951)</u>
Other comprehensive (loss) income, before tax	(586)	(3,794)	886	(2,969)
Income tax (expense) benefit related to other comprehensive (loss) income	<u>(177)</u>	<u>207</u>	<u>(278)</u>	<u>528</u>
Other comprehensive (loss) income, net of tax	<u>(763)</u>	<u>(3,587)</u>	<u>608</u>	<u>(2,441)</u>
Comprehensive income	13,073	6,668	26,931	19,881
Less: Comprehensive income attributable to non-controlling interests	<u>(2,040)</u>	<u>(1,667)</u>	<u>(6,607)</u>	<u>(5,887)</u>
Comprehensive income attributable to common shareholders	<u>\$ 11,033</u>	<u>\$ 5,001</u>	<u>\$ 20,324</u>	<u>\$ 13,994</u>

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

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

	Six Months Ended June 30,	
	2019	2018
Cash provided by (used in):		
Operating Activities		
Net income	\$ 26,323	\$ 22,322
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	29,804	28,034
Write-downs, net of recoveries	1,866	1,686
Change in deferred income taxes	1,296	347
Stock and other non-cash compensation	11,710	11,920
Unrealized foreign currency exchange (gain) loss	(14)	473
Change in fair value of equity investment	2,053	—
Loss from equity-accounted investments	421	106
(Gain) loss on non-cash contribution to equity-accounted investees	(199)	199
Investment in film assets	(8,214)	(18,219)
Changes in other non-cash operating assets and liabilities	(16,529)	(214)
Net cash provided by operating activities	48,517	46,654
Investing Activities		
Purchase of property, plant and equipment	(4,175)	(8,632)
Investment in joint revenue sharing equipment	(22,235)	(8,455)
Acquisition of other intangible assets	(1,121)	(1,705)
Investment in equity securities	(15,153)	—
Net cash used in investing activities	(42,684)	(18,792)
Financing Activities		
Increase in bank indebtedness	35,000	—
Repayment of bank indebtedness	(50,000)	(1,000)
Settlement of restricted share units and options	(7,619)	(1,529)
Treasury stock repurchased for future settlement of restricted share units	(1,575)	(4,636)
Repurchase of common shares, IMAX China	(16,813)	—
Taxes withheld and paid on employee stock awards vested	(219)	(1,279)
Common shares issued — stock options exercised	2,379	799
Repurchase of common shares	(1,258)	(46,452)
Issuance of subsidiary shares to a non-controlling interest (net of return on capital)	1,106	6,696
Dividends paid to non-controlling shareholders interests	(2,266)	(4,623)
Credit facility amendment fees paid	—	(1,963)
Net cash used in financing activities	(41,265)	(53,987)
Effects of exchange rate changes on cash	293	442
Decrease in cash and cash equivalents during period	(35,139)	(25,683)
Cash and cash equivalents, beginning of period	141,590	158,725
Cash and cash equivalents, end of period	\$ 106,451	\$ 133,042

(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 2018 Annual Report on Form 10-K for the year ended December 31, 2018 (the “**2018 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, 2018, 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, 2019, which are effective for annual periods ending after December 31, 2018, and for annual and interim periods thereafter.

In 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“**ASC Topic 842**”). The Company adopted 2016-02 and several associated ASUs on January 1, 2019. See note 3 for a further discussion of the Company’s adoption of ASC Topic 842.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“**ASU 2017-04**”). The adoption of this standard was applied prospectively and did not have a material impact on the Company’s condensed consolidated financial statements.

In December 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities” (“**ASU 2017-12**”). The adoption of this standard was applied prospectively and did not have an impact on the Company, see note 15(d) for additional disclosure regarding the Company’s hedging arrangements.

Recently Issued FASB Accounting Standard Codification Updates

In March 2019, the FASB issued ASU No. 2019-02, “Entertainment — Films — Other Assets — Film Costs (Subtopic 926-20) and Entertainment — Broadcasters — Intangibles — Goodwill and Other (Subtopic 920-350)” (“**ASU 2019-02**”). The purpose of ASU 2019-02 is to align the accounting for production costs of an episodic television series with the accounting for production costs of films by removing the content distinction for capitalization, as well as requiring an entity to reassess estimates of the use of a film in a film group. In addition, ASU 2019-02 will require an entity to test for impairment at a film group level if it is predominantly monetized with other films. Amendments in this update would be applied prospectively, and for public entities, the amendments in ASU 2019-02 are effective for interim and annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact of ASU 2019-02 on its condensed consolidated financial statements.

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, 2019.

4. Lease Arrangements and Financing Receivables

IMAX Corporation as a Lessor:

Several of the Company's leases are classified as sales-type leases for transactions related to the lease of IMAX theater systems. Certain arrangements that are legal sales are also classified as sales-type leases as certain clauses within the arrangements limit transfer of title or provide the Company with conditional rights to the system. The customer's rights under the Company's lease arrangements are described in note 2(m) in the Company's 2018 Form 10-K. The Company classifies its lease arrangements at inception of the arrangement and, if required, after a modification of the lease arrangement, to determine whether they are sales-type leases or operating leases. Under the Company's lease arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer. The Company's lease portfolio terms are typically non-cancellable for 10 to 20 years with renewal provisions from inception. Except for those sales arrangements that are classified as sales-type leases, the Company's leases generally do not contain an automatic transfer of title at the end of the lease term. The Company's lease arrangements do not contain a guarantee of residual value at the end of the lease term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Company for maintenance and extended warranty generally after the first year of the lease until the end of the lease term. The customer is responsible for obtaining insurance coverage for the theater systems commencing on the date specified in the arrangement's shipping terms and ending on the date the theater systems are delivered back to the Company.

The Company has assessed the nature of its joint revenue sharing arrangements and concluded that, based on the guidance in the Revenue Recognition Topic of the ASC, the arrangements contain a lease. Under joint revenue sharing arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer. The Company's joint revenue sharing arrangements are typically non-cancellable for 10 years or longer with renewal provisions. Title to equipment under joint revenue sharing arrangements does not transfer to the customer. The Company's joint revenue sharing arrangements do not contain a guarantee of residual value at the end of the term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Company for maintenance and extended warranty throughout the term. The customer is responsible for obtaining insurance coverage for the theater systems commencing on the date specified in the arrangement's shipping terms and ending on the date the theater systems are delivered back to the Company. See additional details regarding the Company's traditional and hybrid joint revenue sharing arrangements as described in note 2(m) in the Company's 2018 Form 10-K.

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

	June 30, 2019	December 31, 2018
Gross minimum lease payments receivable	\$ 9,516	\$ 10,499
Unearned finance income	<u>(755)</u>	<u>(902)</u>
Minimum lease payments receivable	8,761	9,597
Accumulated allowance for uncollectible amounts	<u>(155)</u>	<u>(155)</u>
Net investment in leases	<u>8,606</u>	<u>9,442</u>
Gross financed sales receivables	147,797	155,044
Unearned finance income	<u>(33,915)</u>	<u>(36,215)</u>
Financed sales receivables	113,882	118,829
Accumulated allowance for uncollectible amounts	<u>(839)</u>	<u>(839)</u>
Net financed sales receivables	<u>113,043</u>	<u>117,990</u>
Total financing receivables	<u><u>\$ 121,649</u></u>	<u><u>\$ 127,432</u></u>
Net financed sales receivables due within one year	\$ 27,533	\$ 26,911
Net financed sales receivables due after one year	\$ 85,510	\$ 91,079

As at June 30, 2019, the financed sale receivables had a weighted average effective interest rate of 9.1% (December 31, 2018 -9.1%). As at June 30, 2019, sales-type lease arrangements had a weighted average effective interest rate of 7.9% and weighted average remaining lease term of 7.0 years, respectively. (December 31, 2018 — 8.0% and 7.3 years, respectively).

IMAX Corporation as a Lessee:

The Company mainly leases office and warehouse storage space and office equipment is generally purchased outright. Leases with an initial term of less than 12 months are not recorded on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 5 years or more. The Company assumed that it was reasonably certain that the renewal options on its warehouse leases would be exercised based on previous history and knowledge, current understanding of future business needs and level of investment in leasehold improvements, among other considerations. The incremental borrowing rate used in the calculation of the lease liability is based on the location of each leased property. None of the Company's leases include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company rents or subleases certain office space to third parties, which have a remaining term of less than 12 months and are not expected to be renewed.

The components of lease expense are as follows:

		Three months ended June 30, 2019		Six months ended June 30, 2019		2018			
Operating lease cost ⁽¹⁾	SG&A Expenses	\$	220	\$	1,282	\$	463	\$	2,437
Amortization of lease assets	SG&A Expenses		664		—		1,195		—
Interest on lease liabilities	SG&A Expenses		274		—		542		—
Total lease cost		\$	1,158	\$	1,282	\$	2,200	\$	2,437

(1) Includes short-term leases and variable lease costs, which are not significant for the three and six months ended June 30, 2019.

Supplemental balance sheet information related to leases are as follows:

			June 30, 2019	January 1, 2018
Assets				
Operating Leases	Property, plant and equipment	\$	16,252	\$ 17,462
Liabilities				
Operating Leases ⁽¹⁾	Accrued and other liabilities	\$	18,792	\$ 19,960

(1) The Company recorded lease liabilities of approximately \$20.0 million as at January 1, 2019 upon initial adoption of ASC Topic 842. In addition, unamortized lease inducements and other accruals of \$2.5 million were reclassified from accrued liabilities to offset against the applicable right-of-use asset.

	June 30, 2019	January 1, 2018
Weighted-average remaining lease term (years)		
Operating Leases	8.0	8.3
Weighted-average discount rate		
Operating Leases	5.80%	5.80%

Maturities of lease liabilities are as follows:

	Operating Leases
2019 (six months remaining)	\$ 1,795
2020	3,451
2021	3,047
2022	2,283
2023	2,175
Thereafter	<u>11,312</u>
Total lease payments	\$ 24,063
Less: interest expense	<u>(5,271)</u>
Present value of lease liabilities	<u><u>\$ 18,792</u></u>

As of December 31, 2018, under ASC Topic 840, minimum lease payments under non-cancelable operating leases by period were expected to be as follows:

	Operating Leases
2019	\$ 3,847
2020	2,790
2021	2,491
2022	1,843
2023	1,759
Thereafter	<u>9,657</u>
Total lease payments	<u><u>\$ 22,387</u></u>

5. Inventories

	June 30, 2019	December 31, 2018
Raw materials	\$ 30,298	\$ 29,705
Work-in-process	4,343	4,733
Finished goods	13,335	10,122
	<u>\$ 47,976</u>	<u>\$ 44,560</u>

At June 30, 2019, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$4.2 million (December 31, 2018 — \$1.9 million).

There were no write-downs for excess and obsolete inventory based on current estimates of net realizable value considering future events and conditions, during the three and six months ended June 30, 2019 and 2018.

6. Credit Facility and Other Financing Arrangements

Working Capital Loan

On July 5, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. (“**IMAX Shanghai**”), one of the Company’s majority-owned subsidiaries in China, entered into an unsecured revolving facility for up to 200.0 million Renminbi (approximately \$30.0 million U.S. Dollars) to fund ongoing working capital requirements. Subsequent to June 30, 2019 this facility was renewed. The total amounts drawn and available under the working capital loan at June 30, 2019 and December 31, 2018 were nil and 200.0 million Renminbi, respectively (\$nil and approximately \$30.0 million U.S. Dollars, respectively).

8. 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 sales 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 \$0.4 million and \$0.9 million for the three and six months ended June 30, 2019, respectively (2018 — \$0.5 million and \$1.2 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$9.6 million and \$14.1 million for the three and six months ended June 30, 2019, respectively (2018 — \$7.3 million and \$12.6 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 a recovery of \$0.4 million and \$0.6 million for the three and six months ended June 30, 2019, respectively (2018 — expense of \$0.5 million and \$0.6 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 \$0.7 million and \$0.9 million for the three and six months ended June 30, 2019, respectively (2018 — \$0.6 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, 2019 is a loss of \$0.2 million and a loss of \$0.4 million, respectively (2018 — loss of \$1.0 million and loss of \$1.1 million, respectively) for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 15(d) for additional information.

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

In a joint revenue sharing arrangement, the Company receives a portion of a theater's box office and in certain arrangements a portion of concession revenues and 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 38 exhibitors for a total of 1,256 theater systems, of which 826 theaters were operating as at June 30, 2019, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m) of the Company's 2018 Form 10-K.

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 Revenue — Rentals and for the three and six months ended June 30, 2019 amounted to \$27.8 million and \$48.2 million, respectively (2018 — \$25.7 million and \$43.6 million, respectively).

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

For the six months ended June 30, 2019, the majority of IMAX DMR revenue was earned from the exhibition of 39 IMAX DMR films (2018 — 33) throughout the IMAX theater network. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2018 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Revenues — Services and for the three and six months ended June 30, 2019 amounted to \$39.3 million and \$67.2 million, respectively (2018 — \$36.1 million and \$63.2 million, respectively).

10. 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 decreases 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, 2019, 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 necessary.

As at June 30, 2019, the Company had net deferred income tax assets after valuation allowance of \$29.6 million (December 31, 2018 — \$31.3 million), which consists of a gross deferred income tax asset of \$29.8 million (December 31, 2018 — \$31.5 million), against which the Company is carrying a \$0.2 million valuation allowance (December 31, 2018 — \$0.2 million).

For the quarter ended June 30, 2019, the Company recorded a provision for income taxes of \$5.3 million. Included in the provision for income taxes was an expense of \$0.1 million related to its provision for uncertain tax positions and there were no amounts recognized related to its provision for tax shortfalls related to stock-based compensation costs recognized in the period.

In 2018, the Company finalised its accounting related to changes in the U.S. Tax Act. Among other things, the Company has finalised provisional estimates and tax calculations, which included an evaluation of recent interpretations and new guidance issued. No adjustments were recognised during the year ended December 31, 2018, and the provisional re-measurement effect on deferred taxes recorded in the 2017 year reflects the total effect of the changes in the U.S. Tax Act.

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

Cash held outside of North America as at June 30, 2019 was \$97.6 million (December 31, 2018 — \$121.9 million), of which \$64.9 million was held in the People's Republic of China ("PRC") (December 31, 2018 — \$54.7 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 \$9.8 million (December 31, 2018 — \$8.4 million).

11. 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 \$7.0 million and \$11.4 million for the three and six months ended June 30, 2019, respectively (2018 — \$6.8 million and \$11.6 million, respectively). The following reflects the stock-based compensation expense recorded to the respective financial statement line items:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Cost and expenses applicable to revenues	\$ 447	\$ 398	\$ 821	\$ 732
Selling, general and administrative expenses	6,485	6,242	10,388	10,659
Research and development	95	116	180	212
Exit costs, restructuring charges and associated impairments	—	—	—	(19)
	<u>\$ 7,027</u>	<u>\$ 6,756</u>	<u>\$ 11,389</u>	<u>\$ 11,584</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Stock options	\$ 2,177	\$ 1,361	\$ 4,084	\$ 2,750
Restricted Share Units	4,132	4,805	6,242	8,020
China Long Term Incentive Plan Restricted Share Units	641	537	920	720
China Options	77	53	143	94
	<u>\$ 7,027</u>	<u>\$ 6,756</u>	<u>\$ 11,389</u>	<u>\$ 11,584</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	
	2019	2018	2019	2018
Options outstanding, beginning of period	5,465,046	5,082,100	\$ 27.63	\$ 29.31
Granted	1,016,882	878,629	20.66	22.06
Exercised	(85,746)	—	20.15	—
Forfeited	(103,902)	(147,307)	23.70	30.77
Expired	(316,325)	(470,752)	26.08	31.77
Cancelled	(5,196)	—	32.80	—
Options outstanding, end of period	<u>5,970,759</u>	<u>5,342,670</u>	26.70	27.86
Options exercisable, end of period	<u>4,104,443</u>	<u>3,708,881</u>	28.35	28.68

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	
	2019	2018	2019	2018
RSUs outstanding, beginning of period	1,033,871	995,329	\$ 25.70	\$ 32.68
Granted	618,181	591,296	22.40	20.92
Vested and settled	(302,232)	(335,308)	26.69	31.02
Forfeited	(124,527)	(53,029)	23.66	31.33
RSUs outstanding, end of period	<u>1,225,293</u>	<u>1,198,288</u>	23.99	27.40

Issuer Purchases of Equity Securities

In 2018, IMAX China announced that its shareholders granted its Board of Directors a general mandate authorizing the Board, subject to applicable laws, to repurchase shares of IMAX China in an amount not to exceed 10% of the total number of issued shares of IMAX China as at May 3, 2018 (35,818,112 shares). The share repurchase program expired on June 6, 2019. In 2019, IMAX China announced that its shareholders granted its Board of Directors a general mandate authorizing the Board, subject to applicable laws, to repurchase shares of IMAX China in an amount not to exceed 10% of the total number of issued shares of IMAX China as at June 6, 2019 (35,605,560 shares). The share repurchase program expires on the date of the 2020 annual general meeting of IMAX China. The repurchases may be made in the open market or through other means permitted by applicable laws. IMAX China has no obligation to repurchase its shares and the share repurchase program may be suspended or discontinued by IMAX China at any time. During the three and six months ended June 30, 2019, IMAX China repurchased 6,315,900 and 7,025,700 common shares at an average price of HKD18.59 per share and HKD18.68, respectively (U.S. \$2.37 and U.S. \$2.38, respectively). No shares were repurchased during the three and six months ended June 30, 2018.

The total number of shares purchased during the three and six months ended June 30, 2019 does not include any shares purchased in the administration of employee share-based compensation plans (which amounted to nil and 400,000 common shares, respectively (2018 — nil and 300,000 common shares, respectively), at an average price of \$nil and \$22.98 per share, respectively (2018 — \$nil and \$20.55 per share, respectively)).

As at June 30, 2019, the IMAX LTIP trustee held 77,607 shares purchased for \$1.6 million in the open market to be issued upon the settlement of RSUs and certain stock options. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock on the condensed consolidated balance sheet.

13. 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 and gross margins. 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 (hybrid joint revenue sharing arrangements, which take the form of a sale are 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 home entertainment, and other new business initiatives that are in the development, start-up and/or wind-up phases, and (4) Other; which includes the film post-production and distribution segments, certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items. The Company is presenting information at a disaggregated level to provide more relevant information to readers, as permitted by the standard. 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		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenue⁽¹⁾				
Network business				
IMAX DMR	\$ 39,293	\$ 36,161	\$ 67,243	\$ 63,214
Joint revenue sharing				
arrangements — contingent rent	25,301	24,730	43,158	42,593
IMAX systems — contingent rent	131	—	157	—
	<u>64,725</u>	<u>60,891</u>	<u>110,558</u>	<u>105,807</u>
Theater business				
IMAX systems	16,609	15,263	29,797	36,130
Joint revenue sharing				
arrangements — fixed fees	2,548	1,022	5,087	1,022
Theater system maintenance	13,207	12,335	26,158	25,047
Other theater	2,580	2,255	4,206	3,631
	<u>34,944</u>	<u>30,875</u>	<u>65,248</u>	<u>65,830</u>
New business	<u>478</u>	<u>3,116</u>	<u>1,312</u>	<u>3,723</u>
Other				
Film post-production	2,326	1,087	4,273	4,250
Film distribution	1,275	1,273	1,990	1,844
Other	1,049	1,103	1,614	1,875
	<u>4,650</u>	<u>3,463</u>	<u>7,877</u>	<u>7,969</u>
Total revenues	<u>\$ 104,797</u>	<u>\$ 98,345</u>	<u>\$ 184,995</u>	<u>\$ 183,329</u>

	Three Months Ended June 30, 2019		2018		Six Months Ended June 30, 2019		2018	
Gross Margin								
Network business								
IMAX DMR ⁽²⁾	\$	23,961	\$	24,280	\$	43,736	\$	43,063
Joint revenue sharing								
arrangements — contingent rent ⁽²⁾		19,128		18,621		30,923		31,362
IMAX systems — contingent rent		131		—		157		—
		<u>43,220</u>		<u>42,901</u>		<u>74,816</u>		<u>74,425</u>
Theater business								
IMAX systems ⁽²⁾		8,078		10,133		15,244		24,425
Joint revenue sharing								
arrangements — fixed fees ⁽²⁾		870		246		1,165		246
Theater system maintenance		5,640		5,088		10,921		11,292
Other theater		841		563		1,316		517
		<u>15,429</u>		<u>16,030</u>		<u>28,646</u>		<u>36,480</u>
New business		<u>281</u>		<u>1,906</u>		<u>900</u>		<u>436</u>
Other								
Film post-production		81		(150)		766		1,535
Film distribution ⁽²⁾		377		(237)		(333)		(1,476)
Other		165		(46)		(102)		(304)
		<u>623</u>		<u>(433)</u>		<u>331</u>		<u>(245)</u>
Total segment margin	\$	<u>59,553</u>	\$	<u>60,404</u>	\$	<u>104,693</u>	\$	<u>111,096</u>

(1) The Company's largest customer represented 20.0% and 19.9%, respectively, of total revenues for the three and six months ended June 30, 2019, respectively (2018 — 18.7% and 18.0%, respectively).

(2) IMAX DMR segment margins include marketing costs of \$9.5 million and \$13.4 million for the three and six months ended June 30, 2019, respectively (2018 — \$6.5 million and \$10.6 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$0.2 million and \$0.3 million for the three and six months ended June 30, 2019, respectively (2018 — \$1.0 million and \$1.2 million, respectively). IMAX systems segment margins include marketing and commission costs of \$0.4 million and \$0.9 million for the three and six months ended June 30, 2019, respectively (2018 — \$0.5 million and \$1.2 million, respectively). Film distribution segment margins include marketing expense of less than \$0.1 million and \$0.6 million for the three and six months ended June 30, 2019, respectively (2018 — \$0.8 million and \$2.0 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,	
	2019	2018	2019	2018
Revenue				
United States	\$ 35,944	\$ 38,081	\$ 60,237	\$ 65,713
Greater China	32,575	23,341	59,256	51,487
Western Europe	11,933	9,050	20,376	19,312
Asia (Excluding Greater China)	9,963	11,371	18,753	20,601
Russia & the CIS	5,619	2,346	7,307	4,336
Canada	2,620	3,444	4,492	6,010
Latin America	2,160	4,856	4,813	6,335
Rest of the World	3,983	5,856	9,761	9,535
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 104,797</u>	<u>\$ 98,345</u>	<u>\$ 184,995</u>	<u>\$ 183,329</u>

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

15. Financial Instruments

(a) Financial Instruments

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

The Company's accounts receivables and financing receivables are subject to credit risk. The Company's accounts receivables 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 of June 30, 2019		As at December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Level 1				
Cash and cash equivalents ⁽¹⁾	\$ 106,451	\$ 106,451	\$ 141,590	\$ 141,590
Equity securities ⁽³⁾	14,149	14,149	1,022	1,022
Level 2				
Net financed sales receivables ⁽²⁾	\$ 113,043	\$ 112,292	\$ 117,990	\$ 117,428
Net investment in sales-type leases ⁽²⁾	8,606	8,662	9,442	9,529
Convertible loan receivable ⁽²⁾	1,500	1,500	1,500	1,500
Equity securities ⁽¹⁾	1,000	1,000	1,000	1,000
Foreign exchange contracts — designated forwards ⁽³⁾	(146)	(146)	(1,202)	(1,202)
Borrowings under the Credit Facility ⁽¹⁾	(25,000)	(25,000)	(40,000)	(40,000)

(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.

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, 2019 and 2018.

(c) Financing Receivables

The Company's net investment in leases and its net financed sales 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 of June 30, 2019			As at December 31, 2018		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	\$ 8,149	\$ 102,315	\$ 110,464	\$ 8,701	\$ 108,574	\$ 117,275
Credit Watch	612	9,983	10,595	574	8,723	9,297
Pre-approved transactions	—	587	587	322	565	887
Transactions suspended	—	997	997	—	967	967
	<u>\$ 8,761</u>	<u>\$ 113,882</u>	<u>\$ 122,643</u>	<u>\$ 9,597</u>	<u>\$ 118,829</u>	<u>\$ 128,426</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 of June 30, 2019		As at December 31, 2018	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	<u>997</u>	<u>(739)</u>	<u>967</u>	<u>(739)</u>
Total	<u>\$ 997</u>	<u>\$ (739)</u>	<u>\$ 967</u>	<u>\$ (739)</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 of June 30, 2019								
	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	\$ 24	\$ 93	\$ 253	\$ 370	\$ 8,391	\$ 8,761	\$ (155)	\$ 8,606
Net financed sales receivables	<u>614</u>	<u>2,858</u>	<u>5,910</u>	<u>9,382</u>	<u>104,500</u>	<u>113,882</u>	<u>(839)</u>	<u>113,043</u>
Total	<u>\$ 638</u>	<u>\$ 2,951</u>	<u>\$ 6,163</u>	<u>\$ 9,752</u>	<u>\$ 112,891</u>	<u>\$ 122,643</u>	<u>\$ (994)</u>	<u>\$ 121,649</u>

As at December 31, 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	\$ 52	\$ 18	\$ 253	\$ 323	\$ 9,274	\$ 9,597	\$ (155)	\$ 9,442
Net financed sales receivables	<u>1,442</u>	<u>2,066</u>	<u>5,241</u>	<u>8,749</u>	<u>110,080</u>	<u>118,829</u>	<u>(839)</u>	<u>117,990</u>
Total	<u>\$ 1,494</u>	<u>\$ 2,084</u>	<u>\$ 5,494</u>	<u>\$ 9,072</u>	<u>\$ 119,354</u>	<u>\$ 128,426</u>	<u>\$ (994)</u>	<u>\$ 127,432</u>

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

As of June 30, 2019							
	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	\$ 9	\$ 46	\$ 251	\$ 306	\$ 1,427	\$ —	\$ 1,733
Net financed sales receivables	<u>201</u>	<u>1,516</u>	<u>5,855</u>	<u>7,572</u>	<u>33,585</u>	<u>—</u>	<u>41,157</u>
Total	<u>\$ 210</u>	<u>\$ 1,562</u>	<u>\$ 6,106</u>	<u>\$ 7,878</u>	<u>\$ 35,012</u>	<u>\$ —</u>	<u>\$ 42,890</u>

As at December 31, 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	\$ 28	\$ 9	\$ 246	\$ 283	\$ 1,523	\$ —	\$ 1,806
Net financed sales receivables	<u>558</u>	<u>1,472</u>	<u>5,860</u>	<u>7,890</u>	<u>31,507</u>	<u>—</u>	<u>39,397</u>
Total	<u>\$ 586</u>	<u>\$ 1,481</u>	<u>\$ 6,106</u>	<u>\$ 8,173</u>	<u>\$ 33,030</u>	<u>\$ —</u>	<u>\$ 41,203</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, 2019					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is</u>					
<u>a related allowance:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	869	128	(739)	869	—
<u>Recorded investment for which there is</u>					
<u>no related allowance:</u>					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
<u>Total recorded investment</u>					
<u>in impaired loans:</u>					
Net investment in leases	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Net financed sales receivables	<u>\$ 869</u>	<u>\$ 128</u>	<u>\$ (739)</u>	<u>\$ 869</u>	<u>\$ —</u>

For the Three Months Ended June 30, 2018

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is</u>					
<u>a related allowance:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	869	12	(739)	930	—
<u>Recorded investment for which there is</u>					
<u>no related allowance:</u>					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
<u>Total recorded investment</u>					
<u>in impaired loans:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	\$ 869	\$ 12	\$ (739)	\$ 930	\$ —

For the Six Months Ended June 30, 2019

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is</u>					
<u>a related allowance:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	869	128	(739)	869	—
<u>Recorded investment for which there is</u>					
<u>no related allowance:</u>					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
<u>Total recorded investment</u>					
<u>in impaired loans:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	\$ 869	\$ 128	\$ (739)	\$ 869	\$ —

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</u>					
<u>a related allowance:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	869	12	(739)	991	—
<u>Recorded investment for which there is</u>					
<u>no related allowance:</u>					
Net investment in leases	—	—	—	—	—
Net financed sales receivables	—	—	—	—	—
<u>Total recorded investment</u>					
<u>in impaired loans:</u>					
Net investment in leases	\$ —	\$ —	\$ —	\$ —	\$ —
Net financed sales receivables	\$ 869	\$ 12	\$ (739)	\$ 991	\$ —

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, 2019		Six Months Ended June 30, 2019	
	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	\$ 839	\$ 155	\$ 839
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Provision	—	—	—	—
Ending balance	\$ 155	\$ 839	\$ 155	\$ 839
Ending balance: individually evaluated for impairment	\$ 155	\$ 839	\$ 155	\$ 839
<u>Financing receivables:</u>				
Ending balance: individually evaluated for impairment	\$ 8,761	\$ 113,368	\$ 8,761	\$ 113,368

	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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
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>

(d) Foreign Exchange Risk Management

The Company is exposed to market risk from changes in foreign currency rates. A majority 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 81 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, 2019 (the "**Foreign Currency Hedges**"), with settlement dates throughout 2019 and 2020. 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. The Company currently has cash flow hedging instruments associated with selling, general and administrative expenses and capital expenditures. For foreign currency cash flow hedging instruments related to selling, general and administrative expenses, 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. For foreign currency cash flow hedging instruments related to capital expenditures, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to property, plant and equipment on the balance sheet when the forecasted transaction occurs. 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, 2019	December 31, 2018
Derivatives designated as hedging instruments:		
Foreign exchange contracts — Forwards	<u>\$ 42,430</u>	<u>\$ 50,828</u>

Fair value of derivatives in foreign exchange contracts:

	Balance Sheet Location	June 30, 2019	December 31, 2018
Derivatives designated as hedging instruments:			
Foreign exchange contracts			
— Forwards	Other assets	\$ 352	\$ 649
	Accrued and other liabilities	<u>(498)</u>	<u>(1,851)</u>
		<u>\$ (146)</u>	<u>\$ (1,202)</u>

Derivatives in Foreign Currency Hedging relationships are as follows:

		Three Months Ended June 30, 2019		Six Months Ended June 30, 2019			
		2018		2018			
Foreign exchange contracts	Derivative Loss						
— Forwards	Recognized in OCI	<u>\$ 297</u>	<u>\$ (679)</u>	<u>\$ 365</u>	<u>\$ (1,686)</u>		
		Three Months Ended June 30, 2019		Six Months Ended June 30, 2019			
		2018		2018			
	Location of Derivative Gain (Loss) Reclassified from AOCI						
Foreign exchange contracts	Selling, general and						
— Forwards	administrative expenses	\$ (355)	\$ 112	\$ (661)	\$ 332		
	Property, plant and						
	equipment	<u>(19)</u>	<u>—</u>	<u>(32)</u>	<u>—</u>		
		<u>\$ (374)</u>	<u>\$ 112</u>	<u>(693)</u>	<u>332</u>		
		Three Months Ended June 30, 2019		Six Months Ended June 30, 2019			
		2018		2018			
Foreign exchange contracts	Derivative Gain						
— Forwards	Recognized In and						
	Out of OCI	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 46</u>		

The Company's estimated net amount of the existing losses as at June 30, 2019 is \$0.3 million, which is expected to be reclassified to earnings within the next twelve months.

(e) Investments in New Business Ventures

On January 17, 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of IMAX China, as an investor entered into a cornerstone investment agreement with Maoyan Entertainment (“**Maoyan**”) (as the issuer) and Morgan Stanley Asia Limited (as a sponsor, underwriter and the underwriters’ representative). Pursuant to this agreement, IMAX China (Hong Kong), Limited agreed to invest \$15.2 million to subscribe for a certain number of shares of Maoyan at the final offer price pursuant to the global offering of the share capital of Maoyan, and this investment would be subject to a lock-up period of six months following the date of the global offering. On February 4, 2019, Maoyan completed its global offering, upon which, IMAX China (Hong Kong), Limited became a less than 1% shareholder in Maoyan. This investment is classified as an equity security under the FASB ASC 321, with a readily determinable market value through the Hong Kong Stock Exchange. The changes in fair value are recorded in the Change in fair value of equity investment line item in the Company’s condensed consolidated statement of operations. For the three and six months ended June 30, 2019, the Company has recorded a net unrealized loss of \$4.5 million and \$2.1 million, respectively.

16. Non-Controlling Interests

(a) IMAX China Non-Controlling Interest

The Company indirectly owns approximately 69.54% 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.

(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 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. As at June 30, 2019, the Company invested \$4.0 million toward the development of VR content. In December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close its remaining VR locations and write-off certain VR content investments. The Company has also decided to dissolve the VR Fund and not actively pursue any additional VR opportunities.

18. Prior Period’s Figures

In the current year, Variable consideration receivable from contracts and Investment in equity securities are separate lines on the condensed consolidated balance sheet and have been removed from Other Assets. In addition, due to the adoption of ASU 2017-07, non-service pension costs are now recorded in the Retirement benefits non-service expense line item in the condensed consolidated statement of operations. Prior year comparatives, where applicable, have been reclassified to reflect these changes.

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 1,541 IMAX theater systems (1,445 commercial multiplexes, 15 commercial destinations, 81 institutional) operating in 81 countries as at June 30, 2019. This compares to 1,410 theater systems (1,314 commercial multiplexes, 12 commercial destinations, 84 institutional) operating in 79 countries as of June 30, 2018.

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, in April 2019 *Avengers: Endgame*, made history for the second time, as the second film shot entirely using IMAX cameras. In addition, to date in 2019 *Alita: Battle Angel* and *Captain Marvel* were released with select scenes specifically formatted for IMAX screens. In addition, Disney’s *The Lion King* released in July 2019, features select scenes which were specifically formatted for IMAX screens.

The original soundtrack of a film to be exhibited in 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 2018, 25 local language IMAX DMR films, including 18 in China, three in India, one in each of France, South Korea, Japan and Russia, were released to the IMAX theater network. During the six months ended June 30, 2019, four local language IMAX DMR films, all of which were in China, 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 2019 and beyond. In March 2019, the Company released an IMAX original production, *Superpower Dogs*.

In addition to the 27 IMAX DMR films released to the IMAX theater network during the six months ended June 30, 2019, 23 additional IMAX DMR films have been announced so far to be released in the remainder of 2019 to the global IMAX theater network. The following dates noted for film release are subject to change and may vary by territory.

- *Soundgarden: Live from the Artists Den: The IMAX Experience* (IMAX, July 2019);
- *Spider-Man: Far From Home: The IMAX Experience* (Sony Pictures, July 2019, domestic and select international markets);
- *The Lion King: The IMAX Experience* (Walt Disney Studios, July 2019);
- *Weathering With You: The IMAX Experience* (Toho, July 2019, Japan and select international markets);
- *Looking Up: The IMAX Experience* (Maoyan, July 2019, China);
- *Ne Zha: The IMAX Experience* (Enlight, July 2019, China);
- *Exit: The IMAX Experience* (CJ ENM, July 2019, South Korea and select international markets);
- *Hobbs & Shaw: The IMAX Experience* (Universal Studios, August 2019, select domestic and most international markets);
- *The Bravest: The IMAX Experience* (Bona, August 2019, China);
- *Shanghai Fortress: The IMAX Experience* (Sino Pictures, August 2019, China);
- *Once Upon a Time In Hollywood: The IMAX Experience* (Sony Pictures, August 2019, select international markets);

- *Apocalypse Now The Final Cut: The IMAX Experience* (Lionsgate, August 2019, select locations);
- *IT: Chapter Two: The IMAX Experience* (Warner Bros. Pictures, September 2019);
- *Ad Astra: The IMAX Experience* (Walt Disney Studios, September 2019);
- *VIY 2: Mystery of the Dragon's Seal: The IMAX Experience* (Nashe Kino, September 2019, Russia and select international markets);
- *Joker: The IMAX Experience* (Warner Bros. Pictures, October 2019);
- *Gemini Man: The IMAX Experience* (Paramount Pictures, October 2019);
- *Maleficent: Mistress of Evil: The IMAX Experience* (Walt Disney Studios, October 2019);
- *Terminator: Dark Fate: The IMAX Experience* (Paramount Pictures (domestic)/Walt Disney Pictures (international), October (international)/November (domestic) 2019);
- *Ford v Ferrari: The IMAX Experience* (Walt Disney Studios, November 2019);
- *Frozen 2: The IMAX Experience* (Walt Disney Studios, November 2019);
- *Jumanji: The Next Level: The IMAX Experience* (Sony Pictures, December 2019); and
- *Star Wars: The Rise of Skywalker: The IMAX Experience* (Walt Disney Studios, December 2019).

To date, the Company has announced the following 9 titles to be released in 2020 to the IMAX theater network:

- *Birds of Prey: The IMAX Experience* (Warner Bros. Pictures, February 2020);
- *The King's Man: The IMAX Experience* (Walt Disney Studios, February 2020);
- *Godzilla vs. Kong: The IMAX Experience* (Warner Bros. Pictures, March 2020);
- *Mulan: The IMAX Experience* (Walt Disney Studios, March 2020);
- *Untitled Bond 25: The IMAX Experience* (United Artists Releasing (domestic) and Universal Pictures (international), April 2020);
- *Untitled Fast & Furious 9: The IMAX Experience* (Universal Pictures, May 2020);
- *Wonder Woman 1984: The IMAX Experience* (Warner Bros. Pictures, June 2020);
- *Top Gun: Maverick: The IMAX Experience* (Paramount Pictures, June 2020);
- *Tenet: The IMAX Experience* (Warner Bros. Pictures, July 2020).

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 for the IMAX theater network in 2019.

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.

For additional details regarding the two types of joint revenue sharing arrangements the Company has entered into with its exhibitor customers, refer to the Company’s 2018 Form 10-K.

IMAX Systems — Contingent Rent

Certain 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.

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

IMAX Systems

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.

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's hybrid sales arrangements are grouped with the traditional sales segment since the total consideration received and the revenue recognition timing at transfer of control of the assets now 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 for 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. For additional details regarding the policy for revenue recognition, refer to the Company's 2018 Form 10-K.

New Business

In recent years, the Company has been exploring several new lines of business outside of its core business.

For additional details regarding the Company's new business initiatives, refer to the Company's 2018 Form 10-K.

IMAX Home Entertainment Technologies and Services

In 2013, 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 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.

Original Content

The Company has created two film funds to help finance the production of original content. The Company formed the IMAX China Film Fund (the “**China Film Fund**”) with its subsidiary IMAX China, its partner CMC and several other large investors to help fund Mandarin language commercial films. The China Film Fund targets productions that can leverage the Company’s brand, relationships, technology and release windows in China.

Virtual Reality

In 2017, the Company piloted a virtual reality (“**VR**”) initiative which included several pilot IMAX VR Centers located in a number of multiplexes, as well as a stand-alone venue, each retrofitted with proprietary VR pods that permitted interactive, moveable VR experiences.

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.

In December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close its remaining VR locations and write-off certain VR content investments. In January 2019, the Company decided to dissolve the VR Fund. For information on the VR fund established among the Company, its subsidiary IMAX China and other strategic investors, please refer to note 16(b) in Item 1 of this Form 10-Q.

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.

In addition, 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 including: one owned and operated IMAX theater; a commercial arrangement with one theater resulting in the sharing of profits and losses; the provision of management services to four other theaters; renting its proprietary 2D and 3D large-format film and digital cameras to third-party production companies; and also offering production advice and technical assistance to both documentary and Hollywood filmmakers. In January 2019, the Company closed its owned and operated theater in Minneapolis, Minnesota and now has one remaining owned and operated theater in Sacramento, California.

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:

	2019 Theater Network Base				2018 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	367	4	33	404	367	4	33	404
Canada	39	2	7	48	39	2	7	48
Greater China ⁽¹⁾	648	—	15	663	552	—	17	569
Western Europe	105	5	10	120	93	4	10	107
Asia (excluding Greater China)	112	2	2	116	103	1	3	107
Russia & the CIS	65	—	—	65	57	—	—	57
Latin America ⁽²⁾	48	1	12	61	44	—	12	56
Rest of the World	61	1	2	64	59	1	2	62
Total	<u>1,445</u>	<u>15</u>	<u>81</u>	<u>1,541</u>	<u>1,314</u>	<u>12</u>	<u>84</u>	<u>1,410</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 1,445 commercial multiplex IMAX theaters operating as at June 30, 2019. The Company believes that the majority of its future growth will come from international markets. As at June 30, 2019, 70.7% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 67.9% as at June 30, 2018. 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 2018 Form 10-K.

Greater China is currently the Company's second-largest market, measured by revenues, with approximately 32% of overall revenues generated from the Company's Greater China operations in the six months ended June 30, 2019. As at June 30, 2019, the Company had 663 theaters operating in Greater China with an additional 301 theaters in backlog that are scheduled to be installed by 2022. The Company's backlog in Greater China represents 49.2% of the Company's current backlog including upgrades. 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 344 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 2018 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:

2019					
IMAX Commercial Multiplex Theater Network					
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale/Sales- type lease	Total
Domestic Total (United States & Canada)	<u>275</u>	<u>5</u>	<u>280</u>	<u>126</u>	<u>406</u>
International:					
Greater China	328	101	429	219	648
Asia (excluding Greater China)	34	1	35	77	112
Western Europe	41	26	67	38	105
Russia & the CIS	—	—	—	65	65
Latin America	1	—	1	47	48
Rest of the World	<u>14</u>	<u>—</u>	<u>14</u>	<u>47</u>	<u>61</u>
International Total	<u>418</u>	<u>128</u>	<u>546</u>	<u>493</u>	<u>1,039</u>
Worldwide Total	<u><u>693</u></u>	<u><u>133</u></u>	<u><u>826</u></u>	<u><u>619⁽¹⁾</u></u>	<u><u>1,445</u></u>

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><u>628</u></u>	<u><u>110</u></u>	<u><u>738</u></u>	<u><u>576</u></u>	<u><u>1,314</u></u>

As at June 30, 2019, 280 (2018 — 279) of the 826 (2018 — 738) theaters under joint revenue sharing arrangements in operation, or 33.9% (2018 — 37.8%), were located in the United States and Canada, with the remaining 546 (2018 — 459) or 66.1% (2018 — 62.2%) of theaters being located in international markets.

Sales Backlog

The Company's current sales backlog is as follows:

	June 30, 2019		June 30, 2018	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sales-type lease arrangements	182	\$ 232,097⁽¹⁾	181	\$ 250,742 ⁽¹⁾
Joint revenue sharing arrangements				
Hybrid lease arrangements	154	112,994	115	61,484
Traditional arrangements	276⁽²⁾	7,700⁽³⁾	339	7,638 ⁽³⁾
	612⁽⁴⁾	\$ 352,791	635⁽⁵⁾	\$ 319,864

(1) Includes a variable consideration estimate of \$15.9 million (2018 — \$17.4 million).

(2) Includes 60 theater systems where the customer has the option to convert from a joint revenue sharing arrangement to a sales arrangement.

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

(4) Includes 150 new laser projection system configurations and 121 upgrades of existing locations to laser projection system configurations (118 of the 121 upgrades are for the IMAX with Laser projection system configurations).

(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 IMAX with 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, as well as a variable consideration estimate, 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 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:

	2019 IMAX Theater Backlog				
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale/Lease	Total
Domestic Total (United States & Canada)	<u>156</u>	<u>3</u>	<u>159</u>	<u>8</u>	<u>167</u>
International:					
Greater China	86	135	221	80	301
Asia (excluding Greater China)	12	—	12	38	50
Western Europe	16	16	32	9	41
Russia & the CIS	—	—	—	14	14
Latin America	1	—	1	10	11
Rest of the World	<u>5</u>	<u>—</u>	<u>5</u>	<u>23</u>	<u>28</u>
International Total	<u>120</u>	<u>151</u>	<u>271</u>	<u>174</u>	<u>445</u>
Worldwide Total	<u>276</u>	<u>154</u>	<u>430</u>	<u>182</u>	<u>612⁽¹⁾</u>

	2018				Total
	Traditional JRSA	Hybrid JRSA	Total 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</u>	<u>635⁽²⁾</u>

(1) Includes 139 new IMAX with Laser projection system configurations and 118 upgrades of existing locations to IMAX with Laser projection system configurations.

(2) Includes 56 new IMAX with Laser projection system configurations and 99 upgrades of existing locations to IMAX with Laser projection system configurations.

Approximately 72.7% of IMAX theater system arrangements in backlog as at June 30, 2019 are scheduled to be installed in international markets (2018 — 74.0%).

Signings and Installations

The following reflects the Company's signings and installations:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Theater System Signings:				
Full new sales and sales-type lease arrangements	7	9	16	24
New traditional joint revenue sharing arrangements	2	31	4	53
New hybrid joint revenue sharing lease arrangements	45	—	48	8
	<u>54</u>	<u>40</u>	<u>68</u>	<u>85</u>
Upgrades of IMAX theater systems	19	98	28	98
	<u>73</u>	<u>138</u>	<u>96</u>	<u>183</u>

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Theater System Installations:				
Full new sales and sales-type lease arrangements	9	9	15	22
New traditional joint revenue sharing arrangements	13	19	17	22
New hybrid joint revenue sharing lease arrangement	5	2	9	2
	<u>27</u>	<u>30</u>	<u>41</u>	<u>46</u>
Upgrades of IMAX theater systems	8	1	11	1
	<u>35</u>	<u>31</u>	<u>52</u>	<u>47</u>

The Company anticipates that it will install a total of approximately 185 to 190 theater systems, which includes approximately 45 IMAX with Laser theater systems upgrades, during 2019. The Company cautions, however, that theater system installations may change 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 2018 Form 10-K.

On January 1, 2019, the Company adopted ASC Topic 842 “Leases”. The standard was issued to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted ASC Topic 842, utilizing the modified retrospective transition method, which allowed the Company to adopt the standard as of the date of initial application. Prior year comparative amounts are not required to be restated and are presented in accordance with ASC Topic 840, “Leases” or other applicable standards effective prior to January 1, 2019. The Company has elected the ‘package of practical expedients’ permitted under the transition guidance within ASC Topic 842, which permits the Company to carry forward the historical lease classification and not reassess whether any expired or existing contracts are or contain leases. In addition, the Company is not required to reassess initial direct costs for any existing leases. The Company did not elect the land easements and the use of hindsight practical expedients in determining the lease term for existing leases. ASC Topic 842 also provides practical expedients for an entity’s ongoing accounting. The Company has elected the short-term lease recognition exemption for all leases that qualify. As a result, for those leases with a term of less than 12 months, it will not recognize right-of-use assets or lease liabilities. The Company also elected the practical expedient to not separate lease and non-lease components for all of its leases regardless of whether the Company is the lessee or a lessor to the lease.

The Company’s estimates as a lessee the term of the Company’s leases and the determination of the incremental borrowing rate to be used. The Company assumed that it was reasonably certain that the renewal options on its warehouse leases would be exercised based on previous history and knowledge, current understanding of future business needs and level of investment in leasehold improvements among other considerations. The incremental borrowing rate used in the calculation of the lease liability is based on the location of each leased property. Please see notes 3 and 4 to the condensed consolidated financial statements in Item 1 for additional information regarding the adoption of ASC Topic 842.

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 IMAX with Laser 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 and gross margins. 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
- Theater Business

- New Business
- Other

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. For additional details regarding the four primary groups above, please refer to the Company's 2018 Form 10-K.

Three Months Ended June 30, 2019 versus Three Months Ended June 30, 2018

The Company reported net income of \$13.8 million, or \$0.22 per basic and diluted share, for the second quarter of 2019 as compared to net income of \$10.3 million, or \$0.16 per basic and diluted share for the second quarter of 2018.

Net income for the second quarter of 2019 includes a \$7.0 million charge, or \$0.11 per diluted share (2018 — \$6.8 million or \$0.10 per diluted share), for stock-based compensation and a loss of \$4.5 million, or \$0.07 per diluted share, adjustment for the change in fair value of equity investment (2018 — \$nil). The second quarter of 2018 includes a \$0.5 million charge, or \$0.01 per diluted share, for exit costs, restructuring charges and associated impairments 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.

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, the change in fair value of equity investment and the related tax impact of these adjustments, was \$23.8 million, or \$0.38 per diluted share, for the second quarter of 2019 as compared to adjusted net income of \$21.7 million, or \$0.34 per diluted share, for the second quarter of 2018.

The Company reported net income attributable to common shareholders of \$11.4 million, or a \$0.19 per basic and diluted share for the second quarter of 2019 (2018 — \$7.6 million, or \$0.12 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, the change in fair value of equity investment and the related tax impact of these adjustments, was \$19.7 million, or \$0.32 per diluted share, for the second quarter of 2019 as compared to adjusted net income attributable to common shareholders of \$19.0 million, or \$0.30 per diluted share, for the second quarter of 2018.

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, 2019		Three Months Ended June 30, 2018	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 13,836	\$ 0.22	\$ 10,255	\$ 0.16
Adjustments:				
Stock-based compensation	7,027	0.11	6,756	0.10
Exit costs, restructuring charges and associated impairments	—	—	456	0.01
Legal Arbitration	—	—	7,500	0.12
Change in fair value of equity investment	4,544	0.07	—	—
Tax impact on items listed above	(1,655)	(0.02)	(3,228)	(0.05)
Adjusted net income	23,752	0.38	21,739	0.34
Net income attributable to non-controlling interests ⁽¹⁾	(2,439)	(0.04)	(2,630)	(0.04)
Stock-based compensation (net of tax of less than \$0.1 million and less than \$0.1 million, respectively) ⁽¹⁾	(177)	—	(147)	—
Change in fair value of equity investment ⁽¹⁾	(1,443)	(0.02)	—	—
Adjusted net income attributable to common shareholders	<u>\$ 19,693</u>	<u>\$ 0.32</u>	<u>\$ 18,962</u>	<u>\$ 0.30</u>
Weighted average diluted shares outstanding		<u>61,507</u>		<u>63,426</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:

(In thousands of U.S. dollars)

	Revenue		Gross Margin	
	2019	2018	2019	2018
Network business				
IMAX DMR	\$ 39,293	\$ 36,161	\$ 23,961	\$ 24,280
Joint revenue sharing arrangements				
— contingent rent	25,301	24,730	19,128	18,621
IMAX systems — contingent rent	131	—	131	—
	<u>64,725</u>	<u>60,891</u>	<u>43,220</u>	<u>42,901</u>
Theater business				
IMAX systems				
Sales and sales-type leases ⁽¹⁾	13,793	11,981	5,310	6,899
Ongoing fees and finance income ⁽²⁾	2,816	3,282	2,768	3,234
Joint revenue sharing arrangements				
— fixed fees	2,548	1,022	870	246
Theater system maintenance	13,207	12,335	5,640	5,088
Other theater	2,580	2,255	841	563
	<u>34,944</u>	<u>30,875</u>	<u>15,429</u>	<u>16,030</u>
New business	<u>478</u>	<u>3,116</u>	<u>281</u>	<u>1,906</u>
Other				
Film distribution and post-production	3,601	2,360	458	(387)
Other	1,049	1,103	165	(46)
	<u>4,650</u>	<u>3,463</u>	<u>623</u>	<u>(433)</u>
	<u>\$ 104,797</u>	<u>\$ 98,345</u>	<u>\$ 59,553</u>	<u>\$ 60,404</u>

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

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

Revenues and Gross Margin

The Company's revenues for the second quarter of 2019 increased 6.6% to \$104.8 million from \$98.3 million in the second quarter of 2018, primarily due to an increase in both the theater business and network business segments, partially offset by the decrease in the new business segment. The gross margin across all segments in the second quarter of 2019 was \$59.6 million, or 56.8% of total revenue, compared to \$60.4 million, or 61.4% of total revenue in the second quarter of 2018.

Network Business

Gross box office generated by IMAX DMR films increased by 6.5% to \$364.9 million in the second quarter of 2019 from \$342.6 million in the second quarter of 2018. In the second quarter of 2019, gross box office was generated primarily by the exhibition of 19 films (15 new and 4 carryovers), as compared to 14 films (10 new and 4 carryovers) exhibited in the second quarter of 2018.

Network business revenue increased by 6.3% to \$64.7 million in the second quarter of 2019 from \$60.9 million in the second quarter of 2018 due to an increase in IMAX DMR revenue. The gross margin experienced by the Company's network business in the second quarter of 2019 was \$43.2 million, or 66.8% of network business revenue, compared to \$42.9 million, or 70.5% in the second quarter of 2018. The decreased gross margin ratio is primarily attributable to the increase in contractual marketing obligations related to IMAX DMR films that delivered particularly strong box office during the quarter. 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, marketing spend, 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. These arrangements are reflected under the IMAX systems segment of Theater Business. 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 8.7% to \$39.3 million in the second quarter of 2019 from \$36.2 million in the second quarter of 2018. The current year includes the blockbuster performance of *Avengers: Endgame: The IMAX Experience*, while the prior year included the blockbuster performance of *Avengers: Infinity War: The IMAX Experience*. IMAX DMR gross margins decreased to \$24.0 million in the second quarter of 2019 as compared to \$24.3 million in the second quarter of 2018. 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. DMR marketing expenses in the second quarter of 2019 were \$9.5 million, as compared to \$6.5 million in the second quarter of 2018, which was primarily due to an increase in contractual marketing obligations related to the strong performance for the films shown.

Contingent rent revenues from joint revenue sharing arrangements were \$25.3 million in the second quarter of 2019, as compared to \$24.7 million for the second quarter of 2018. The Company ended the second quarter of 2019 with 826 theaters operating under joint revenue sharing arrangements, as compared to 738 theaters at the end of the second quarter of 2018, an increase of 11.9%. Gross box office generated by the joint revenue sharing arrangements was higher at \$186.1 million in the second quarter of 2019 from \$179.0 million in the second quarter of 2018. The Company's joint revenue sharing arrangement performance is impacted by box office performance, as well as the take rates under each of its joint revenue sharing agreements and where a film is exhibited. Other factors impacting performance include fluctuations in the value of foreign currencies versus the U.S. dollar and potential currency devaluations.

The gross margin from joint revenue sharing arrangements increased to \$19.1 million in the second quarter of 2019 from \$18.6 million in the second quarter of 2018. Included in the calculation of gross margin for the second quarter of 2019 was depreciation of \$5.7 million, as compared to \$5.0 million in the second quarter of 2018, as a result of the 11.9% increase in the number of joint revenue sharing arrangement theaters in operation compared to the second quarter of 2018. Also included in gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$0.2 million, as compared to \$1.1 million during the second quarter of 2018. Margin is a function of the costs associated with each theater, such as the increase in depreciation on new IMAX with Laser systems and costs incurred for the upgrade of theater systems from a digital-xenon system to an IMAX with Laser system.

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. The Company expects this revenue stream to be minimal on a go-forward basis. Contingent rent revenue of \$0.1 million was recognized in the second quarter of 2019, compared to \$nil in the second quarter of 2018.

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 2019, theater business revenue increased \$4.1 million, or 13.2%, to \$34.9 million as compared to the second quarter of 2018. The increase in theater business revenue in 2019 as compared to 2018 was primarily due to:

- one additional installation of system upgrades; and
- three additional systems recognized as hybrid joint revenue sharing lease arrangements.

Theater business gross margin decreased 3.7% to \$15.4 million in the second quarter of 2019 as compared to \$16.0 million in the second quarter of 2018, due to the mix of systems installed in the quarter and the increased sustained engineering costs required to support the IMAX with Laser roll out, continued development and support. Specifically, gross margin increased from the one additional sale upgrade and also increased very slightly from the three hybrid lease installations, but that was more than offset by the increased sustained engineering spend.

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:

	For the Three Months Ended June 30,			
	2019		2018	
	Number of Systems	Revenue	Number of Systems	Revenue
New IMAX digital theater systems				
— installed and recognized				
Sales and sales-types lease arrangements ⁽¹⁾	9	\$ 11,664	9	\$ 11,096
Joint revenue sharing arrangements				
— hybrid	5	2,525	2	1,044
Total new theater systems	14	14,189	11	12,140
IMAX digital theater system upgrades				
— installed and recognized				
Sales and sales-types lease arrangements	1	1,533	—	—
Total upgraded theater systems	1	1,533	—	—
Total theater systems installed and recognized	15	\$ 15,722	11	\$ 12,140

(1) 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.

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 at \$1.3 million for the second quarter of 2019 from \$1.2 million the second quarter of 2018, respectively.

Theater system maintenance revenue increased 7.1% to \$13.2 million in the second quarter of 2019 from \$12.3 million in the second quarter of 2018. Theater system maintenance gross margin was \$5.6 million in the second quarter of 2019 versus \$5.1 million in the second quarter of 2018. 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 were \$2.8 million in the second quarter of 2019 compared to \$3.3 million in the second quarter of 2018. Gross margin for ongoing fees and finance income decreased to \$2.8 million in the second quarter of 2019 from \$3.2 million in the second quarter of 2018. 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 \$2.6 million in the second quarter of 2019 as compared to \$2.3 million in the second quarter of 2018. 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 \$0.8 million in the second quarter of 2019 as compared to \$0.6 million in the second quarter of 2018.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to \$32.1 million in the second quarter of 2019, as compared to \$32.5 million in the second quarter of 2018. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$25.6 million in the second quarter of 2019, as compared to \$26.3 million in the second quarter of 2018.

The following reflects the significant items impacting selling, general and administrative expenses for the second quarter of 2019 and 2018:

	2019	2018	2019 versus 2018	
Staff costs	\$ 16,121	\$ 15,836	\$ 285	1.8%
Stock-based compensation	6,485	6,242	243	3.9%
Consulting and professional fees	3,550	2,191	1,359	62.0%
Marketing	1,851	3,031	(1,180)	(38.9)%
Foreign exchange loss	185	1,018	(833)	81.8%
Other general corporate expenditures	3,944	4,166	(222)	(5.3)%
Total	<u>\$ 32,136</u>	<u>\$ 32,484</u>	<u>\$ (348)</u>	(1.1)%

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

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

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.9 million in the second quarter of 2019 as compared to a net provision of \$0.4 million in the second quarter of 2018.

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

Interest Income and Expense

Interest income was \$0.6 million in the second quarter of 2019, as compared to \$0.2 million in the second quarter of 2018.

Interest expense was \$0.6 million in the second quarter of 2019, as compared to \$0.9 million in the second quarter of 2018. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.1 million in the second quarter of 2019, as compared to \$0.4 million in the second quarter of 2018. Included in the second quarter of 2018 is \$0.3 million of deferred finance costs relating to the prior Credit Facility, which was written-off as a result of the new Credit Facility. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Change in fair value of equity investment

In the first quarter of 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of IMAX China, entered into a cornerstone investment agreement with Maoyan Entertainment ("Maoyan") and purchased equity securities for \$15.2 million. These equity securities are traded on the Hong Kong Stock Exchange, and the Company is required to adjust the fair value of the securities each period to reflect the current market value. This adjustment will fluctuate based on the closing market price at the end of each period. In the second quarter of 2019, a loss of \$4.5 million was recognized in the Condensed Consolidated Statements of Operations.

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, 2019, the Company had a gross deferred income tax asset of \$29.8 million, against which the Company is carrying a \$0.2 million valuation allowance. For the three months ended June 30, 2019, the Company recorded an income tax provision of \$5.3 million, which includes an expense of \$0.1 million related to its provision for uncertain tax positions. In addition, the three months ended June 30, 2019 there were no amounts included in the provision for income taxes for tax shortfalls related to stock-based compensation costs.

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's Chinese Subsidiary has treated the stock-based compensation as deductible and has set up related deferred tax assets of \$1.3 million.

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, 2019 the net income attributable to non-controlling interests of the Company's subsidiaries was \$2.4 million (2018 — \$2.6 million).

Six Months Ended June 30, 2019 versus Six Months Ended June 30, 2018

The Company reported net income of \$26.3 million, or \$0.43 per basic and diluted share, for the six months ended June 30, 2019 as compared to net income of \$22.3 million, or \$0.35 per basic and diluted share for the six months ended June 30, 2018.

Net income for the six months ended June 30, 2019, includes a \$11.4 million charge, or \$0.19 per diluted share (2018 — \$11.6 million or \$0.18 per diluted share), for stock-based compensation, a \$0.9 million charge, or \$0.01 per diluted share for exit costs, restructuring charges and associated impairments (2018 — \$1.2 million, or \$0.02 per diluted share) and a loss of \$2.1 million, or \$0.03 per diluted share, adjustment for the change in fair value of equity investment (2018 — \$nil). The six months ended June 30, 2018 includes 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.

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, the change in fair value of equity investment and the related tax impact of these adjustments, was \$38.1 million, or \$0.62 per diluted share, for the six months ended June 30, 2019, as compared to adjusted net income of \$38.8 million, or \$0.61 per diluted share, for the six months ended June 30, 2018.

The Company reported net income attributable to common shareholders of \$19.7 million, or \$0.32 per basic and diluted share for the six months ended June 30, 2019 (2018 — \$16.1 million, or \$0.25 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, the change in fair value of equity investment and the related tax impact of these adjustments, was \$30.5 million, or \$0.49 per diluted share, for the six months ended June 30, 2019, as compared to adjusted net income attributable to common shareholders of \$32.4 million, or \$0.51 per diluted share, for the six months ended June 30, 2018.

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, 2019		Six Months Ended June 30, 2018	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 26,323	\$ 0.43	\$ 22,322	\$ 0.35
Adjustments:				
Stock-based compensation	11,389	0.19	11,603	0.18
Exit costs, restructuring charges and associated impairments	850	0.01	1,158	0.02
Legal arbitration award	—	—	7,500	0.12
Change in fair value of equity investment	2,053	0.03	—	—
Tax impact on items listed above	(2,535)	(0.04)	(3,787)	(0.06)
Adjusted net income	38,080	0.62	38,796	0.61
Net income attributable to non-controlling interests ⁽¹⁾	(6,661)	(0.12)	(6,192)	(0.10)
Stock-based compensation (net of tax of \$0.1 million and \$0.1 million, respectively) ⁽¹⁾	(262)	—	(204)	—
Change in fair value of equity investment	(652)	(0.01)	—	—
Adjusted net income attributable to common shareholders	<u>\$ 30,505</u>	<u>\$ 0.49</u>	<u>\$ 32,400</u>	<u>\$ 0.51</u>
Weighted average diluted shares outstanding		<u>61,525</u>		<u>64,006</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	
	2019	2018	2019	2018	
Network Business					
IMAX DMR	\$ 67,243	\$ 63,214	\$ 43,736	\$ 43,063	
Joint revenue sharing arrangements					
— contingent rent	43,158	42,593	30,923	31,362	
IMAX systems — contingent rent	157	—	157	—	
	110,558	105,807	74,816	74,425	
Theater Business					
IMAX systems					
Sales and sales-type leases ⁽¹⁾	24,112	30,118	9,654	18,508	
Ongoing fees and finance income ⁽²⁾	5,685	6,012	5,590	5,917	
Joint revenue sharing arrangements					
— fixed fees	5,087	1,022	1,165	246	
Theater system maintenance	26,158	25,047	10,921	11,292	
Other theater	4,206	3,631	1,316	517	
	65,248	65,830	28,646	36,480	
New Business	1,312	3,723	900	436	
Other					
Film distribution and post-production	6,263	6,094	433	59	
Other	1,614	1,875	(102)	(304)	
	7,877	7,969	331	(245)	
	\$ 184,995	\$ 183,329	\$ 104,693	\$ 111,096	

(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.

Revenues and Gross Margin

The Company's revenues for the six months ended June 30, 2019 increased by 0.9% to \$185.0 million from \$183.3 million for the six months ended June 30, 2018, primarily due to an increase in revenues from the Company's network business segment, partially offset by a decrease in the new business segment. The gross margin across all segments in the six months ended June 30, 2019 was \$104.7 million, or 56.6% of total revenue, compared to \$111.1 million, or 60.6% of total revenue in the six months ended June 30, 2018.

Network Business

Gross box office generated by IMAX DMR films increased 5.5% to \$621.3 million in the six months ended June 30, 2019 from \$588.8 million in the six months ended June 30, 2018. In the six months ended June 30, 2019, gross box office was generated primarily by the exhibition of 39 films (27 new and 12 carryovers), as compared to 33 films (24 new and 9 carryovers) exhibited in the six months ended June 30, 2018.

Network business revenue increased by 4.5% to \$110.6 million in the six months ended June 30, 2019 from \$105.8 million in the six months ended June 30, 2018, due to an increase in the number of films exhibited. The gross margins experienced by the Company's network business in the six months ended June 30, 2019 was \$74.8 million, or 67.7% of network business revenue, compared to \$74.4 million, or 70.3% in the six months ended June 30, 2018. The decrease in gross margin ratio is primarily attributable to the IMAX DMR segment relating to an increase in contractual marketing obligations. 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, marketing spend, 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. These arrangements are reflected under the IMAX systems segment of Theater Business. 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 6.4% to \$67.2 million in the six months ended June 30, 2019 from \$63.2 million in the six months ended June 30, 2018, due to an increase in the number of films exhibited, which includes the blockbuster performance of *Captain Marvel: The IMAX Experience*, *Avengers: Endgame: The IMAX Experience*, and local language blockbuster *The Wandering Earth: The IMAX Experience* in China in the six months ended June 30, 2019. The six months ended June 30, 2018 included the blockbuster performance of *Black Panther: The IMAX Experience* and *Avengers: Infinity War: The IMAX Experience* and local language blockbuster *Operation Red Sea: The IMAX Experience* in China. The gross margin from the IMAX DMR segment was \$43.7 million and \$43.1 million in the six months ended June 30, 2019 and 2018, respectively. DMR marketing expenses in the six months ended June 30, 2019 were \$13.4 million, as compared to \$10.6 million in the six months ended June 30, 2018, which was primarily due to an increase in contractual marketing payments for the films shown.

Contingent rent revenues from joint revenue sharing arrangements increased to \$43.2 million in the six months ended June 30, 2019 from \$42.6 million in the six months ended June 30, 2018. The Company ended the current period with 826 theaters operating under joint revenue sharing arrangements, as compared to 738 theaters at the end of the six months ended June 30, 2018, an increase of 11.9%. Gross box office generated by the joint revenue sharing arrangements was 1.8% higher at \$319.7 million in the six months ended June 30, 2019 from \$314.0 million in the six months ended June 30, 2018. The Company's joint revenue sharing arrangement performance is impacted by box office performance, as well as the take rates under each of its joint revenue sharing arrangements and where a film is exhibited. Other factors impacting performance include fluctuations in the value of foreign currencies versus the U.S. dollar and potential currency devaluations.

The gross margin from joint revenue sharing arrangements decreased by 1.4% to \$30.9 million in the six months ended June 30, 2019 from \$31.4 million in the six months ended June 30, 2018. Included in the calculation of gross margin for the six months ended June 30, 2019 was depreciation of \$11.3 million, as compared to \$10.0 million in the six months ended June 30, 2018. Also included in gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$0.3 million, as compared to \$1.2 million during the six months ended June 30, 2018. Margin is a function of the costs associated with each theater, such as the increase in depreciation on new IMAX with Laser systems and costs incurred for the upgrade of theater systems from a digital-xenon system to an IMAX with Laser system.

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. The Company expects this revenue stream to be minimal on a go-forward basis. Contingent rent revenue of \$0.2 million was recognized in the six months ended June 30, 2019, compared to \$nil in the six months ended June 30, 2018.

Theater Business

The primary drivers of this line of business are theater system installations and the Company's maintenance contract that accompanies each theater installation. In the six months ended June 30, 2019, theater business revenue decreased \$0.6 million, or 0.9% to \$65.2 million as compared to \$65.8 million in six months ended June 30, 2018. The increase in theater business revenue was primarily due to:

- seven additional theater systems contracted as a hybrid joint revenue sharing lease arrangements;
- two additional installation of system upgrades; offset by
- seven fewer system installations under sales and sales-type lease arrangements.

Theater business gross margin decreased 21.5% to \$28.6 million in the six months ended June 30, 2019, as compared to \$36.5 million in the six months ended June 30, 2018 due to the mix of systems installed under sales and sales-type leases and joint revenue sharing lease arrangements, as well as an increase to sustained engineering costs related to the IMAX with Laser roll-out and continued development and support.

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:

	2019		2018	
	Number of Systems	Revenue	Number of Systems	Revenue
New IMAX digital theater systems				
— installed and recognized				
Sales and sales-types lease arrangements ⁽¹⁾	15	\$ 19,942	22	\$ 29,080
Joint revenue sharing arrangements				
— hybrid	9	5,064	2	1,044
Total new theater systems	24	25,006	24	30,124
IMAX digital theater system upgrades				
— installed and recognized				
Sales and sales-types lease arrangements	2	2,028	—	—
Total upgraded theater systems	2	2,028	—	—
Total theater systems installed and recognized	26	\$ 27,034	24	\$ 30,124

(1) 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.

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 consistent for the six months ended June 30, 2019 and six months ended June 30, 2018 at \$1.3 million. 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 4.4% to \$26.2 million in the six months ended June 30, 2019 from \$25.0 million in the six months ended June 30, 2018. Theater system maintenance gross margin was \$10.9 million in the six months ended June 30, 2019 versus \$11.3 million in the six months ended June 30, 2018. 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 \$5.7 million in the six months ended June 30, 2019 compared to \$6.0 million in the six months ended June 30, 2018. Gross margin for ongoing rent and finance income decreased to \$5.6 million in the six months ended June 30, 2019 from \$5.9 million in the six months ended June 30, 2018. 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 \$4.2 million in the six months ended June 30, 2019 as compared to \$3.6 million in the six months ended June 30, 2018. 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 \$1.3 million in the six months ended June 30, 2019, as compared to \$0.5 million in the six months ended June 30, 2018.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to \$59.8 million in the six months ended June 30, 2019, as compared to \$60.4 million in the six months ended June 30, 2018. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$49.4 million in the six months ended June 30, 2019, as compared to \$49.7 million in the six months ended June 30, 2018.

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

	2019	2018	2019 versus 2018	
Staff costs	\$ 31,395	\$ 29,734	\$ 1,661	5.6%
Stock-based compensation	10,388	10,659	(271)	(2.5)%
Marketing	3,379	4,444	(1,065)	(24.0)%
Foreign exchange loss (gain)	407	1,080	(673)	62.3%
Other general corporate expenditures	<u>14,216</u>	<u>14,526</u>	<u>(310)</u>	(2.1)%
Total	<u>\$ 59,785</u>	<u>\$ 60,443</u>	<u>\$ (658)</u>	(1.1)%

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

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

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$1.4 million in the six months ended June 30, 2019 as compared to a net provision of \$0.8 million in the six months ended June 30, 2018.

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

Interest Income and Expense

Interest income was \$1.1 million in the six months ended June 30, 2019, as compared to \$0.5 million in the six months ended June 30, 2018.

Interest expense was \$1.3 million in the six months ended June 30, 2019, as compared to \$1.3 million in the six months ended June 30, 2018. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.2 million in the six months ended June 30, 2019 as compared to \$0.6 million in the six months ended June 30, 2018. Included in the six months ended June 30, 2018 is \$0.3 million of deferred finance costs relating to the prior Credit Facility written off as a result of the new Credit Facility. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Change in fair value of equity investment

In the six months ended June 30, 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of IMAX China, entered into a cornerstone investment agreement with Maoyan Entertainment ("Maoyan") and purchased equity securities for \$15.2 million. These equity securities are traded on the Hong Kong Stock Exchange, and the Company is required to adjust the fair value of the securities each period to reflect the current market value. This adjustment will fluctuate based on the closing market price at the end of each period. In the six months ended June 30, 2019, a loss of \$2.1 million was recognized in the Condensed Consolidated Statements of Operations.

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, 2019, the Company had a gross deferred income tax asset of \$29.8 million, against which the Company is carrying a \$0.2 million valuation allowance. For the six months ended June 30, 2019, the Company recorded an income tax provision of \$9.0 million, which includes an expense of \$0.5 million related to its provision for uncertain tax positions. In addition, included in the provision for income taxes was a \$0.3 million expense for tax shortfalls related to stock-based compensation costs recognized in the period.

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's Chinese Subsidiary has treated the stock-based compensation as deductible and has set up related deferred tax assets of \$1.3 million

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 six months ended June 30, 2019, the net income attributable to non-controlling interests of the Company's subsidiaries were \$6.7 million (2018 — \$6.2 million).

LIQUIDITY AND CAPITAL RESOURCES

Working Capital Loan

On July 5, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. (“**IMAX Shanghai**”), the Company’s majority-owned subsidiary in China, entered into an unsecured revolving facility for up to 200.0 million Renminbi (approximately \$30.0 million USD) to fund ongoing working capital requirements. Subsequent to June 30, 2019 this facility was renewed. The total amounts drawn and available under the working capital loan at June 30, 2019 and December 31, 2018 were nil and 200.0 million Renminbi, respectively.

Cash and Cash Equivalents

As at June 30, 2019, the Company’s principal sources of liquidity included cash and cash equivalents of \$106.5 million, the Credit Facility, anticipated collection from trade accounts receivable of \$91.5 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 \$29.1 million and payments expected in the next 12 months on existing backlog deals. As at June 30, 2019, the Company had drawn \$25.0 million on the Credit Facility (remaining availability of \$275.0 million). There were no letters of credit and advance payment guarantees outstanding under the Credit Facility or the Bank of Montreal Facility. Cash held outside of North America as at June 30, 2019 was \$97.6 million (December 31, 2018 — \$121.9 million), of which \$64.9 million was held in the PRC (December 31, 2018 — \$54.7 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 \$9.8 million.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. Market risk is the potential change in an instrument’s value caused by, for example, fluctuations in interest and currency exchange rates. The Company’s primary market risk exposure is the risk of unfavorable movements in exchange rates between the U.S. dollar, 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 81 different countries, and therefore unfavorable exchange rates between applicable local currencies and the U.S. dollar could have an impact on the Company's reported gross box office and revenues. The Company has incoming cash flows from its revenue generating theaters and ongoing operating expenses in China through its majority-owned subsidiary IMAX (Shanghai) Multimedia Technology Co., Ltd. In Japan, the Company has ongoing Yen-denominated operating expenses related to its Japanese operations. Net Renminbi and Japanese Yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Renminbi, Japanese Yen, Euros and Canadian dollars.

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

Certain of the Company's subsidiaries held approximately 446.1 million Renminbi (\$64.9 million U.S. dollars) in cash and cash equivalents as at June 30, 2019 (December 31, 2018 — 375.7 million Renminbi or \$54.7 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 Administration 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, 2019, the Company recorded a foreign exchange net loss of \$0.2 million and a net loss of \$0.4 million, respectively, as compared to a foreign exchange net loss of \$1.0 million and a net loss of \$1.1 million for the three and six months ended June 30, 2018, respectively, 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 2019 and 2020. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the consolidated 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, 2019, are designated and qualify as foreign currency cash flow hedging instruments. The Company currently has cash flow hedging instruments associated with selling, general and administrative expenses and capital expenditures. For foreign currency cash flow hedging instruments related to selling, general and administrative expenses, 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. For foreign currency cash flow hedging instruments related to capital expenditures, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to property, plant and equipment on the balance sheet when the forecasted transaction occurs. The notional value of foreign currency cash flow hedging instruments at June 30, 2019 was \$42.4 million (December 31, 2018 — \$50.8 million). A gain of \$0.3 million and a gain of \$0.4 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, 2019, respectively (2018 — loss of \$0.7 million and loss of \$1.7 million, respectively). A loss of \$0.4 million and a loss of \$0.7 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses for the three and six months ended June 30, 2019, respectively (2018 — gain of \$0.1 million and gain of \$0.3 million, respectively). The Company's estimated net amount of the existing losses as at June 30, 2019 is \$0.3 million, which is expected to be reclassified to earnings within the next twelve months. Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses.

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

At June 30, 2019, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros translated into U.S. dollars was \$97.6 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at June 30, 2019, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$9.8 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, 2019, the potential change in the amount of selling, general, and administrative expenses would be approximately \$0.1 million.

(2) EARNINGS RELEASE EXTRACTS

“IMAX is on track to deliver its best year ever at the box office, with the success of *Spider-Man: Far From Home*, *The Lion King*, and our record-breaking, first local language animated release in China this past weekend, *Ne Zha*, leading a strong second half film slate and building on our solid first half,” said IMAX CEO Richard L. Gelfond. “Our continued success is driven by the privileged position we hold in the entertainment ecosystem, where our end-to-end technology empowers world-class creators to bring cultural events and communal experiences to life on a global scale.”

Second Quarter 2019 Results

Box Office Update

Gross box office from IMAX DMR[®] films was \$364.9 million in the second quarter of 2019, compared to \$342.6 million in the second quarter of 2018, representing an increase of 6.5%. The \$22.3 million increase in gross box office was principally driven by a \$29.1 million increase in China box office. A total of 19 films (15 new and 4 carryovers) were exhibited in the quarter, compared to 14 films (10 new and 4 carryovers) in the second quarter of 2018.

“Through our strong relationships with creators, the power of our global network and our continued cost discipline, we are now delivering top-line growth, EBITDA margin expansion and enhanced returns on capital for investors,” Gelfond added. “We continue to enhance IMAX’s position in the entertainment ecosystem and have established a solid foundation to deliver further growth in the quarters and years ahead.”

Global Network Update

The total IMAX[®] theater network consisted of 1,541 systems as of June 30, 2019, of which 1,445 were in commercial multiplexes. Including upgrades, there were 612 theaters in backlog as of June 30, 2019, compared to the 635 in backlog as of June 30, 2018.

IMAX also signed contracts for 54 new theaters and 19 upgrades in the second quarter of 2019, reflecting the strong demand for our systems. During the quarter, the Company installed 35 theater systems, 27 of which were for new theater locations.

Second Quarter Consolidated Results

The gross margin across all segments in the second quarter of 2019 was \$59.6 million, or 56.8% of total revenues, compared to \$60.4 million, or 61.4% of total revenues, in the second quarter of 2018. The slight decline in gross margin was driven by higher cost of revenues in our Network and Theater businesses, as well as a decline in revenues in our New Business segment as a result of a residual one-time payment to the Company of \$2.6 million in the prior year period related to our discontinued virtual reality initiative. Operating expenses (which includes SG&A, excluding stock-based compensation, plus R&D) were \$26.8 million in the quarter, representing an 10.9% decline from the prior year period.

Primary Reporting Groups

The Company has four primary reporting 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 segments of IMAX DMR and contingent rent from the JRSAs and IMAX systems segments; (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 fixed hybrid revenues and upfront installation costs from the JRSA segment; (3) New Business, which includes home entertainment, and other new business initiatives that are in the development, start-up and/or wind-up phases, 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.

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, Adjusted EBITDA per Credit Facility and free cash flow 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) and non-recurring charges on net income. In addition, the Company presents adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share because it believes that they are important supplemental measures of its comparable financial results 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) and non-recurring charges 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, 2019 vs. 2018

The Company reported net income of \$13.8 million, or \$0.22 per basic and diluted share, for the second quarter of 2019 as compared to net income of \$10.3 million, or \$0.16 per basic and diluted share for the second quarter of 2018.

Net income for the second quarter of 2019 includes a \$7.0 million charge, or \$0.11 per diluted share (2018 — \$6.8 million or \$0.10 per diluted share), for stock-based compensation and a loss of \$4.5 million, or \$0.07 per diluted share for the change in fair value of equity investment (2018 — \$nil). The second quarter of 2018 also includes a \$0.5 million charge, or \$0.01 per diluted share, for exit costs, restructuring charges and associated impairments 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.

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, the change in fair value of equity investment and the related tax impact of these adjustments, was \$23.8 million, or \$0.38 per diluted share, for the second quarter of 2019 as compared to adjusted net income of \$21.7 million, or \$0.34 per diluted share, for the second quarter of 2018.

The Company reported net income attributable to common shareholders of \$11.4 million, or \$0.19 per basic and diluted share for the second quarter of 2019 (2018 — \$7.6 million, or \$0.12 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, the change in fair value of equity investment and the related tax impact of these adjustments, was \$19.7 million, or \$0.32 per diluted share, for the second quarter of 2019 as compared to adjusted net income attributable to common shareholders of \$19.0 million, or \$0.30 per diluted share, for the second quarter of 2018.

Adjusted Net Income and Adjusted Diluted Per Share Calculations — Six Months Ended June 30, 2019 vs. 2018

The Company reported net income of \$26.3 million, or \$0.43 per basic and diluted share, for the six months ended June 30, 2019 as compared to net income of \$22.3 million, or \$0.35 per basic and diluted share for the six months ended June 30, 2018.

Net income for the six months ended June 30, 2019, includes a \$11.4 million charge, or \$0.19 per diluted share (2018 — \$11.6 million or \$0.18 per diluted share), for stock-based compensation, a \$0.9 million charge, or \$0.01 per diluted share for exit costs, restructuring charges and associated impairments (2018 — \$1.2 million, or \$0.02 per diluted share) and a loss of \$2.1 million, or \$0.03 per diluted share for the change in fair value of equity investment (2018 — \$nil). The six months ended June 30, 2018 includes 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.

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, the change in fair value of equity investment and the related tax impact of these adjustments, was \$38.1 million, or \$0.62 per diluted share, for the six months ended June 30, 2019, as compared to adjusted net income of \$38.8 million, or \$0.61 per diluted share, for the six months ended June 30, 2018.

The Company reported net income attributable to common shareholders of \$19.7 million, or \$0.32 per basic and diluted share for the six months ended June 30, 2019 (2018 — \$16.1 million, or \$0.25 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, the change in fair value of equity investment and the related tax impact of these adjustments, was \$30.5 million, or \$0.49 per diluted share, for the six months ended June 30, 2019, as compared to adjusted net income attributable to common shareholders of \$32.4 million, or \$0.51 per diluted share, for the six months ended June 30, 2018.

DEFINITIONS USED IN THIS ANNOUNCEMENT

“1HFY”	the first half of the financial year, six months ended 30 June
“2HFY”	the second half of the financial year, six months ended 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 30 July 2019 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) Holding, Inc.
“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 China (Hong Kong) Limited
“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
“RSUs”	restricted share units
“Quarterly Report”	the Quarterly Report filed by IMAX Corporation on 30 July 2019 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 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 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 film”	a motion picture approved for theatrical release in the PRC which has been produced by one or more PRC producer(s) or jointly produced by one or more PRC producer(s) and one or more foreign producer(s), and 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 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 films over the term of the arrangement, and no, or a relatively small, upfront payment
“Hollywood film”	an imported motion picture for theatrical release in the PRC which has been produced by one or more foreign producer(s) and the importation and release of such motion picture has been permitted in accordance with the relevant laws and regulations of the PRC
“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 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 film”	a film converted from a conventional film using DMR technology
“IMAX Original Film”	any IMAX 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 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, 31 July 2019

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

Megan Colligan

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.