IMAX CORP
Form 10-Q
May 01, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

Canada	**98-0140269**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
2525 Speakman Drive, Mississauga, Ontario, Canada L5K 1B1	**902 Broadway, Floor 20 New York, New York, USA 10010**
(905) 403-6500	**(212) 821-0100**

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

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

Title of Each Class	Name of Exchange on Which Registered
Common Shares, no par value	**The New York Stock Exchange**

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

None

(Title of class)

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

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

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

Class	**Outstanding as of March 31, 2018**
Common stock, no par value	63,996,413

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

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

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

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IMAX CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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IMAX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	March 31, 2018	December 31 2017
Assets		
Cash and cash equivalents	$ 145,579	$ 158,725
Accounts receivable, net of allowance for doubtful accounts of $2,075 (December 31, 2017 $1,613)	119,754	130,546
Financing receivables	129,774	129,494
Inventories	29,096	30,788
Prepaid expenses	10,165	7,549
Film assets	7,714	5,026
Property, plant and equipment	278,978	276,781
Other assets	62,569	26,757
Deferred income taxes	25,145	30,708
Other intangible assets	30,533	31,211
Goodwill	39,027	39,027
Total assets	**$ 878,334**	**$ 866,612**
Liabilities		
Bank indebtedness	$ 24,867	$ 25,357
Accounts payable	13,782	24,235
Accrued and other liabilities	94,023	100,140
Deferred revenue	112,131	113,270
Total liabilities	**244,803**	**263,002**
Commitments and contingencies		
Non-controlling interests	**5,471**	**1,353**
Shareholders equity		
Capital stock common shares no par value. Authorized unlimited number 64,287,977 issued and 63,996,413 outstanding (December 31, 2017 64,902,201 issued and 64,695,550 outstanding)	441,303	445,797
Less: Treasury stock, 291,564 shares at cost (December 31, 2017 206,651)	(5,992)	(5,133)
Other equity	173,866	175,300
Accumulated deficit	(60,418)	(87,592)
Accumulated other comprehensive loss	(138)	(626)

Total shareholders equity attributable to common shareholders	**548,621**	**527,746**
Non-controlling interests	79,439	74,511
Total shareholders equity	**628,060**	**602,257**
Total liabilities and shareholders equity	**$ 878,334**	**$ 866,612**

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

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IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenues		
Equipment and product sales	$ 19,513	$ 11,544
Services	44,746	38,844
Rentals	18,202	15,857
Finance income	2,523	2,412
	84,984	**68,657**
Costs and expenses applicable to revenues		
Equipment and product sales	7,972	7,464
Services	20,351	19,814
Rentals	5,969	5,608
	34,292	**32,886**
Gross margin	**50,692**	**35,771**
Selling, general and administrative expenses	28,083	30,941
(including share-based compensation expense of $4.4 million for the three months ended March 31, 2018 (2017 $5.3 million))		
Research and development	3,592	4,334
Amortization of intangibles	892	602
Receivable provisions, net of recoveries	451	185
Exit costs, restructuring charges and associated impairments	702	
Income (loss) from operations	**16,972**	**(291)**
Interest income	247	228
Interest expense	(494)	(455)
Income (loss) from operations before income taxes	**16,725**	**(518)**
Provision for income taxes	(4,453)	(114)
Loss from equity-accounted investments, net of tax	(205)	(255)
Net income (loss)	**12,067**	**(887)**
Less: net (income) loss attributable to non-controlling interests	(3,562)	962

Net income attributable to common shareholders	**$**	**8,505**	**$**	**75**
Net income per share attributable to common shareholders basic and diluted:				
Net income per share basic and diluted	$	0.13	$	

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

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IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net income (loss)	**$ 12,067**	**$ (887)**
Unrealized net (loss) gain from cash flow hedging instruments	(1,007)	313
Realization of cash flow hedging net (gain) loss upon settlement	(220)	285
Foreign currency translation adjustments	2,052	458
Other comprehensive income, before tax	**825**	**1,056**
Income tax benefit (expense) related to other comprehensive income	321	(157)
Other comprehensive income, net of tax	1,146	899
Comprehensive income	**13,213**	**12**
Less: Comprehensive (income) loss attributable to non-controlling interests	(4,220)	816
Comprehensive income attributable to common shareholders	**$ 8,993**	**$ 828**

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

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IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash provided by (used in):		
Operating Activities		
Net income (loss)	$ 12,067	$ (887)
Adjustments to reconcile net income (loss) to cash from operations:		
Depreciation and amortization	13,521	12,088
Write-downs, net of recoveries	1,036	4,010
Change in deferred income taxes	(465)	(958)
Stock and other non-cash compensation	5,141	5,660
Unrealized foreign currency exchange loss (gain)	35	(171)
Loss from equity-accounted investments	106	156
Loss on non-cash contribution to equity-accounted investees	99	99
Investment in film assets	(6,259)	(3,334)
Changes in other non-cash operating assets and liabilities	(9,818)	(17,280)
Net cash provided by (used in) operating activities	**15,463**	**(617)**
Investing Activities		
Purchase of property, plant and equipment	(6,588)	(4,068)
Investment in joint revenue sharing equipment	(4,810)	(7,547)
Acquisition of other intangible assets	(555)	(1,591)
Investment in new business ventures		(1,000)
Net cash used in investing activities	**(11,953)**	**(14,206)**
Financing Activities		
Repayment of bank indebtedness	(500)	(500)
Repurchase of common shares	(13,396)	
Treasury stock purchased for future settlement of restricted share units	(5,992)	(779)
Taxes withheld and paid on employee stock awards vested	(1,028)	(146)
Settlement of restricted share units and options	(173)	(11,158)
Issuance of subsidiary shares to a non-controlling interest	4,449	
Common shares issued stock options exercised		13,082
Net cash (used in) provided by financing activities	**(16,640)**	**499**

Effects of exchange rate changes on cash	(16)	46
Decrease in cash and cash equivalents during period	**(13,146)**	**(14,278)**
Cash and cash equivalents, beginning of period	**158,725**	**204,759**
Cash and cash equivalents, end of period	**$ 145,579**	**$ 190,481**

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

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

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

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

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

	March 31, 2018	December 31, 2017
Total assets	$ 11,357	$ 7,539
Total liabilities	$ 11,445	$ 7,178

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

	March 31, 2018	December 31, 2017
Total assets	$ 448	$ 448
Total liabilities	$ 380	$ 388

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

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

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

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

2. New Accounting Standards and Accounting Changes

Adoption of New Accounting Policies

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

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

Recently Issued FASB Accounting Standard Codification Updates

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). The purpose of the amendment is to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. New disclosures will include qualitative and quantitative requirements to provide additional information about the amounts recorded in the financial statements. Lessor accounting will remain largely unchanged from current guidance; however, ASU 2016-02 will provide improvements that are intended to align lessor accounting with the lessee model and with updated revenue recognition guidance. For public entities, the amendments in ASU 2016-02 are effective for interim and annual reporting periods beginning after December 15, 2018. As a lessor, the Company has a significant portion of its revenue derived from leases, including its joint revenue sharing arrangements, and while the lessor accounting model is not fundamentally different, the Company continues to evaluate the effect of the standard on this revenue stream.

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.

In February 2018, the FASB issued ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2018-03). The purpose of ASU 2018-03 is to clarify certain aspects of the guidance issued in ASU 2016-01. For public entities, the amendments in ASU 2018-03 are effective for interim periods beginning after June 15, 2018. The Company is currently assessing the impact of ASU 2018-03 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 March 31, 2018.

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

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

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

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

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

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

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

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The Company s arrangements include a requirement for the provision of maintenance services over the life of the arrangement, subject to a consumer price index increase on renewal each year. Under the new standard, the Company has included the future consideration from the provision of maintenance services in the relative selling price allocation calculation at the inception of the arrangement. Under the previous recognition standard, only the first year s extended warranty and maintenance services included as part of the upfront consideration received by the Company was included in the relative selling price allocation to determine the allocation of consideration between deliverables, while the future years maintenance services were recognized and amortized over each year s renewal term. Except in circumstances where customers prepay the entire term s maintenance arrangement, payments are due to the Company for the years after the extended warranty and maintenance services offered as part of the System Obligation expire. Payments upon renewal each year can be either in arrears or in advance, and can vary in frequency from monthly to annually. At March 31, 2018, $18.1 million of consideration has been deferred in relation to outstanding stand ready performance obligations related to these maintenance services. As the maintenance services are a stand ready obligation, revenue, subject to appropriate constraint, is recognized evenly over the contract term, which is consistent with past treatment. The Company does not expect a significant change in the allocation of consideration between performance obligations to arise as a result of this change. The Company s DMR and Film Distribution revenue streams fall under the variable consideration exemption for sales- or usage-based royalties. While the Company does not hold rights to the intellectual property in the form of the DMR film content, the Company is being reimbursed for the application of its intellectual property in the form of its patented DMR processes used in the creation of new intellectual property in the form of an IMAX DMR version of film. The Company s Film Distribution revenues are strictly from the license of its intellectual property in the form of documentary film content to which the Company holds distribution rights.

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

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

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

The Company recorded an increase to opening retained earnings of $27.6 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting ASC Topic 606, with the impact primarily related to revenue from its theatre system business. The impact to revenues as a result of applying ASC Topic 606 was an increase of $0.7 million for the three months ended March 31, 2018.

The following table presents the impacted financial statement line items in the Company s condensed consolidated statement of operations for the three months ended March 31, 2018:

(in thousands of U.S. dollars, except per share amounts)	Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Revenues	$ 84,315	$ 669	$ 84,984
Provision for income taxes	(4,306)	(147)	(4,453)
Net income (loss)	11,545	522	12,067
Less: net (income) loss attributable to non-controlling interests	(3,494)	(68)	(3,562)
Net income attributable to common shareholders	8,051	454	8,505
Net income per share attributable to common shareholders - basic and diluted	0.13		0.13

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The following table presents the impact of ASC Topic 606 on the Company s revenues for the three months ended March 31, 2018, by reportable segment:

	Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Network business			
IMAX DMR	$ 27,051	$	$ 27,051
Joint revenue sharing arrangements contingent rent(1)	18,529	(668)	17,861
IMAX systems contingent rent(1)	852	(852)	
	46,432	(1,520)	44,912
Theater business			
IMAX systems			
Sales and sales-type leases(2)	14,911	3,227	18,138
Ongoing fees and finance income(3)	2,603	127	2,730
Joint revenue sharing arrangements fixed fees(4)	1,165	(1,165)	
Theater system maintenance	12,712		12,712
Other theater	1,377		1,377
	32,768	2,189	34,957
New business	608		608
Other			
Film post-production	3,163		3,163
Film distribution	571		571
Other	773		773
	4,507		4,507
Total	$ 84,315	$ 669	$ 84,984

(1) Contingent rent of $0.7 million related to theater systems under hybrid sales arrangements and $0.9 million related to theater systems under sales arrangements was recognized in the Company s transition adjustment.

(2) Variable consideration of $1.6 million relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the quarter and the fixed consideration recognized for theater systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.

(3) Finance income of $0.1 million was recognized on the future consideration related to contracts.

(4) Fixed consideration of $1.2 million related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and Sales-type leases.

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Upon adoption of ASC Topic 606 the Company has evaluated its revenue streams by reportable segment and scoped out lease arrangements in accordance with the standard. The following table presents a breakdown of the Company s revenues for the three months ended March 31, 2018, whereby fixed and variable consideration are subject to the new standard:

	Subject to the New Revenue Recognition Standard		Subject to the Lease Standard	
	Fixed consideration	Variable consideration	Lease arrangements	Total
Network business				
IMAX DMR	$	$ 27,051	$	$ 27,051
Joint revenue sharing arrangements contingent rent			17,861	17,861
IMAX systems contingent rent				
		27,051	17,861	44,912
Theater business				
IMAX systems				
Sales and sales-type leases	15,949	2,189		18,138
Ongoing fees and finance income	2,730			2,730
Joint revenue sharing arrangements fixed fees				
Theater system maintenance	12,712			12,712
Other theater	1,377			1,377
	32,768	2,189		34,957
New business		608		608
Other				
Film post-production	3,163			3,163
Film distribution		571		571
Other	50	723		773
	3,213	1,294		4,507
Total	$ 35,981	$ 31,142	$ 17,861	$ 84,984

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

	Balance at	Balance at

	December 31, 2017	ASC Topic 606 Adjustments	January 1, 2018
Assets			
Other Assets	$ 26,757	$ 34,384	$ 61,141
Deferred income taxes	30,708	(6,436)	24,272
Shareholders equity			
Accumulated deficit	(87,592)	27,571	(60,021)
Non-controlling interests	74,511	377	74,888

As it is the first quarter after transition, the Company has not experienced any significant true-up of its transition amounts.

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

Contracts with Multiple Performance Obligations

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

Theater Systems

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

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

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

Sales Arrangements

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

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

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

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

Lease Arrangements

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

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

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

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

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

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

Finance Income

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

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

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Improvements and Modifications

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

Cost of Equipment and Product Sales

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

Cost of Rentals

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

Terminations, Consensual Buyouts and Concessions

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

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

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

Maintenance and Extended Warranty Services

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

Film Production and IMAX DMR Services

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

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

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

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

Film Distribution

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

Film Post-Production Services

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

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Other

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

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

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

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

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

4. Financing Receivables

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

	March 31, 2018	December 31, 2017
Gross minimum lease payments receivable	$ 8,447	$ 8,537
Unearned finance income	(1,110)	(1,147)
Minimum lease payments receivable	7,337	7,390
Accumulated allowance for uncollectible amounts	(155)	(155)
Net investment in leases	7,182	7,235
Gross financed sales receivables	162,532	162,522
Unearned finance income	(39,018)	(39,341)
Financed sales receivables	123,514	123,181
Accumulated allowance for uncollectible amounts	(922)	(922)
Net financed sales receivables	122,592	122,259
Total financing receivables	$ 129,774	$ 129,494
Net financed sales receivables due within one year	$ 25,539	$ 25,455
Net financed sales receivables due after one year	$ 97,053	$ 96,804

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

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5. Inventories

	March 31, 2018	December 31, 2017
Raw materials	$ 23,421	$ 21,206
Work-in-process	3,896	2,601
Finished goods	1,779	6,981
	$ 29,096	$ 30,788

At March 31, 2018, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to $3.3 million (December 31, 2017 $4.9 million).

There were no write-downs for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions, during the three months ended March 31, 2018 and 2017.

6. Property Plant and Equipment

	As at March 31, 2018		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	$ 268,940	$ 109,948	$ 158,992
Camera equipment	5,757	4,079	1,678
	274,697	114,027	160,670
Assets under construction	25,187		25,187
Other property, plant and equipment			
Land	8,203		8,203
Buildings	74,859	18,005	56,854
Office and production equipment	44,556	23,604	20,952
Leasehold improvements	11,064	3,952	7,112
	138,682	45,561	93,121
	$ 438,566	$ 159,588	$ 278,978

	As at December 31, 2017		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			

Theater system components	$ 264,259	$ 103,922	$ 160,337
Camera equipment	5,757	3,939	1,818
	270,016	107,861	162,155
Assets under construction	23,398		23,398
Other property, plant and equipment			
Land	8,203		8,203
Buildings	74,478	17,364	57,114
Office and production equipment	40,442	22,164	18,278
Leasehold improvements	10,974	3,341	7,633
	134,097	42,869	91,228
	$ 427,511	$ 150,730	$ 276,781

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The Company recognized asset impairment charges of $0.5 million in the three months ended March 31, 2018 (2017 $0.4 million) against property, plant and equipment after an assessment of the carrying value of certain assets in light of their future expected cash flows.

7. Other Intangible Assets

	As at March 31, 2018		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	$ 12,391	$ 7,914	$ 4,477
Licenses and intellectual property	21,168	7,822	13,346
Other	19,885	7,175	12,710
	$ 53,444	$ 22,911	$ 30,533

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

Other intangible assets of $19.9 million are comprised mainly of the Company s investment in an enterprise resource planning system. Fully amortized other intangible assets of $5.9 million are still in use by the Company.

During the three months ended March 31, 2018, the Company acquired $0.7 million in other intangible assets. The weighted average amortization period for these additions was 10 years.

During the three months ended March 31, 2018, the Company incurred costs of less than $0.1 million to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses (2017 $0.1 million).

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

2018 (nine months remaining)	$ 3,653
2019	4,871
2020	4,871
2021	4,871
2022	4,871

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8. Credit Facility and Playa Vista Loan

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

The terms of the Credit Facility are set forth in the Fourth Amended and Restated Credit Agreement (as amended, the Credit Agreement), dated March 3, 2015, among the Company, the Guarantors, the lenders named therein, Wells Fargo Bank, National Association (Wells Fargo), as agent and issuing lender and Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Bookrunner and in various collateral and security documents entered into by the Company and the Guarantors.

The Company was in compliance with all of its requirements at March 31, 2018.

Total amounts drawn and available under the Credit Facility at March 31, 2018 were $nil and $200.0 million, respectively (December 31, 2017 $nil and $200.0 million, respectively).

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

Playa Vista Financing

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

The Playa Vista Loan was fully drawn at $30.0 million and bears interest at a variable rate per annum equal to 2.0% above the 30-day LIBOR rate. PV Borrower is required to make monthly payments of combined principal and interest over a 10-year term with a lump sum payment at the end of year 10. The Playa Vista Loan is being amortized over 15 years. The Playa Vista Loan will be fully due and payable on October 19, 2025 (the Maturity Date), and may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Playa Vista Loan is secured by a deed of trust from PV Borrower in favor of Wells Fargo and other documents evidencing and securing the loan, granting a first lien on and security interest in the Playa Vista property and the Playa Vista Project, including all improvements to be constructed thereon. The Company had also guaranteed the Playa Vista Loan.

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

Bank indebtedness includes the following:

	March 31, 2018	December 31, 2017

Playa Vista Loan	$ 25,167	$ 25,667
Deferred charges on debt financing	(300)	(310)
	$ 24,867	$ 25,357

Total amounts drawn under the loan at March 31, 2018 was $25.2 million (December 31, 2017 $25.7 million). The effective interest rate for the three months ended March 31, 2018 was 3.70% (March 31, 2017 2.85%).

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In accordance with the loan agreement, the Company is obligated to make payments on the principal of the loan as follows:

2018 (nine months remaining)	$ 1,500
2019	2,000
2020	2,000
2021	2,000
2022	2,000
Thereafter	15,667
	$ 25,167

Wells Fargo Foreign Exchange Facility

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. There is no settlement risk on its foreign currency forward contracts at March 31, 2018, as the fair value exceeded the notional value of the forward contracts. As at March 31, 2018, the Company has $35.0 million in notional value of such arrangements outstanding.

Bank of Montreal Facility

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

9. Commitments, Contingencies and Guarantees

Commitments

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

The Company has a minimum commitment of $2.7 million toward the development, production, post-production and marketing related to certain film and new content initiatives. As of March 31, 2018, the Company has spent $1.3 million, and expects to spend $1.4 million during the remainder of the year.

Contingencies and guarantees

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

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

(a) On May 15, 2006, the Company initiated arbitration against Three-Dimensional Media Group, Ltd. (3DMG) before the International Centre for Dispute Resolution in New York (the ICDR), alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties license agreement. On June 21, 2007, the ICDR unanimously denied 3DMG s Motion for Summary Judgment filed on April 11, 2007 concerning the Company s claims and 3DMG s counterclaims. The proceeding was suspended on

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May 4, 2009 due to failure of 3DMG to pay fees associated with the proceeding. The proceeding was further suspended on October 11, 2010 pending resolution of re-examination proceedings involving one of 3DMG s patents. Following a status conference on April 27, 2016 before the ICDR, the ICDR granted 3DMG leave to amend its answer and counterclaims, and subsequently lifted the stay in this matter. In its amended counterclaims, 3DMG seeks damages for alleged unpaid royalties, damages and other fees under the license and consulting agreements, and the Panel also has permitted 3DMG to advance new damage theories. The ICDR held the first phase of a final hearing during the week of July 10, 2017, and the second phase of the hearing occurred during the week of October 16, 2017. The parties submitted final, post-hearing briefs in December 2017, and the Panel held closing oral arguments in March 2018. The Company believes that the amount of loss suffered in connection with the amended counterclaims would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration. The minimum amount in the range has been used to measure the amount to be accrued for this loss contingency in accordance with FASB ASC Topic 450.

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

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

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

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

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

Financial Guarantees

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

Product Warranties

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

Director/Officer Indemnifications

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

Other Indemnification Agreements

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

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10. Condensed Consolidated Statements of Operations Supplemental Information

(a) Selling Expenses

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to revenues-equipment and product sales, totaled $0.7 million for the three months ended March 31, 2018 (2017 $0.4 million).

Film exploitation costs, including advertising and marketing, totaled $5.3 million for the three months ended March 31, 2018 (2017 $2.4 million), 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 less than $0.1 million for the three months ended March 31, 2018 (2017 $0.1 million). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled an expense of $0.1 million for the three months ended March 31, 2018 (2017 $0.3 million).

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three months ended March 31, 2018 is a loss of $0.1 million (2017 loss of less than $0.1 million), for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 16(d) for additional information.

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

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

The Company has signed joint revenue sharing agreements with 42 exhibitors for a total of 1,069 theater systems, of which 718 theaters were operating as at March 31, 2018, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company s joint revenue sharing arrangements is disclosed in note 3.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Equipment and Product Sales and Rentals revenue and for the three months ended March 31, 2018 amounted to $17.9 million (2017 $15.7 million).

IMAX DMR

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

For the three months ended March 31, 2018, the majority of IMAX DMR revenue was earned from the exhibition of 22 IMAX DMR films (2017 18) throughout the IMAX theater network.

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Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three months ended March 31, 2018 amounted to $27.1 million (2017 $23.4 million).

Co-Produced Film Arrangements

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

As at March 31, 2018, the Company has two significant co-produced film arrangements which represent the VIE total assets balance of $11.4 and liabilities balance of $11.4 million and three other co-produced film arrangements, the terms of which are similar. The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) of the Company s 2017 Form 10-K, and in note 3.

For the three months ended March 31, 2018, amounts totaling $0.2 million (2017 $0.5 million) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to Revenues Services.

As at March 31, 2018, the Company is participating in one significant co-produced television arrangement. This arrangement is not a VIE.

For the three months ended March 31, 2018, revenues of $0.4 million (2017 $nil) and costs and expenses applicable to revenues of $0.4 million (2017 $nil) attributable to this collaborative arrangement have been recorded in Revenue Services and Costs and expenses applicable to Revenues Services, respectively. Included therein are net revenues attributable to transactions between the Company and other parties involved in the production of the episodic content of $nil (2017 $nil).

11. Condensed Consolidated Statements of Cash Flows Supplemental Information

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

	Three Months Ended March 31,	
	2018	**2017**
Decrease (increase) in:		
Accounts receivable	$ 10,314	$ 161
Financing receivables	(420)	1,763
Inventories	1,692	(3,312)
Prepaid expenses	(2,616)	(1,421)
Other assets	(2,346)	(224)
Increase (decrease) in:		
Accounts payable	(10,419)	(6,041)

Accrued and other liabilities	(4,862)	(18,825)
Deferred revenue	(1,161)	10,619
	$ (9,818)	$ (17,280)

(b) Cash payments made on account of:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Income taxes	$ 4,765	$ 7,270
Interest	$ 226	$ 190

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

	Three Months Ended March 31,	
	2018	2017
Film assets	$ 3,571	$ 3,805
Property, plant and equipment		
Joint revenue sharing arrangements	4,840	4,246
Other property, plant and equipment	3,442	2,760
Other intangible assets	1,217	926
Other assets	310	220
Deferred financing costs	141	131
	$ 13,521	$ 12,088

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

	Three Months Ended March 31,	
	2018	2017
Accounts receivable	$ 451	$ 185
Property, plant and equipment (2)	421	409
Joint revenue sharing arrangements(2)	126	
Other intangible assets	38	
Film assets (1)		3,416
	$ 1,036	$ 4,010

(1) The Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period and revised expectations for future revenues based on the latest information available. In the three months ended March 31, 2017, an impairment of $3.4 million was recorded based on the carrying value of these documentary films as compared to the related estimated future box office and revenues that would ultimately be generated by these films. No such impairment was recognized in the three months ended March 31, 2018.

(2) The Company recognized asset impairment charges of $0.5 million (2017 $0.4 million) against property, plant and equipment after an assessment of the carrying value of certain assets in light of their future expected cash flows.

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

	Three Months Ended March 31,	
	2018	2017
Net accruals related to:		
Purchases of property, plant and equipment	$ 364	$ 1,384
Investment in joint revenue sharing arrangements	(20)	(55)
Acquisition of other intangible assets	5	(25)
	$ 349	$ 1,304

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12. Income Taxes

(a) Income Taxes

The Company s effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company s valuation allowance based on the Company s recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the quarter ended March 31, 2018, there was no change in the Company s estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings.

As at March 31, 2018, the Company had net deferred income tax assets after valuation allowance of $25.1 million (December 31, 2017 $30.7 million), which consists of a gross deferred income tax asset of $25.3 million (December 31, 2017 $30.9 million), against which the Company is carrying a $0.2 million valuation allowance (December 31, 2017 $0.2 million).

For the quarter ended March 31, 2018, the Company recorded a provision for income taxes of $4.5 million. Included in the provision for income taxes was $0.1 million related to its provision for uncertain tax positions and a $0.7 million provision related to stock-based compensation costs recognized in the period as the tax deduction was less than the cumulative book expense recorded.

The Company elected to early adopt ASU 2016-16 related to income taxes in the first quarter of 2017. The impact from the adoption was reflected in the Company s condensed consolidated financial statements on a modified retrospective basis resulting in an increase to Accumulated deficit of $8.3 million, a decrease to Other assets of $14.8 million, an increase to Deferred taxes of $7.9 million and an increase to Accrued and other liabilities of $1.4 million.

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

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

In addition, the Tax Act also included a number of other changes. The Company continues to monitor the impact of the Tax Act during the measurement period, which can range up to one-year, due to, among other things, further refinement of the Company s calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Act. No further changes have been reported as of March 31, 2018.

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

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

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Cash held outside of North America as at March 31, 2018 was $125.9 million (December 31, 2017 $119.4 million), of which $37.5 million was held in the People s Republic of China (PRC) (December 31, 2017 $32.6 million). The Company s intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be $7.8 million.

(b) Income Tax Effect on Other Comprehensive Income

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Unrealized change in cash flow hedging instruments	$ 263	$ (82)
Realized change in cash flow hedging instruments upon settlement	58	(75)
	$ 321	$ (157)

13. Capital Stock

(a) Stock-Based Compensation

Compensation costs recorded in the condensed consolidated statements of operations for the Company s stock-based compensation plans were $4.8 million for the three months ended March 31, 2018 (2017 $5.3 million). The following reflects the stock-based compensation expense recorded to the respective financial statement line items:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cost and expenses applicable to revenues	$ 96	$
Selling, general and administrative expenses	4,417	5,264
Research and development	334	
Exit costs, restructuring charges and associated impairments	(19)	
	$ 4,828	$ 5,264

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

	Three Months Ended March 31, 2018	2017
Stock options	$ 1,389	$ 1,354
Restricted Share Units	3,215	3,446
China Long Term Incentive Plan Restricted Share Units	183	108
China Options	41	250
China Cash Settled Share-Based Payments		106
	$ 4,828	$ 5,264

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Stock Option Summary

The following table summarizes certain information in respect of option activity under the SOP and IMAX Long Term Incentive Plan for the three months ended March 31:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2018	2017	2018	2017
Options outstanding, beginning of period	5,082,100	5,190,542	$ 29.31	$ 28.35
Granted	878,629	679,030	22.06	32.16
Exercised		(584,589)		22.38
Forfeited	(45,164)	(16,380)	31.13	31.69
Expired	(10,000)		27.09	
Options outstanding, end of period	5,905,565	5,268,603	28.22	29.49
Options exercisable, end of period	4,133,351	3,945,034	29.14	28.68

Restricted Share Units (RSU) Summary

The following table summarizes certain information in respect of RSU activity under the IMAX Long Term Incentive Plan for the three months ended March 31:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2018	2017	2018	2017
RSUs outstanding, beginning of period	995,329	1,124,180	$ 32.80	$ 33.01
Granted	535,362	373,540	20.85	32.45
Vested and settled	(257,888)	(201,793)	32.76	31.25
Forfeited	(30,024)	(20,506)	31.93	32.31
RSUs outstanding, end of period	1,242,779	1,275,421	27.58	33.13

Issuer Purchases of Equity Securities

On June 12, 2017, the Company announced that its Board of Directors approved a new $200.0 million share repurchase program for shares of the Company s common stock. The share repurchase program expires on June 30, 2020. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time. During the three months ended March 31, 2018, the Company repurchased 654,224 common shares (2017 nil) at an average price of $20.46 (2017 $nil).

The total number of shares purchased during the three months ended March 31, 2018 does not include any shares purchased in the administration of employee share-based compensation plans (which amounted to 300,000 (2017 368,624) common shares, at an average price of $20.55 per share (2017 $32.38 per share)).

(b) Net Income Per Share

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net income applicable to common shareholders	$ 8,505	$ 75
Weighted average number of common shares (000 s):		
Issued and outstanding, beginning of period	64,696	66,160
Weighted average number of shares repurchased, net of shares issued, during the period	(141)	203
Weighted average number of shares used in computing basic income per share	64,555	66,363
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	64	817
Weighted average number of shares used in computing diluted income per share	64,619	67,180

The calculation of diluted earnings per share excludes 6,409,364 (2017 1,785,013) shares that are issuable upon the vesting of 589,412 (2017 171,673) RSUs and the exercise of 5,819,952 (2017 1,613,340) stock options for the three months ended March 31, 2018 and 2017, respectively, as the impact would be antidilutive.

(c) Shareholder s Equity Attributable to Common Shareholders

The following summarizes the movement of Shareholders Equity attributable to common shareholders for the three months ended March 31, 2018:

Balance as at December 31, 2017	$ 527,746
Adjustments to capital stock:	
Average carrying value of repurchased and retired common shares	(4,494)
Share held in treasury	(859)
Adjustments to other equity:	
Employee stock options granted	1,429
RSUs granted	3,398
RSUs vested	(6,261)
Adjustments to accumulated deficit:	
Net income attributable to common shareholders	8,505
	27,571

Adoption of ASC Topic 606, Revenue from Contracts with Customers	
Common shares repurchased and retired	(8,902)
Adjustments to accumulated other comprehensive loss:	
Unrealized net loss from cash flow hedging instruments	(1,007)
Realization of cash flow hedging net gain upon settlement	(220)
Foreign currency translation adjustments	1,394
Tax effect of movement in other comprehensive income	321
Balance as at March 31, 2018	$ 548,621

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14. Segmented Information

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

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

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

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	Three Months Ended March 31,	
	2018	2017
Revenue[(1)]		
Network business		
IMAX DMR	$ 27,051	$ 23,408
Joint revenue sharing arrangements contingent rent[(2)]	17,861	15,233
IMAX systems contingent rent[(2)]		688
	44,912	39,329
Theater business		
IMAX systems[(2)]	20,868	9,527
Joint revenue sharing arrangements fixed fees[(2)]		470
Theater system maintenance	12,712	11,045
Other theater	1,377	2,165
	34,957	23,207
New business	608	1,280
Other		
Film post-production	3,163	3,072
Film distribution	571	512
Other	773	1,257
	4,507	4,841
Total	$ 84,984	$ 68,657
Gross Margin		
Network business		
IMAX DMR[(3)]	$ 18,782	$ 17,467
Joint revenue sharing arrangements contingent rent[(2)(3)]	12,740	10,250
IMAX systems contingent rent[(2)]		688
	31,522	28,405
Theater business		
IMAX systems[(2)(3)]	14,292	5,741
Joint revenue sharing arrangements fixed fees[(2)(3)]		88
Theater system maintenance	6,205	4,249
Other theater	(45)	430
	20,452	10,508
New business	(1,469)	(337)

Other		
Film post-production	1,685	1,101
Film distribution[3]	(1,239)	(3,764)
Other	(259)	(142)
	187	(2,805)
Total	$ 50,692	$ 35,771

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(1) The Company s largest customer represented 17.2% of total revenues for the three months ended March 31, 2018 (2017 17.2%).
(2) On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company s open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company s exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts. Refer to note 3 for additional information.
(3) IMAX DMR segment margins include marketing costs of $4.1 million for the three months ended March 31, 2018 (2017 $2.6 million). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of $0.2 million for the three months ended March 31, 2018 (2017 $0.4 million). IMAX systems segment margins include marketing and commission costs of $0.7 million for the three months ended March 31, 2018 (2017 $0.4 million). Film distribution segment margins include marketing expense of $1.2 million for the three months ended March 31, 2018 (2017 a recovery of $0.2 million).

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 March 31,	
	2018	**2017**
Revenue		
Greater China	$ 28,146	$ 18,590
United States	27,632	25,198
Western Europe	10,262	5,813
Asia (excluding Greater China)	9,230	8,429
Canada	2,566	3,282
Latin America	1,479	1,654
Russia & the CIS	1,990	3,183
Rest of the World	3,679	2,508
Total	$ 84,984	$ 68,657

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.

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15. Employee s Pension and Postretirement Benefits

(a) Defined Benefit Plan

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

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

	March 31, 2018	December 31, 2017
Projected benefit obligation:		
Obligation, beginning of period	$ 19,003	$ 19,580
Interest cost	105	427
Actuarial gain		(1,004)
Obligation, end of period and unfunded status	$ 19,108	$ 19,003

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

	Three Months Ended March 31, 2018	2017
Interest cost	$ 105	$ 107
Pension expense	$ 105	$ 107

No contributions are expected to be made for the SERP during the remainder of 2018. The Company expects interest costs of $0.3 million to be recognized as a component of net periodic benefit cost during the remainder of 2018.

The accumulated benefit obligation for the SERP was $19.1 million at March 31, 2018 (December 31, 2017 $19.0 million).

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

2018 (nine months remaining)	$
2019	
2020	20,076
2021	
2022	
Thereafter	

	$ 20,076

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

(b) Defined Contribution Pension Plan

The Company also maintains defined contribution plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three months ended March 31, 2018, the Company contributed and expensed an aggregate of $0.3 million (2017 $0.3 million) to its Canadian defined contribution plan and an aggregate of $0.2 million (2017 $0.2 million) to its defined contribution employee plan under Section 401(k) of the U.S. Internal Revenue Code.

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(c) Postretirement Benefits Executives

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

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

2018 (nine months remaining)	$ 24
2019	26
2020	33
2021	37
2022	40
Thereafter	544
Total	$ 704

(d) Postretirement Benefits Canadian Employees

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

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

2018 (nine months remaining)	$ 91
2019	109
2020	86
2021	111
2022	99
Thereafter	1,169
Total	$ 1,665

(e) Deferred Compensation Retirement Plan

The Company maintains a deferred compensation plan (the Retirement Plan) covering Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company. The Company has agreed to make a total contribution of $3.2 million pursuant to a schedule set forth in Mr. Foster s employment agreement. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, and will vest in 25% increments on July 2 of 2019, 2022, 2025 and 2027, but will vest in full if Mr. Foster s employment terminates under specified circumstances, including if the Company terminates his employment without cause, if he resigns for good reason, or if the Company does not offer to renew Mr. Foster s employment on terms substantially similar to those set forth in his current employment agreement and, as a result, Mr. Foster incurs a separation from service. As at March 31, 2018, the Company had an unfunded benefit obligation recorded of $1.2 million (December 31, 2017 $1.0 million). The Company recognized an expense of $0.2 million and $0.3 million for the three months ended March 31, 2018 and 2017, respectively.

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16. Financial Instruments

(a) Financial Instruments

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

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

(b) Fair Value Measurements

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

	As at March 31, 2018		As at December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Level 1				
Cash and cash equivalents(1)	$ 145,579	$ 145,579	$ 158,725	$ 158,725
Level 2				
Net financed sales receivable(2)	$ 122,592	$ 122,828	$ 122,259	$ 122,918
Net investment in sales-type leases (2)	$ 7,182	$ 7,306	$ 7,235	$ 7,409
Convertible loan receivable(2)	$ 1,500	$ 1,500	$ 1,500	$ 1,500
Equity securities(3)	$ 2,012	$ 2,012	$ 2,016	$ 2,016
Foreign exchange contracts designated forwards(3)	$ 198	$ 198	$ 1,425	$ 1,425
Borrowings under the Playa Vista Loan(1)	$ (25,167)	$ (25,167)	$ (25,667)	$ (25,667)

(1) Recorded at cost, which approximates fair value.
(2) Estimated based on discounting future cash flows at currently available interest rates with comparable terms.
(3) Value determined using quoted prices in active markets.

There were no significant transfers between Level 1 and Level 2 during the three months ended March 31, 2018 or 2017. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. There were no transfers in or out of the Company s level 3 assets during the three months ended March 31, 2018.

(c) Financing Receivables

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

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

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

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

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

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

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

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

	As at March 31, 2018			As at December 31, 2017		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	$ 6,176	$ 119,081	$ 125,257	$ 6,265	$ 118,060	$ 124,325
Credit Watch	580	2,830	3,410	568	2,926	3,494
Pre-approved transactions	581	548	1,129	557	1,003	1,560
Transactions suspended		1,055	1,055		1,192	1,192
	$ 7,337	$ 123,514	$ 130,851	$ 7,390	$ 123,181	$ 130,571

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.

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

	As at March 31, 2018		As at December 31, 2017	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	$	$	$	$
Net financed sales receivables	1,055	(922)	1,192	(922)
Total	$ 1,055	$ (922)	$ 1,192	$ (922)

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

The Company s aged financing receivables are as follows:

	As at March 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	$ 110	$ 59	$ 511	$ 680	$ 6,657	$ 7,337	$ (155)	$ 7,182
Net financed sales receivables	2,518	2,322	3,292	8,132	115,382	123,514	(922)	122,592
Total	$ 2,628	$ 2,381	$ 3,803	$ 8,812	$ 122,039	$ 130,851	$ (1,077)	$ 129,774

	As at December 31, 2017							
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	$ 103	$ 74	$ 376	$ 553	$ 6,837	$ 7,390	$ (155)	$ 7,235
Net financed sales receivables	3,285	1,399	3,763	8,447	114,734	123,181	(922)	122,259

Total	$ 3,388	$ 1,473	$ 4,139	$ 9,000	$ 121,571	$ 130,571	$ (1,077)	$ 129,494

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

	As at March 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	$ 85	$ 59	$ 511	$ 655	$ 2,137	$	$ 2,792
Net financed sales receivables	645	1,020	3,066	4,731	25,693		30,424
Total	$ 730	$ 1,079	$ 3,577	$ 5,386	$ 27,830	$	$ 33,216

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

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:

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	For the Three Months Ended March 31, 2018				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	1,050	5	(922)	1,050	
With no related allowance recorded:					
Net investment in leases					
Net financed sales receivables					
Total:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	$ 1,050	$ 5	$ (922)	$ 1,050	$

	For the Three Months Ended March 31, 2017				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	525	75	(494)	525	
With no related allowance recorded:					
Net investment in leases					
Net financed sales receivables					
Total:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	$ 525	$ 75	$ (494)	$ 525	$

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 March 31, 2018		Three Months Ended March 31, 2017	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
Allowance for credit losses:				
Beginning balance	$ 155	$ 922	$ 672	$ 494
Charge-offs				
Recoveries				
Provision				

Ending balance	$ 155	$ 922	$ 672	$ 494
Ending balance: individually evaluated for impairment	$ 155	$ 922	$ 672	$ 494
<u>Financing receivables:</u>				
Ending balance: individually evaluated for impairment	$ 7,337	$ 123,514	$ 8,480	$ 113,176

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(d) Foreign Exchange Risk Management

The Company is exposed to market risk from changes in foreign currency rates. A majority portion of the Company s revenues is denominated in U.S. dollars while a substantial portion of its costs and expenses is denominated in Canadian dollars. A portion of the net U.S. dollar cash flows of the Company is periodically converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In China and Japan the Company has ongoing operating expenses related to its operations in Chinese Renminbi and Japanese yen, respectively. Net cash flows are converted to and from U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Chinese Renminbi, Japanese yen, Canadian dollars and Euros which are converted to U.S. dollars through the spot market. In addition, because IMAX films generate box office in 77 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 March 31, 2018 (the Foreign Currency Hedges), with settlement dates throughout 2018 and 2019. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statements of operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. For foreign currency cash flow hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statements of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The Company currently does not hold any derivatives which are not designated as hedging instruments.

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

Notional value of foreign exchange contracts:

	March 31, 2018	December 31, 2017
Derivatives designated as hedging instruments:		
Foreign exchange contracts Forwards	$ 34,962	$ 35,170

Fair value of derivatives in foreign exchange contracts:

	Balance Sheet Location	March 31, 2018	December 31, 2017
Derivatives designated as hedging instruments:			
	Other assets	$ 497	$ 1,447

Foreign exchange contracts			
Forwards			
	Accrued and other liabilities	(299)	(22)
		$ 198	$ 1,425

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Derivatives in Foreign Currency Hedging relationships are as follows:

			Three Months Ended March 31, 2018	2017
Foreign exchange contracts	Forwards	Derivative (Loss) Gain Recognized in OCI (Effective Portion)	$ (1,007)	$ 313

		Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Three Months Ended March 31, 2018	2017
Foreign exchange contracts	Forwards	Selling, general and administrative expenses	$ 220	$ (285)

			Three Months Ended March 31, 2018	2017
Foreign exchange contracts	Forwards	Derivative Gain (Loss) Recognized In and Out of OCI (Effective Portion)	$ 46	$ (47)

The Company s estimated net amount of the existing gains as at March 31, 2018 is $0.4 million, which is expected to be reclassified to earnings within the next twelve months.

(e) Investments in New Business Ventures

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

As at March 31, 2018, the equity method of accounting is being utilized for an investment with a carrying value of $nil (December 31, 2017 $nil). The Company s accumulated losses in excess of its equity investment were $2.1 million as at March 31, 2018, and are classified in Accrued and other liabilities. For the three months ended March 31, 2018, gross revenues, cost of revenue and net loss for the Company s investment was $0.5 million, $0.9 million and $0.6 million, respectively (2017 $0.2 million, $0.9 million and $0.7 million, respectively). The Company has determined it is not the primary beneficiary of this VIE, and therefore this entity has not been consolidated. In a prior year, the Company issued a convertible loan of $1.5 million to this entity with a term of 3 years with an annual effective interest rate of 5.0%. The instrument is classified as an available-for-sale investment due to certain features that allow for conversion to common stock in the entity in the event of certain triggers occurring.

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

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

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

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

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17. Non-Controlling Interests

(a) IMAX China Non-Controlling Interest

In 2015, IMAX China completed the IMAX China IPO. Following the IMAX China IPO, the Company continues to indirectly own approximately 67.93% of IMAX China, which remains a consolidated subsidiary of the Company.

The following summarizes the movement of the non-controlling interest in shareholders equity, in the Company s subsidiary for the three months ended March 31, 2018:

Balance as at December 31, 2017	$ 74,511
Retained earnings impact resulting from the adoption of ASC Topic 606, Revenue from Contracts with Customers	377
Net income	3,893
Other comprehensive income	658
Balance as at March 31, 2018	$ 79,439

(b) Other Non-Controlling Interest

The Company s Original Film Fund was established in 2014 to co-finance a portfolio of 10 original large-format films. The initial investment in the Original Film Fund was committed to by a third party in the amount of $25.0 million, with the possibility of contributing additional funds. The Company agreed to contribute $9.0 million to the Original Film Fund over five years starting in 2014 and sees the Original Film Fund as a self-perpetuating vehicle designed to generate a continuous, steady flow of high-quality documentary content. As at March 31, 2018, the Original Film Fund invested $15.5 million toward the development of original films. The related production, financing and distribution agreement includes put and call rights relating to change of control of the rights, title and interest in the co-financed pictures.

The Company also established its VR Fund among the Company, its subsidiary IMAX China and other strategic investors. The VR Fund will help finance the creation of interactive VR content experiences over the next three years for use across all VR platforms, including in the pilot IMAX VR Centers. The VR Fund recently helped finance the production of one interactive VR experience, which debuted exclusively in the pilot IMAX VR Centers in November 2017 before being made available to other VR platforms. The VR Fund continues to finance other productions of interactive VR experiences as part of its ongoing activities. As at March 31, 2018, the Company invested $4.0 million toward the development of VR content.

The following summarizes the movement of the non-controlling interest in temporary equity, in the Company s subsidiary for the three months ended March 31, 2018:

Balance as at December 31, 2017	$ 1,353
Issuance of subsidiary shares to non-controlling interests	4,449
Net loss	(331)

Balance as at March 31, 2018	$ 5,471

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18. Exit costs, restructuring charges and associated impairments

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

In connection with the Company s restructuring initiatives, the Company incurred $0.7 million in restructuring charges for the three months ended March 31, 2018 (2017 $nil). A summary of the restructuring costs by reporting groups identified by nature of product sold, or service provided as disclosed in note 14 recognized during the three months ended March 31, 2018, are as follows:

	Employee Severance and Benefits
IMAX DMR	$ 380
Corporate	200
Theater system maintenance	122
	$ 702

The Company expects to recognize restructuring charges of $0.4 million during the remainder of 2018.

The following table sets forth a summary of restructuring accrual activities for the three months ended March 31, 2018:

	Employee Severance and Benefits
Balance as at December 31, 2017	$ 2,221
Restructuring charges	702
Cash payments	(1,393)
Balance as at March 31, 2018	$ 1,530

In the three months ended March 31, 2018 the Company did not recognize any exit costs or associated impairments.

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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 1,382 IMAX theater systems (1,286 commercial multiplexes, 12 commercial destinations, 84 institutional) operating in 77 countries as of March 31, 2018. This compares to 1,226 theater systems (1,121 commercial multiplexes, 14 commercial destinations, 91 institutional) operating in 75 countries as of March 31, 2017.

The Company s core business consists of:

- the Digital Re-Mastering (DMR) of films into the IMAX format for exhibition in the IMAX theater network in exchange for a certain percentage of contingent box office receipts from both studios and exhibitors; and

- the provision of IMAX premium theater systems (IMAX theater systems) to exhibitor customers through sales, long-term leases or joint revenue sharing arrangements.

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

- the ability to exhibit content that has undergone IMAX DMR conversion, which results in higher image and sound fidelity than conventional cinema experiences;

- advanced, high-resolution projectors with specialized equipment and automated theater control systems, which generate significantly more contrast and brightness than conventional theater systems;

- large screens and proprietary theater geometry, which result in a substantially larger field of view so that the screen extends to the edge of a viewer s peripheral vision and creates more realistic images;

- sound system components, which deliver more expansive sound imagery and pinpointed origination of sound to any specific spot in an IMAX theater;

specialized theater acoustics, which result in a four-fold reduction in background noise; and

a license to the globally recognized IMAX brand.

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

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

As one of the world s leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. Consequently, on April 24, 2018, the Company announced IMAX with Laser, the Company s next-generation laser projection system designed for IMAX theaters in commercial multiplexes. The Company believes that IMAX with Laser delivers increased resolution, sharper and brighter images, deeper contrast as well as the widest range of colors available to filmmakers today. The Company further believes that IMAX with Laser can help facilitate the next major lease renewal and upgrade cycle for the global commercial IMAX network.

To that end, on April 24, 2018, the Company announced binding letters of intent with Cineworld Group PLC (Cineworld) and AMC Entertainment Holdings, Inc. (AMC) to renew and upgrade significant portions of their IMAX network with the Company s new laser system.

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

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

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

SOURCES OF REVENUE

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

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

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

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

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

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

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

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

Digital Re-Mastering (IMAX DMR)

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

IMAX films also benefit from enhancements made by individual filmmakers exclusively for the IMAX release, and filmmakers and studios have sought IMAX-specific enhancements in recent years to generate interest in and excitement for their films. Such enhancements include shooting select scenes with IMAX cameras to increase the audience s immersion in the film and taking advantage of the unique dimensions of the IMAX screen by projecting the film in a larger aspect ratio. In addition, the upcoming films Marvel s *Avengers: Infinity War* and the *Untitled Avenger Sequel* are expected to be shot in their entireties using IMAX cameras.

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

The Company believes that the growth in international box office remains an important driver of future growth for the Company. During the three months ended March 31, 2018, 65.1% of the Company s gross box office from IMAX DMR films was generated in international markets, as compared to 64.7% in the three months ended March 31, 2017. To support continued growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company s film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets (particularly in China). During 2017, 22 local language IMAX DMR films, including 15 in China, three in Russia, three in Japan and one in India were released to the IMAX theater network. During the three months ended March 31, 2018, four local language IMAX DMR films, including three in China and one in India, were released to the IMAX theater network. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in the remainder of 2018 and beyond.

In addition to the 14 IMAX DMR films released to the IMAX theater network during the three months ended March 31, 2018, 19 additional IMAX DMR films have been announced so far to be released in the remainder of 2018:

Taxi 5: The IMAX *Experience* (EuropaCorp., April 2018, France only);

Rampage: The IMAX *Experience* (Warner Bros. Pictures, April 2018);

Avengers: Infinity War: The IMAX *Experience* (Walt Disney Studios, April 2018);

A or B: The IMAX *Experience* (UEP, April 2018, China only);

Deadpool 2: The IMAX *Experience* (20th Century Fox, May 2018);

Solo: A Star Wars Story: The IMAX *Experience* (Walt Disney Studios, May 2018);

The Incredibles 2: The IMAX *Experience* (Walt Disney Studios, June 2018);

Jurassic World: Fallen Kingdom: The IMAX *Experience* (Universal Pictures, June 2018);

Ant-Man and the Wasp: The IMAX *Experience* (Walt Disney Studios, June 2018, US markets July 2018);

Mission Impossible: Fallout: The IMAX *Experience* (Paramount Pictures, July 2018);

The Meg: The IMAX *Experience* (Warner Bros. Pictures, August 2018);

The Nun: The IMAX *Experience* (Warner Bros. Pictures, September 2018);

The Predator: The IMAX *Experience* (20th Century Fox, September 2018);

Venom: The IMAX *Experience* (Sony Pictures Entertainment, October 2018);

First Man: The IMAX *Experience* (Universal Pictures, October 2018);

Fantastic Beasts: The Crimes of Grindelwald: The IMAX Experience (Warner Bros. Pictures, November 2018);

Ralph Breaks the Internet: Wreck-It-Ralph 2: The IMAX *Experience* (Walt Disney Studios, December 2018, select international markets);

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Alita: Battle Angel: The IMAX *Experience* (20th Century Fox, December 2018); and

Aquaman: The IMAX *Experience* (Warner Bros. Pictures, December 2018).

On April 6, 2018, the Company in conjunction with Panda Productions released an IMAX original production, Pandas.

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.

Joint Revenue Sharing Arrangements Contingent Rent

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

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

Under a hybrid joint revenue sharing arrangement, by contrast, the customer is responsible for making upfront payments prior to the delivery and installation of the IMAX theater system in an amount that is typically half of what the Company would receive from a straight sale transaction. As with a traditional joint revenue sharing arrangement, the customer also pays the Company a portion of the customer s IMAX box office receipts over the term of the arrangement, although the percentage of box office receipts owing to the Company is typically half that of a traditional joint revenue sharing arrangement. Hybrid joint revenue sharing arrangements that take the form of leases report their fixed revenues in the Company s theater business operations, while the contingent box office receipts are included in the Company s network business operations in the period they are earned. Hybrid joint revenue sharing arrangements that take the form of sales arrangements, which occur when title is transferred to the customer at transfer of control of the system, record their fixed revenues and an estimate of the ongoing contingent box office revenue in the Company s theater business operations at the point of revenue recognition. Adjustments to the estimated contingent rent flow through theater business operations as they occur over the life of the contracts.

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

The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company s commercial theater network. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box office. The Company funds its joint revenue sharing arrangements through cash flows from operations. As at March 31, 2018, the Company had 718 theaters in operation under joint revenue sharing arrangements, a 10.6% increase as compared to the 649 joint revenue sharing arrangements open as at March 31, 2017. The Company also had contracts in backlog for an additional 351 theaters under joint revenue sharing arrangements as at March 31, 2018.

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

IMAX Systems Contingent Rent

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

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

IMAX Systems

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

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

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

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

Joint Revenue Sharing Arrangements Fixed Fees

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

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Theater System Maintenance

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

Other Theater Revenues

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

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

New Business

The Company continues to explore new lines of business outside of its core business, with a focus on investments in alternative location-based entertainment experiences, and original content.

Virtual Reality

The Company is piloting a comprehensive virtual reality (VR) strategy to develop a premium, location-based VR offering to deliver immersive, multi-dimensional experiences, including entertainment content and games, to branded VR centers (IMAX VR Centers). Pilot IMAX VR Centers are located in a stand-alone venue and in several multiplexes and are retrofitted with proprietary VR pods that permit interactive, moveable VR experiences. The Company s VR initiative is premised on a unique combination of premium content, proprietary design and best-in-class technology.

In 2017, the Company launched its flagship pilot IMAX VR Center in Los Angeles. Since that time, the Company has opened six pilot IMAX VR Centers (two in New York City, one in Toronto, one in Manchester, England, one in Shanghai, China and one in Bangkok, Thailand). The Company continues to evaluate its pilot VR strategy based on several factors including the overall customer experience, pricing models, throughput, types of content featured and differences in geographic areas. At this time, the Company has no intentions to open any additional VR Centers.

The Company also has a virtual reality fund (the VR Fund) among the Company, its subsidiary IMAX China and other strategic investors. The VR Fund will help finance the creation of interactive VR content experiences over the next three years for use across all VR platforms, including in the pilot IMAX VR Centers. The VR Fund recently helped finance the production of one interactive VR experience, which debuted exclusively in the pilot IMAX VR Centers in November 2017 before being made available to other VR platforms. The VR Fund continues to finances other productions of interactive VR experiences as part of its ongoing activities.

Original Content

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

Company shares in the economics across the venture, including in both the theatrical and television platforms. This agreement marks the first time a live-action television series has debuted in this manner, and the first time the Company has an economic interest in a television property.

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

The Company has also created two film funds to help finance the production of original content. The Company is forming the IMAX China Film Fund (the China Film Fund) with its subsidiary IMAX China Holding Inc. (IMAX China), its partner CMC and several other large investors to help fund Mandarin language commercial films. The China Film Fund, which is expected initially to be capitalized with over $80.0 million, will target productions that can leverage the Company s brand, relationships, technology and release

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windows in China. The China Film Fund is expected to co-finance approximately 15 Mandarin-language tent-pole films over three years, and will target contributions of between $3.0 million and $7.0 million per film. The China Film Fund will operate under an IMAX China-CMC controlled greenlight committee.

In addition, the Company s IMAX Original Film Fund (the Original Film Fund) was established in 2014 to co-finance a portfolio of 10 original large format films. The initial investment in the Film Fund was committed to by a third party in the amount of $25.0 million, with the possibility of contributing additional funds. The Company agreed to contribute $9.0 million to the Original Film Fund over five years starting in 2014 and sees the Original Film Fund as a self-perpetuating vehicle designed to generate a continuous flow of high-quality documentary content. As at March 31, 2018, the Original Film Fund has invested $15.5 million toward the development of original films.

IMAX Home Entertainment Technologies and Services

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

Other

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

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

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

IMAX Theater Network and Backlog

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

	2018 Theater Network Base				2017 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	366	4	33	403	351	5	40	396

Canada	38	2	7	47	37	2	7	46
Greater China[1]	532		17	549	416		17	433
Asia (excluding Greater China)	103	1	3	107	95	2	3	100
Western Europe	91	4	10					