IMAX CHINA HOLDING, INC.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1970)

INSIDE INFORMATION
OUR CONTROLLING SHAREHOLDER
IMAX CORPORATION
RELEASED ITS THIRD QUARTER 2016 FINANCIAL RESULTS
AND
ITS QUARTERLY REPORT FOR
THE QUARTERLY PERIOD ENDED 30 SEPTEMBER 2016

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

Our controlling shareholder, IMAX Corporation has, on or about 20 October 2016 (1:25 p.m., New York time), announced its third quarter 2016 financial results and released its quarterly report and results for the quarterly period ended 30 September 2016.

This is an announcement made by IMAX China Holding, Inc. ("**we**" or "**IMAX China**") pursuant to the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571) and Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**HKSE**").

IMAX China's controlling shareholder, IMAX Corporation, is a company listed on the New York Stock Exchange in the United States. As of the date of this announcement, IMAX Corporation beneficially owns 68.22% of the issued share capital of IMAX China.

On or about 20 October 2016 (7:55 a.m., New York time), IMAX Corporation made an announcement regarding its unaudited results for the fiscal quarter ended 30 September 2016 (the "**Earnings Release**"). If you wish to review the Earnings Release, please visit: *http://phx.corporate-ir.net/phoenix.zhtml?c=118725&p=irol-newsArticle_print&ID=2213319#top*. Unless otherwise provided therein, all dollar amounts in the Earnings Release are denominated in U.S. dollars.

On or about 20 October 2016 (1:25 p.m., New York time), IMAX Corporation filed its unaudited quarterly report on the Form 10-Q for the fiscal quarter ended 30 September 2016 (the "**Quarterly Report**") with the United States Securities and Exchange Commission (the "**SEC**"), in accordance with the ongoing disclosure obligations applicable to the companies listed on the New York Stock Exchange. If you wish to review the Quarterly Report as filed with the SEC, please visit: *https://www.sec.gov/Archives/edgar/data/921582/000119312516742556/d266227d10q.htm*. Unless otherwise provided therein, all dollar amounts in the Quarterly Report are denominated in United States dollars.

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

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

IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	**$ 218,104**	$ 317,449
Accounts receivable, net of allowance for doubtful accounts of $1,026 (December 31, 2015 — $1,146)	**89,247**	97,981
Financing receivables	**118,897**	117,231
Inventories	**51,015**	38,753
Prepaid expenses	**11,603**	6,498
Film assets	**15,165**	14,571
Property, plant and equipment	**233,984**	218,267
Other assets	**26,419**	26,136
Deferred income taxes	**26,233**	26,666
Other intangible assets	**29,605**	28,950
Goodwill	**39,027**	39,027
Total assets	**$ 859,299**	$ 931,529
Liabilities		
Bank indebtedness	**$ 27,806**	$ 29,276
Accounts payable	**16,733**	23,455
Accrued and other liabilities	**90,485**	95,748
Deferred revenue	**97,220**	104,993
Total liabilities	**232,244**	253,472

	September 30, 2016	December 31, 2015
Commitments and contingencies		
Non-controlling interests	**2,693**	3,307
Shareholders' equity		
Capital stock common shares — no par value. Authorized — unlimited number. 66,813,963 — issued and 66,813,787 — outstanding (December 31, 2015 — 69,673,244 — issued and outstanding)	**435,829**	448,310
Less: Treasury stock held in trust, 176 shares at cost	**(6)**	—
Other equity	**180,358**	168,425
Accumulated (deficit) earnings	**(43,816)**	15,499
Accumulated other comprehensive loss	**(4,562)**	(7,443)
Total shareholders' equity attributable to common shareholders	**567,803**	624,791
Non-controlling interests	**56,559**	49,959
Total shareholders' equity	**624,362**	674,750
Total liabilities and shareholders' equity	**$ 859,299**	$ 931,529

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended September 30, **2016**	Three Months Ended September 30, 2015	Nine Months Ended September 30, **2016**	Nine Months Ended September 30, 2015
Revenues				
Equipment and product sales	**$ 30,835**	$ 33,083	**$ 81,064**	$ 72,824
Services	**37,195**	33,024	**122,853**	115,698
Rentals	**16,007**	16,665	**58,538**	59,006
Finance income	**2,288**	2,329	**6,991**	6,803
Other	**225**	—	**975**	141
	86,550	85,101	**270,421**	254,472
Costs and expenses applicable to revenues				
Equipment and product sales	**15,690**	21,949	**49,075**	43,010
Services	**20,393**	15,899	**58,517**	50,201
Rentals	**5,504**	4,864	**15,367**	13,856
Other	**64**	—	**110**	—
	41,651	42,712	**123,069**	107,067
Gross margin	**44,899**	42,389	**147,352**	147,405
Selling, general and administrative expenses (including share-based compensation expense of $7.7 million and $22.5 million for the three and nine months ended September 30, 2016, respectively (2015 — expense of $4.3 million and $14.9 million, respectively))	**30,686**	24,973	**92,706**	82,348
Research and development	**4,460**	2,722	**11,603**	9,611
Amortization of intangibles	**531**	429	**1,537**	1,302
Receivable provisions, net of recoveries	**275**	361	**631**	709
Asset impairments	**1,223**	245	**1,223**	245
Impairment of investments	**—**	—	**194**	350
Income from operations	**7,724**	13,659	**39,458**	52,840
Interest income	**370**	222	**1,217**	727
Interest expense	**(469)**	(463)	**(1,325)**	(1,170)
Income from operations before income taxes	**7,625**	13,418	**39,350**	52,397
Provision for income taxes	**(2,551)**	(2,477)	**(9,635)**	(12,408)
Loss from equity-accounted investments, net of tax	**(690)**	(427)	**(2,471)**	(1,610)
Net income	**4,384**	10,514	**27,244**	38,379
Less: net income attributable to non-controlling interests	**(1,859)**	(1,904)	**(7,401)**	(5,028)
Net income attributable to common shareholders	**$ 2,525**	$ 8,610	**$ 19,843**	$ 33,351
Net income per share attributable to common shareholders — basic and diluted:				
Net income per share — basic	**$ 0.04**	$ 0.12	**$ 0.29**	$ 0.47
Net income per share — diluted	**$ 0.04**	$ 0.12	**$ 0.29**	$ 0.46

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Net income	**$ 4,384**	$ 10,514	**$ 27,244**	$ 38,379
Unrealized net (loss) gain from cash flow hedging instruments	**(293)**	(2,309)	**1,865**	(4,983)
Realization of cash flow hedging net loss upon settlement	**572**	1,045	**2,565**	2,196
Foreign currency translation adjustments	**(452)**	(992)	**(1,849)**	(1,162)
Amortization of postretirement benefit plan actuarial loss	**17**	—	**51**	—
Other comprehensive (loss) income, before tax	**(156)**	(2,256)	**2,632**	(3,949)
Income tax (expense) benefit related to other comprehensive (loss) income	**(77)**	558	**(1,166)**	996
Other comprehensive (loss) income, net of tax	**(233)**	(1,698)	**1,466**	(2,953)
Comprehensive income	**4,151**	8,816	**28,710**	35,426
Less: Comprehensive income attributable to non-controlling interests	**(1,717)**	(2,056)	**(5,986)**	(5,192)
Comprehensive income attributable to common shareholders	**$ 2,434**	$ 6,760	**$ 22,724**	$ 30,234

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

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

	Nine Months Ended September 30, 2016	2015
Cash provided by (used in):		
Operating Activities		
Net income	**$ 27,244**	$ 38,379
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	**34,179**	31,191
Write-downs, net of recoveries	**2,903**	2,928
Change in deferred income taxes	**(517)**	5,097
Stock and other non-cash compensation	**22,896**	15,204
Unrealized foreign currency exchange (gain) loss	**(206)**	716
Loss from equity-accounted investments	**2,769**	2,756
Gain on non-cash contribution to equity-accounted investees	**(298)**	(1,146)
Investment in film assets	**(14,162)**	(12,069)
Changes in other non-cash operating assets and liabilities	**(29,504)**	(41,033)
Net cash provided by operating activities	**45,304**	42,023
Investing Activities		
Purchase of property, plant and equipment	**(10,033)**	(38,443)
Investment in joint revenue sharing equipment	**(25,524)**	(20,969)
Investment in new business ventures	**—**	(2,000)
Acquisition of other intangible assets	**(2,931)**	(3,622)
Net cash used in investing activities	**(38,488)**	(65,034)

	Nine Months Ended September 30,	
	2016	2015
Financing Activities		
Increase in bank indebtedness	**—**	17,568
Repayment of bank indebtedness	**(1,500)**	—
Repurchase of common shares	**(100,378)**	(34,279)
Settlement of restricted share units and options	**(8,376)**	(7,859)
Common shares issued — stock options exercised	**7,196**	23,838
Taxes paid on secondary sale and repatriation dividend	**(2,991)**	—
Taxes withheld and paid on employee stock awards vested	**(230)**	(223)
Treasury stock purchased for future settlement of restricted share units	**(6)**	(2,141)
Credit facility amendment fees paid	**—**	(1,310)
Issuance of subsidiary shares to non-controlling interests — private offering	**—**	40,000
Share issuance costs from the issuance of subsidiary shares to non-controlling interests — private offering	**—**	(2,000)
Net cash (used in) provided by financing activities	**(106,285)**	33,594
Effects of exchange rate changes on cash	**124**	275
(Decrease) increase in cash and cash equivalents during period	**(99,345)**	10,858
Cash and cash equivalents, beginning of period	**317,449**	106,503
Cash and cash equivalents, end of period	**$ 218,104**	$ 117,361

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

IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. Basis of Presentation

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

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

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

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

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

3. Financing Receivables

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

	September 30, 2016	December 31, 2015
Gross minimum lease payments receivable	$ 11,341	$ 13,998
Unearned finance income	(1,826)	(2,381)
Minimum lease payments receivable	9,515	11,617
Accumulated allowance for uncollectible amounts	(672)	(672)
Net investment in leases	8,843	10,945
Gross financed sales receivables	148,358	146,232
Unearned finance income	(37,661)	(39,378)
Financed sales receivables	110,697	106,854
Accumulated allowance for uncollectible amounts	(643)	(568)
Net financed sales receivables	110,054	106,286
Total financing receivables	$ 118,897	$ 117,231
Net financed sales receivables due within one year	$ 21,260	$ 19,068
Net financed sales receivables due after one year	$ 88,794	$ 87,218

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

4. Inventories

	September 30, 2016	December 31, 2015
Raw materials	$ 32,662	$ 25,750
Work-in-process	4,215	2,628
Finished goods	14,138	10,375
	$ 51,015	$ 38,753

At September 30, 2016, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to $5.1 million (December 31, 2015 — $5.4 million).

During the three and nine months ended September 30, 2016, the Company had write-downs for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of a recovery of less than $0.1 million and an expense of $0.2 million, respectively (2015 — recovery of $0.1 million and expense of $0.4 million, respectively).

5. Property Plant and Equipment

	As at September 30, 2016		
	Cost	**Accumulated Depreciation**	**Net Book Value**
Equipment leased or held for use			
Theater system components	**$ 216,670**	**$ 86,219**	**$ 130,451**
Camera equipment	**5,902**	**3,750**	**2,152**
	222,572	**89,969**	**132,603**
Assets under construction	**14,890**	**—**	**14,890**
Other property, plant and equipment			
Land	**8,203**	**—**	**8,203**
Buildings	**68,974**	**14,306**	**54,668**
Office and production equipment	**40,587**	**21,237**	**19,350**
Leasehold improvements	**7,159**	**2,889**	**4,270**
	124,923	**38,432**	**86,491**
	$ 362,385	**$ 128,401**	**$ 233,984**

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

8. Contingencies and Guarantees

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

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

(a) In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd., the Company's majority-owned subsidiary in China, received notice from the Shanghai office of the General Administration of Customs that it had been selected for a customs audit. In the third quarter of 2016, IMAX (Shanghai) Multimedia Technology Co., Ltd put forth a proposal to the Shanghai office of the General Administration of Customs in an attempt to resolve the audit issue of what costs should be subject to duties and taxes on importation into China. As a result of the proposal, the Company has accrued $1.6 million as at September 30, 2016, of which $0.8 million is recorded in costs and expenses applicable to revenues and $0.8 million is recorded in property, plant and equipment. An additional $1.8

million will be paid to the authorities as value-added tax, which local management believes is collectible in the form of future input tax credits, and therefore has been presented as a net balance of $nil in Accrued and other liabilities as at September 30, 2016. The Company is unable to assess any other potential impact of the customs audit, if any, at this time.

9. Condensed Consolidated Statements of Operations Supplemental Information

(a) Selling Expenses

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to revenues-equipment and product sales, totaled $1.3 million and $3.0 million for the three and nine months ended September 30, 2016, respectively (2015 — $1.3 million and $2.8 million, respectively).

Film exploitation costs, including advertising and marketing, totaled $4.8 million and $13.8 million for the three and nine months ended September 30, 2016, respectively (2015 — $3.4 million and $8.2 million, respectively) and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled $0.6 million and $0.9 million for the three and nine months ended September 30, 2016, respectively (2015 — $0.3 million and $0.5 million, respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled an expense of $0.4 million and $1.0 million for the three and nine months ended September 30, 2016, respectively (2015 — $0.6 million and $1.2 million, respectively).

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three and nine months ended September 30, 2016 is a loss of $0.2 million and a loss of $0.1 million, respectively (2015 — loss of $0.5 million and a loss of $1.5 million, respectively), for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 15(d) for additional information.

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

In a joint revenue sharing arrangement, the Company receives a portion of a theater's box-office and concession revenues, and in some cases a small upfront or initial payment, in exchange for placing a theater system at the theater operator's venue. Under joint revenue sharing arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer.

The Company's joint revenue sharing arrangements are typically non-cancellable for 10 years or longer with renewal provisions. Title to equipment under joint revenue sharing arrangements generally does not transfer to the customer. The Company's joint revenue sharing arrangements do not contain a guarantee of residual value at the end of the term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Company for maintenance and extended warranty throughout the term. The customer is responsible for obtaining insurance coverage for the theater systems commencing on the date specified in the arrangement's shipping terms and ending on the date the theater systems are delivered back to the Company.

The Company has signed joint revenue sharing agreements with 49 exhibitors for a total of 981 theater systems, of which 592 theaters were operating as at September 30, 2016, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m) of the Company's 2015 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Equipment and Product Sales and Rentals revenue and for the three and nine months ended September 30, 2016 amounted to $19.7 million and $66.9 million, respectively (2015 — $19.8 million and $67.3 million, respectively).

IMAX DMR

In an IMAX DMR arrangement, the Company transforms conventional motion pictures into the Company's large screen format, allowing the release of Hollywood content to the global IMAX theater network. In a typical IMAX DMR film arrangement, the Company will absorb its costs for the digital re-mastering and then recoup this cost from a percentage of the net box-office receipts of the film, which in recent years has ranged from 10–15%. The Company does not typically hold distribution rights or the copyright to these films.

For the nine months ended September 30, 2016, the majority of IMAX DMR revenue was earned from the exhibition of 48 IMAX DMR films (2015 — 48) throughout the IMAX theater network. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2015 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and nine months ended September 30, 2016 amounted to $21.6 million and $78.8 million, respectively (2015 — $20.9 million and $75.1 million, respectively).

10. Condensed Consolidated Statements of Cash Flows Supplemental Information

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

	Nine Months Ended September 30, 2016	2015
Decrease (increase) in:		
Accounts receivable	**$ 6,571**	$ (12,048)
Financing receivables	**(1,145)**	(9,932)
Inventories	**(12,508)**	(18,904)
Prepaid expenses	**(5,105)**	(2,159)
Commissions and other deferred selling expenses	**285**	(206)
Insurance recoveries	**132**	28
Other assets	**(1,299)**	(2,388)
Increase (decrease) in:		
Accounts payable	**(6,616)**	4,212
Accrued and other liabilities	**(1,991)**	(17,528)
Deferred revenue	**(7,828)**	17,892
	$ (29,504)	$ (41,033)

(b) Cash payments made on account of:

	Nine Months Ended September 30, 2016	2015
Income taxes	**$ 20,822**	$ 21,542
Interest	**$ 541**	$ 302

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

	Nine Months Ended September 30, 2016	2015
Film assets	**$ 11,842**	$ 11,917
Property, plant and equipment		
Joint revenue sharing arrangements	**11,581**	10,043
Other property, plant and equipment	**7,355**	5,635
Other intangible assets	**2,368**	2,354
Other assets	**631**	579
Deferred financing costs	**402**	663
	$ 34,179	$ 31,191

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

	Nine Months Ended September 30, 2016	2015
Accounts receivable	**$ 556**	$ 709
Financing receivables	**75**	—
Inventories	**246**	405
Film assets	**1,000**	—
Property, plant and equipment	**792**	1,464
Impairment of investments	**194**	350
Other intangible assets	**40**	—
	$ 2,903	$ 2,928

11. Income Taxes

(a) Income Taxes

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

As at September 30, 2016, the Company had net deferred income tax assets after valuation allowance of $26.2 million (December 31, 2015 — $26.7 million), which consists of a gross deferred income tax asset of $26.5 million (December 31, 2015 — $27.0 million), against which the Company is carrying a $0.3 million valuation allowance (December 31, 2015 — $0.3 million).

ASU 2016-09, related to stock-based compensation, was issued in March 2016 and early adopted by the Company in June 2016. ASU 2016-09 eliminates additional paid in capital ("**APIC**") pools and requires excess tax benefits and tax deficiencies to be recorded in the condensed consolidated statements of operations when the awards vest or are settled. Amendments related to accounting for excess tax benefits have been adopted prospectively resulting in a tax benefit of $nil and $0.1 million for the three and nine months ended September 30, 2016, respectively. In addition, modified retrospective adoption of ASC 2016-09 eliminates the requirement that excess tax benefits be realized before they can be recognized. The Company has also recorded a cumulative-effect adjustment of $0.9 million to Accumulated earnings and Deferred income taxes related to the impact from adoption of the provisions related to forfeiture rates. See Notes 2 and 12 for further discussion of the impact from the adoption of ASU 2016-09.

12. Capital Stock

(a) Stock-Based Compensation

The compensation costs recorded in the condensed consolidated statements of operations for the Company's stock-based compensation plans were $7.7 million and $22.5 million for the three and nine months ended September 30, 2016, respectively (2015 — $4.3 million and $14.9 million, respectively).

As at September 30, 2016, the Company has reserved a total of 12,467,960 (December 31, 2015 — 7,023,258) common shares for future issuance under the Company's Stock Option Plan ("**SOP**") and the IMAX Corporation Amended and Restated Long-Term Incentive Plan ("**IMAX LTIP**"). Of the common shares reserved for issuance, there are options in respect of 5,473,673 common shares and restricted share units ("**RSUs**") in respect of 1,140,138 common shares outstanding at September 30, 2016. At September 30, 2016, options in respect of 3,924,432 common shares were vested and exercisable.

Stock Option Plan

The Company recorded an expense of $3.4 million and $9.4 million for the three and nine months ended September 30, 2016, respectively (2015 — $2.3 million and $8.4 million, respectively) related to stock option grants issued to employees and directors in the IMAX LTIP and SOP plans. An income tax benefit is recorded in the condensed consolidated statements of operations of $0.9 million and $2.4 million for the three and nine months ended September 30, 2016, respectively (2015 — $0.5 million and $1.8 million, respectively), for these costs.

The weighted average fair value of all stock options granted to employees and directors for the three and nine months ended September 30, 2016 at the grant date was $7.80 and $8.16 per share, respectively (2015 — n/a and $8.07 per share, respectively). The following assumptions were used to estimate the average fair value of the stock options:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	2015	**2016**	2015
Average risk-free interest rate	**1.44%**	n/a	**1.67%**	1.97%
Expected option life (in years)	**4.44–4.88**	n/a	**4.44–5.24**	3.55–5.76
Expected volatility	**30%**	n/a	**30%**	30%
Dividend yield	**0%**	n/a	**0%**	0%

Stock options to Non-Employees

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

As at September 30, 2016, non-employee stock options outstanding amounted to 28,750 stock options (2015 — 39,500) with a weighted average exercise price of $26.90 per share (2015 — $26.78 per share). 26,950 stock options (2015 — 21,525) were exercisable with an average weighted exercise price of $26.97 per share (2015 — $26.34 per share) and the vested stock options have an aggregate intrinsic value of $0.1 million (2015 — $0.2 million).

For the three and nine months ended September 30, 2016, the Company recorded an expense of less than $0.1 million and a recovery less than $0.1 million, respectively (2015 — expense of less than $0.1 million and $0.1 million, respectively) to cost and expenses related to revenues — services and selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is an accrual of less than $0.1 million for non-employee stock options (December 31, 2015 — less than $0.1 million).

China Long Term Incentive Plan ("**China LTIP**")

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

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

Pursuant to their terms, upon the occurrence of a qualified initial public offering or upon a change in control on or prior to the fifth anniversary of the grant date, the 186,446 Tandem Options issued would forfeit immediately and the related charge would be reversed. As a result of the IMAX China IPO on October 8, 2015, the 186,446 Tandem Options with an average price of $23.70 per share were forfeited immediately. The Company recorded a recovery of $0.6 million in 2015 related to the forfeiture of Tandem Options issued under the Company's SOP and IMAX LTIP. During the three and nine months ended September 30, 2015, the Company recorded an expense of $0.1 million and $0.3 million, respectively, related to the Tandem Options.

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

In connection with the IMAX China IPO and in accordance with the China LTIP, IMAX China adopted a post-IPO share option plan and a post-IPO restricted stock unit plan. Pursuant to these plans, IMAX China issued additional China Options and China LTIP Restricted Share Units ("**China RSUs**") during the nine months ended September 30, 2016. No additional China Options and China RSUs were issued for the three months ended September 30, 2016.

During the three and nine months ended September 30, 2016, the Company recorded an expense related to the China Options, China RSUs and CSSBPs of $0.2 million and $0.7 million, $0.1 million and $0.4 million and $0.1 million and $0.3 million, respectively. The liability recognized with respect to the CSSBPs as at September 30, 2016 was $0.7 million (December 31, 2015 — $0.4 million).

Stock Option Summary

The following table summarizes certain information in respect of option activity under the SOP and IMAX LTIP for the nine month periods ended September 30:

	Number of Shares		**Weighted Average Exercise Price Per Share**	
	2016	2015	**2016**	2015
Options outstanding, beginning of period	**4,805,244**	5,925,660	**$ 27.03**	$ 24.24
Granted	**984,452**	871,431	**31.49**	31.56
Exercised	**(268,516)**	(1,231,964)	**20.54**	19.35
Forfeited	**(45,024)**	(45,474)	**28.03**	28.26
Cancelled	**(2,483)**	—	**33.80**	—
Options outstanding, end of period	**5,473,673**	5,519,653	**28.14**	26.45
Options exercisable, end of period	**3,924,432**	3,195,836	**27.34**	25.14

The Company cancelled 2,483 stock options from its IMAX LTIP surrendered by a Company employee during the three and nine months ended September 30, 2016, respectively (2015 — nil and nil, respectively). No stock options were cancelled from its SOP surrendered by Company employees during the three and nine months ended September 30, 2016 and 2015.

As at September 30, 2016, options that are exercisable have an intrinsic value of $9.7 million and a weighted average remaining contractual life of 3.9 years. The intrinsic value of options exercised in the three and nine months ended September 30, 2016 was $0.5 million and $3.2 million, respectively (2015 — $1.2 million and $21.4 million, respectively).

Restricted Share Units

RSUs have been granted to employees, consultants and directors under the IMAX LTIP. Each RSU represents a contingent right to receive one common share and is the economic equivalent of one common share. The grant date fair value of each RSU is equal to the share price of the Company's stock at the grant date. The Company recorded an expense of $3.9 million and $11.6 million for the three and nine months ended September 30, 2016, respectively (2015 — $1.9 million and $6.2 million, respectively), related to RSU grants issued to employees and directors in the plan. In addition, the Company recorded an expense of $nil and $nil for the three and nine months ended September 30, 2016, respectively (2015 — less than $0.1 million and less than $0.1 million, respectively), related to RSU grants issued to certain advisors and strategic partners of the Company.

During the three and nine months ended September 30, 2016, in connection with the vesting of RSUs, the Company settled 27,416 and 271,032, respectively (2015 — 32,345 and 192,077, respectively) common shares to IMAX LTIP participants, of which 21,871 and 50,167, respectively (2015 — nil and 21,709, respectively) common shares, net of shares withheld for tax withholdings of 5,328 and 8,836, respectively (2015 — 5,763 and 5,981, respectively) were issued from treasury and 217 and 212,029, respectively (2015 — 26,582 and 164,387, respectively) common shares were settled through the open market purchases by the IMAX LTIP trustee.

Total stock-based compensation expense related to non-vested RSUs not yet recognized at September 30, 2016 and the weighted average period over which the awards are expected to be recognized is $26.8 million and 2.4 years, respectively (2015 — $16.4 million and 3.0 years, respectively). The Company's actual tax benefits realized for the tax deductions related to the vesting of RSUs was $0.3 million and $2.6 million for the three and nine months ended September 30, 2016, respectively (2015 — $0.4 million and $2.0 million, respectively).

Historically, RSUs granted under the IMAX LTIP have vested between immediately and four years from the grant date. In connection with the amendment and restatement of the IMAX LTIP at the Company's annual and special meeting of shareholders on June 6, 2016, the IMAX LTIP plan was amended to impose a minimum one-year vesting period on future RSU grants, with a carve-out for 300,000 RSUs that may vest on a shorter schedule. Vesting of the RSUs is subject to continued employment or service with the Company.

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

	Number of Awards			Weighted Average Grant Date Fair Value Per Share		
	2016	2015		**2016**		2015
RSUs outstanding, beginning of period	**973,637**	595,834	**$**	**32.27**	$	27.13
Granted	**465,968**	337,557		**31.70**		34.39
Vested and settled	**(271,032)**	(192,077)		**29.30**		28.93
Forfeited	**(28,435)**	(19,499)		**30.78**		29.37
RSUs outstanding, end of period	**1,140,138**	721,815		**32.78**		29.99

As at September 30, 2016, the IMAX LTIP trustee held 176 shares purchased for less than \$0.1 million in the open market to be issued upon the settlement of RSUs. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock on the condensed consolidated balance sheet.

Impact of Stock-based Compensation Accounting Standard Update

ASU 2016-09, related to stock-based compensation, was issued in March 2016 and early adopted in June 2016. ASU 2016-09 eliminates the requirement to estimate and apply a forfeiture rate to reduce stock compensation expense during the vesting period and, instead, account for forfeitures as they occur. ASU 2016-09 requires that this change be adopted using the modified retrospective approach. The impact from the adoption of the provisions related to forfeiture rates was reflected on a modified retrospective basis resulting in a balance sheet reclass of \$4.4 million decrease to Accumulated earnings, \$0.9 million increase to Deferred income taxes and \$5.3 million increase to Other equity. An increase in APIC and a reduction in stock-based compensation expense of \$2.7 million for the nine month period ended September 30, 2016 was also recorded. Additionally, ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the condensed consolidated statement of cash flows. The Company is required to present excess tax benefits as an operating activity on the condensed consolidated statement of cash flows, which is where the Company previously classified these items. ASU 2016-09 also requires the presentation of employee taxes as a financing activity on the condensed consolidated statement of cash flows. This change was reflected in the condensed consolidated statement of cash flows retrospectively. See Notes 2 and 11 for further discussion of the impact from the adoption of ASU 2016-09.

(b) Income Per Share

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

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	**Nine Months Ended September 30, 2016**	Nine Months Ended September 30, 2015
Net income attributable to common shareholders	**$ 2,525**	$ 8,610	**$ 19,843**	$ 33,351
Less: Accretion charges associated with redeemable common stock	**—**	(263)	**—**	(747)
Net income applicable to common shareholders	**$ 2,525**	$ 8,347	**$ 19,843**	$ 32,604
Weighted average number of common shares (000's):				
Issued and outstanding, beginning of period	**67,067**	70,152	**69,673**	68,988
Weighted average number of shares issued (repurchased) during the period	**23**	(453)	**(1,620)**	594
Weighted average number of shares used in computing basic income per share	**67,090**	69,699	**68,053**	69,582
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	**656**	1,161	**668**	1,520
Weighted average number of shares used in computing diluted income per share	**67,746**	70,860	**68,721**	71,102

The calculation of diluted earnings per share excludes 2,570,983 and 2,834,896 shares, respectively that are issuable upon the vesting of 19,530 and 283,443 RSUs, respectively and the exercise of 2,551,453 and 2,551,453 stock options, respectively for the three and nine months ended September 30, 2016, as the impact would be antidilutive. The calculation of diluted earnings per share excludes 1,473,950 and 1,067,859 shares, respectively that are issuable upon the vesting of nil and 61,534 RSUs, respectively and the exercise of 1,473,950 and 1,006,325 stock options, respectively for the three and nine months ended September 30, 2015, as the impact would be antidilutive.

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

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

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

Balance as at December 31, 2015	$	624,791
Net income attributable to common shareholders		19,843
Adjustments to capital stock:		
Cash received from the issuance of common shares		5,514
Issuance of common shares for vested RSUs		1,121
Fair value of stock options exercised at the grant date		2,104
Average carrying value of repurchased and retired common shares		(21,220)
Share held in treasury		(6)
Adjustments to other equity:		
Employee stock options granted		10,092
Non-employee stock options granted and vested		30
Fair value of stock options exercised at the grant date		(2,104)
RSUs granted		12,242
RSUs vested		(8,793)
Stock exercised from treasury shares		(1,216)
Cash received from the issuance of common shares in excess of par value		1,682
Adjustments to accumulated deficit:		
Common shares repurchased and retired		(79,158)
Adjustments to accumulated other comprehensive loss:		
Unrealized net gain from cash flow hedging instruments		1,865
Realization of cash flow hedging net loss upon settlement		2,565
Foreign currency translation adjustments		(434)
Amortization of actuarial loss on postretirement benefit plan		51
Tax effect of movement in other comprehensive loss		(1,166)
Balance as at September 30, 2016	$	567,803

13. Segmented Information

The Company has seven reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; and other. The IMAX systems segment includes the design, manufacture, sale or lease of IMAX theater projection system equipment. The theater system maintenance segment includes the maintenance of IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment includes the provision of IMAX theater projection system equipment to an exhibitor in exchange for a share of the box-office and concession revenues. The film production and IMAX DMR segment includes the production of films and the performance of film re-mastering services. The film distribution segment includes the distribution of films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The Company refers to all theaters using the IMAX theater system as "IMAX theaters". The other segment includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2015 Form 10-K.

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

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

Transactions among the other segments are not significant.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Revenue[1]				
IMAX theater systems				
IMAX systems	**$ 25,687**	$ 30,153	**$ 70,508**	$ 64,632
Theater system maintenance	**10,293**	9,337	**30,031**	27,345
Joint revenue sharing arrangements	**19,698**	19,797	**66,940**	67,259
	55,678	59,287	**167,479**	159,236
Films				
Production and IMAX DMR	**21,549**	20,865	**78,767**	75,144
Distribution	**2,092**	967	**3,345**	3,513
Post-production	**2,327**	761	**6,436**	5,259
	25,968	22,593	**88,548**	83,916
Other	**4,904**	3,221	**14,394**	11,320
Total	**$ 86,550**	$ 85,101	**$ 270,421**	$ 254,472
Gross margin				
IMAX theater systems				
IMAX systems[2]	**$ 16,743**	$ 13,109	**$ 38,252**	$ 34,831
Theater system maintenance	**3,398**	3,521	**10,207**	9,891
Joint revenue sharing arrangements[2]	**10,980**	12,130	**44,716**	46,816
	31,121	28,760	**93,175**	91,538
Films				
Production and IMAX DMR[2]	**12,448**	13,929	**52,398**	55,642
Distribution[2]	**258**	15	**(998)**	(201)
Post-production	**1,003**	(48)	**3,028**	847
	13,709	13,896	**54,428**	56,288
Other	**69**	(267)	**(251)**	(421)
Total	**$ 44,899**	$ 42,389	**$ 147,352**	$ 147,405

(1) The Company's largest customer represented 11.2% and 14.3% of total revenues for the three and nine months ended September 30, 2016, respectively (2015 — 17.6% and 17.4%, respectively).

(2) IMAX systems include marketing and commission costs of $0.8 million and $1.9 million for the three and nine months ended September 30, 2016, respectively (2015 — $0.9 million and $1.8 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of $1.4 million and $2.9 million for the three and nine months ended September 30, 2016, respectively (2015 — $1.3 million and $2.7 million, respectively). Production and DMR segment margins include marketing costs of $4.2 million and $11.7 million for the three and nine months ended September 30, 2016, respectively (2015 — $3.4 million and $8.3 million, respectively). Distribution segment margins include marketing expense of $0.6 million and $2.1 million for the three and nine months ended September 30, 2016, respectively (2015 — cost recovery of less than $0.1 million and cost recovery of $0.1 million, respectively).

Geographic Information

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	2015	**2016**	2015
Revenue				
United States	**$ 28,139**	$ 27,914	**$ 96,276**	$ 95,945
Canada	**2,368**	3,412	**9,992**	8,440
Greater China	**29,736**	27,513	**84,797**	71,427
Asia (excluding Greater China)	**10,665**	11,007	**25,034**	26,732
Western Europe	**6,140**	7,100	**26,522**	24,139
Russia & the CIS	**2,397**	1,705	**7,684**	9,510
Latin America	**1,408**	2,459	**8,562**	7,849
Rest of the World	**5,697**	3,991	**11,554**	10,430
Total	**$ 86,550**	$ 85,101	**$ 270,421**	$ 254,472

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

15. Financial Instruments

(a) Financial Instruments

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

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

(b) Fair Value Measurements

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

	As at September 30, 2016		As at December 31, 2015	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	**$ 218,104**	**$ 218,104**	$ 317,449	$ 317,449
Net financed sales receivable	**$ 110,054**	**$ 110,260**	$ 106,286	$ 108,184
Net investment in sales-type leases	**$ 8,843**	**$ 9,142**	$ 10,945	$ 11,154
Available-for-sale investment	**$ 1,000**	**$ 1,012**	$ 1,000	$ 997
Convertible loan receivable	**$ 1,000**	**$ 1,000**	$ —	$ —
Foreign exchange contracts				
— designated forwards	**$ 7**	**$ 7**	$ (4,423)	$ (4,423)
Borrowings under the Playa Vista Loan	**$ (28,167)**	**$ (28,167)**	$ (29,667)	$ (29,667)

Cash and cash equivalents are comprised of cash and interest-bearing investments with original maturity dates of 90 days or less. Cash and cash equivalents are recorded at cost, which approximates fair value (Level 1 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2016 and December 31, 2015, respectively.

The estimated fair values of the net financed sales receivable and net investment in sales-type leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2016 and December 31, 2015, respectively.

The fair value of the Company's available-for-sale investment is determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2016 and December 31, 2015, respectively.

There were no significant transfers between Level 1 and Level 2 during the nine months ended September 30, 2016 or 2015. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

There were no transfers in or out of the Company's level 3 assets during the nine months ended September 30, 2016.

(c) Financing Receivables

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

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

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

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

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

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

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

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

	As at September 30, 2016			As at December 31, 2015		
	Minimum Lease Payments	**Financed Sales Receivables**	**Total**	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	**$ 7,974**	**$ 108,375**	**$ 116,349**	$ 10,252	$ 105,352	$ 115,604
Pre-approved transactions	**—**	**1,387**	**1,387**	—	757	757
Transactions suspended	**1,541**	**935**	**2,476**	1,365	745	2,110
	$ 9,515	**$ 110,697**	**$ 120,212**	$ 11,617	$ 106,854	$ 118,471

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

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

	As at September 30, 2016		As at December 31, 2015	
	Recorded Investment	**Related Allowance**	Recorded Investment	Related Allowance
Net investment in leases	**$ 1,541**	**$ (672)**	$ 1,365	$ (672)
Net financed sales receivables	**935**	**(643)**	745	(568)
Total	**$ 2,476**	**$ (1,315)**	$ 2,110	$ (1,240)

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 September 30, 2016							
	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	**$ 84**	**$ 81**	**$ 771**	**$ 936**	**$ 8,579**	**$ 9,515**	**$ (672)**	**$ 8,843**
Net financed sales receivables	**2,038**	**883**	**2,489**	**5,410**	**105,287**	**110,697**	**(643)**	**110,054**
Total	**$ 2,122**	**$ 964**	**$ 3,260**	**$ 6,346**	**$ 113,866**	**$ 120,212**	**$ (1,315)**	**$ 118,897**

	As at December 31, 2015							
	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	$ 840	$ 177	$ 446	$ 1,463	$ 10,154	$ 11,617	$ (672)	$ 10,945
Net financed sales receivables	908	1,013	1,177	3,098	103,756	106,854	(568)	106,286
Total	$ 1,748	$ 1,190	$ 1,623	$ 4,561	$ 113,910	$ 118,471	$ (1,240)	$ 117,231

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

	As at September 30, 2016						
	Accrued and Current	**30–89 Days**	**90+ Days**	**Billed Financing Receivables**	**Related Unbilled Recorded Investment**	**Related Allowance**	**Recorded Investment Past Due and Accruing**
Net investment in leases	**$ 12**	**$ 53**	**$ 315**	**$ 380**	**$ 2,424**	**$ —**	**$ 2,804**
Net financed sales receivables	**546**	**522**	**2,463**	**3,531**	**23,103**	**—**	**26,634**
Total	**$ 558**	**$ 575**	**$ 2,778**	**$ 3,911**	**$ 25,527**	**$ —**	**$ 29,438**

	As at December 31, 2015						
	Accrued and Current	30–89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due and Accruing
Net investment in leases	$ 41	$ 47	$ 205	$ 293	$ 1,076	$ —	$ 1,369
Net financed sales receivables	129	224	839	1,192	10,795	—	11,987
Total	$ 170	$ 271	$ 1,044	$ 1,485	$ 11,871	$ —	$ 13,356

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

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

For the Three Months Ended September 30, 2015	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net financed sales receivables	$ 525	$ 53	$ (494)	$ 525	$ —
Recorded investment for which there is no related allowance:					
Net financed sales receivables	—	—	—	—	—
Total recorded investment in impaired loans:					
Net financed sales receivables	$ 525	$ 53	$ (494)	$ 525	$ —

For the Nine Months Ended September 30, 2016	**Recorded Investment**	**Unpaid Principal**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
Recorded investment for which there is a related allowance:					
Net financed sales receivables	**$ 748**	**$ 269**	**$ (643)**	**$ 674**	**$ —**
Recorded investment for which there is no related allowance:					
Net financed sales receivables	**—**	**—**	**—**	**—**	**—**
Total recorded investment in impaired loans:					
Net financed sales receivables	**$ 748**	**$ 269**	**$ (643)**	**$ 674**	**$ —**

	For the Nine Months Ended September 30, 2015				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net financed sales receivables	$ 525	$ 53	$ (494)	$ 525	$ —
Recorded investment for which there is no related allowance:					
Net financed sales receivables	—	—	—	—	—
Total recorded investment in impaired loans:					
Net financed sales receivables	$ 525	$ 53	$ (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 September 30, 2016		**Nine Months Ended September 30, 2016**	
	Net Investment in Leases	**Net Financed Sales Receivables**	**Net Investment in Leases**	**Net Financed Sales Receivables**
Allowance for credit losses:				
Beginning balance	**$ 672**	**$ 643**	**$ 672**	**$ 568**
Charge-offs	**—**	**—**	**—**	**—**
Recoveries	**—**	**—**	**—**	**—**
Provision	**—**	**—**	**—**	**75**
Ending balance	**$ 672**	**$ 643**	**$ 672**	**$ 643**
Ending balance: individually evaluated for impairment	**$ 672**	**$ 643**	**$ 672**	**$ 643**
Financing receivables:				
Ending balance: individually evaluated for impairment	**$ 9,515**	**$ 110,697**	**$ 9,515**	**$ 110,697**

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
Allowance for credit losses:				
Beginning balance	$ 972	$ 494	$ 972	$ 494
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Provision	—	—	—	—
Ending balance	$ 972	$ 494	$ 972	$ 494
Ending balance: individually evaluated for impairment	$ 972	$ 494	$ 972	$ 494
Financing receivables:				
Ending balance: individually evaluated for impairment	$ 12,032	$ 103,418	$ 12,032	$ 103,418

16. Non-Controlling Interests

(a) IMAX China Non-Controlling Interest

On April 8, 2014, the Company announced sale and issuance of 20% of the shares of IMAX China to entities owned and controlled by CMC Capital Partners ("**CMC**"), an investment fund that is focused on media and entertainment, and FountainVest Partners ("**FountainVest**"), a China-focused private equity firm. The sale price for the interest was $80.0 million, and was paid by the investors in two equal installments on April 8, 2014 and February 10, 2015.

On October 8, 2015, IMAX China completed the IMAX China IPO. Following the IMAX China IPO, the Company continues to indirectly own approximately 68.5% of IMAX China, which remains a consolidated subsidiary of the Company.

The following summarizes the movement of the non-controlling interest in shareholders' equity, in the Company's subsidiary for the nine months ended September 30, 2016:

Balance as at December 31, 2015	$ 49,959
Net income	8,015
Other comprehensive loss	(1,415)
Balance as at September 30, 2016	$ 56,559

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

OVERVIEW

IMAX Corporation, together with its consolidated subsidiaries (the "**Company**"), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as "IMAX theaters". IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as such, IMAX's network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 1,145 IMAX theater systems (1,037 commercial multiplexes, 16 commercial destinations, 92 institutional) operating in 74 countries as of September 30, 2016. This compares to 1,008 theater systems (887 commercial multiplexes, 19 commercial destinations, 102 institutional) operating in 66 countries as of September 30, 2015.

IMAX theater systems combine:

- IMAX DMR (Digital Re-Mastering) movie conversion technology, which results in higher image and sound fidelity than conventional cinema experiences;

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

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

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

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

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

As a result of the immersiveness and superior image and sound quality of *The* IMAX *Experience*, the Company's exhibitor customers typically charge a premium for IMAX DMR films over films exhibited in their other auditoriums. The premium pricing, combined with the higher attendance levels associated with IMAX DMR films, generates incremental box-office for the Company's exhibitor customers and for the movie studios releasing their films to the IMAX network. The incremental box-office generated by IMAX DMR films has helped establish IMAX as a key premium distribution and marketing platform for Hollywood blockbuster films. Driven by the advent of digital technology that reduced the IMAX DMR conversion time and with the strengthening of the Company's relationships with the major studios, the number of IMAX DMR films released to the theater network per year has increased to 44 films in 2015, up from six films in 2007. The Company expects to release a similar number of IMAX DMR films in 2016 as compared to 2015.

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. To that end, the Company introduced its next-generation laser-based digital projection system at the end of 2014, which was co-developed with Barco N.V and incorporates exclusive technology developed or otherwise obtained by the Company. The Company believes that the IMAX laser-based projectors present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network. As at September 30, 2016, 33 laser-based digital systems were operational.

The Company is also undertaking new lines of business, with a focus on location-based experiences, alternative forms of in-cinema entertainment and in-home entertainment. In the second quarter of 2016, the Company announced its comprehensive virtual reality ("**VR**") strategy to develop a premium, location-based VR offering that will deliver immersive, multi-dimensional experiences, including entertainment content and games, to multiplexes, malls and other commercial destinations. The Company's VR initiative is premised on a unique combination of high quality content, proprietary design and premium technology. The Company has also partnered with Google to design and develop a cinema-grade IMAX VR camera, which will enable filmmakers and content creators to capture and deliver high-quality, 360-degree content experiences to audiences.

The Company's VR experiences will include content developed by the Company's studio partners and independent producers, as well as premium content created through use of the IMAX VR camera. The Company intends to deliver premium VR experiences in IMAX VR centers, which are expected to be located in both stand-alone, arcade-like venues, as well as shopping centers and multiplexes that are retrofitted with proprietary VR pods that permit interactive, moveable VR experiences. The Company plans to open several IMAX VR pilot sites over the coming months, beginning with a sales center in Los Angeles, California and a pilot location in Manchester, England that the Company will be launching in partnership with ODEON & UCI Cinemas Group. Through its VR initiative, the Company sees a unique opportunity to combine premium equipment, more robust computing power, and specially designed spaces to create a highly differentiated, destination-based VR experience that will draw audiences out of their homes, similar to the strategy it has successfully employed in the cinema space. In addition, the Company is working with Starbreeze AB, a Swedish-based independent creator, publisher and distributor of high quality VR entertainment content and hardware, and Acer Inc., to incorporate next-generation headset-mounted display technology that offers industry-leading resolution and an extra-wide peripheral field of view.

Furthermore, in 2015, the Company announced the creation of the IMAX China Film Fund (the "**China Film Fund**") with its subsidiary IMAX China and its partner CMC to help fund Mandarin language commercial films. The China Film Fund, which is expected initially to be capitalized with approximately $50.0 million, will target productions that can leverage the Company's brand, relationships, technology and release windows in China. The China Film Fund is expected to co-finance approximately 15 Mandarin-language tent-pole films over three years, and will target contributions of between $3.0 million and $7.0 million per film. The China Film Fund will operate under an IMAX-CMC controlled greenlight committee, and the Company is in the process of bringing in other investors to increase the size of the China Film Fund.

With respect to in-home entertainment, the Company has announced new home theater initiatives, including a joint venture with TCL Multimedia Technology Holding Limited ("**TCL**") to design, develop, manufacture and sell a premium home theater system. Since announcing the joint venture in 2013 and introducing the new private home theater in 2015, the Company has signed agreements for more than 130 premium home theater systems. Beyond its premium home theater, the Company is also developing other components of broader home entertainment platform designed to allow consumers to experience elements of *The* IMAX *Experience*® in their homes.

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

- the signing, installation and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements and new laser-based projection system);
- film performance and the securing of new film projects (particularly IMAX DMR films);
- revenue and gross margins from the Company's operating segments;
- operating leverage;

- earnings from operations as adjusted for unusual items that the Company views as non-recurring;
- short- and long-term cash flow projections;
- the continuing ability to invest in and improve the Company's technology to enhance its differentiation of presentation versus other cinematic experiences;
- the overall execution, reliability and consumer acceptance of *The* IMAX *Experience*; and
- the success of new business initiatives (including new content initiatives).

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

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

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

IMAX Systems

Sales and Sales-Type Lease Arrangements

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

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

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

Joint Revenue Sharing Arrangements

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

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

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

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

The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company's commercial theater network, which has grown by approximately 488% since the beginning of 2008. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box-office. The Company funds its joint revenue sharing arrangements through cash flows from operations. As at September 30, 2016, the Company had 592 theaters in operation under joint revenue sharing arrangements, an 18.9% increase as compared to the 498 joint revenue sharing arrangements open as at September 30, 2015. The Company also had contracts in backlog for an additional 389 theaters under joint revenue sharing arrangements as at September 30, 2016.

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

Theater System Maintenance

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

Other Theater Revenues

The Company derives a small portion of its revenues from other sources. As at September 30, 2016, the Company had two owned and operated IMAX theaters (December 31, 2015 — three owned and operated theaters). In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses and provides management services to three other theaters. The Company also rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers. Additionally, the Company generates revenues from the sale of after-market parts and 3D glasses.

Revenue from theater system arrangements is recognized at a different time from when cash is collected. See "Critical Accounting Policies" in Item 1 of the Company's Form 10-K for the year ended December 31, 2015 (the "**2015 Form 10-K**") for further discussion on the Company's revenue recognition policies.

IMAX Theater Network

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

	2016 Theater Network Base				2015 Theater Network Base			
	Commercial Multiplex	**Commercial Destination**	**Institutional**	**Total**	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	**348**	**5**	**41**	**394**	333	6	48	387
Canada	**37**	**2**	**7**	**46**	37	2	8	47
Greater China(1)	**354**	**—**	**17**	**371**	258	—	17	275
Asia (excluding Greater China)	**88**	**2**	**4**	**94**	76	3	6	85
Western Europe	**73**	**6**	**10**	**89**	65	7	10	82
Russia & the CIS	**50**	**—**	**—**	**50**	48	—	—	48
Latin America(2)	**38**	**—**	**11**	**49**	34	—	11	45
Rest of the World	**49**	**1**	**2**	**52**	36	1	2	39
Total	**1,037**	**16**	**92**	**1,145**	887	19	102	1,008

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

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

As of September 30, 2016, 38.4% of IMAX systems in operation were located in the United States and Canada compared to 43.1% as at September 30, 2015.

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

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 2,450 IMAX theaters worldwide from 1,037 commercial multiplex IMAX theaters operating as September 30, 2016. While the Company continues to grow in the United States and Canada, it believes that the majority of its future growth will come from international markets. As at September 30, 2016, 61.6% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 56.9% as at September 30, 2015. Revenues and gross box-office derived from outside the United States and Canada continues to exceed revenues and gross box-office from the United States and Canada. Risks associated with the Company's international business are outlined in Risk Factors — "The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects" in Item 1A of the Company's 2015 Form 10-K.

Greater China continues to be the Company's second-largest and fastest-growing market. The Company's Greater China operations have accounted for an increasingly significant portion of its overall revenues, with nearly 31% of overall revenues generated from the Company's China operations in the nine months ended September 30, 2016. As at September 30, 2016, the Company had 371 theaters operating in Greater China with an additional 381 theaters in backlog that are scheduled to be installed in Greater China by 2022. The Company's backlog in Greater China represents 69.7% of the Company's current backlog. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. The Company's largest single international partnership is in China with Wanda Cinema Line Corporation ("**Wanda**"). In the third quarter of 2016, the Company and Wanda signed an agreement for an additional 150 theater systems under a joint revenue sharing arrangement. This increases Wanda's total commitment to the Company to 360 theater systems, of which 345 theater systems are under the parties' joint revenue sharing arrangement. Furthermore, the Company has a partnership with CJ CGV Holdings, Ltd., for a commitment of 120 theater systems, of which 100 theater systems will be located in China. In addition, in the second quarter of 2016, the Company and Guangzhou JinYI Media Corporation ("**JinYi**") expanded its existing commitment to include 40 theater systems under a joint revenue sharing arrangement. With the addition of these theater systems, JinYi's total commitment to the Company is for 60 theater systems, all of which are located in China. See Risk Factors — "The Company faces risks in connection with the continued expansion of its business in China" in Item 1A of the Company's 2015 Form 10-K.

In 2014, the Company completed the sale and issuance of 20% of the shares of the Company's subsidiary, IMAX China Holding, Inc. ("**IMAX China**"), to entities owned and controlled by CMC Capital Partners ("**CMC**"), an investment fund that is focused on media and entertainment, and FountainVest Partners ("**FountainVest**"), a China-focused private equity firm. The sale price for the interest was $80.0 million, and was paid by the investors in two equal installments on April 8, 2014 and February 10, 2015 (collectively, the "**IMAX China Investment**").

Thereafter, on October 8, 2015, IMAX China completed an initial public offering of its ordinary shares on the Main Board of the Hong Kong Stock Exchange Limited (the "**IMAX China IPO**"). Following the IMAX China IPO, the Company continues to indirectly own approximately 68.5% of IMAX China, which remains a consolidated subsidiary of the Company.

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

	2016 IMAX Commercial Multiplex Theater Network			2015 IMAX Commercial Multiplex Theater Network		
	JRSA	**Sale/ Sales-type lease**	**Total**	JRSA	Sale/ Sales-type lease	Total
Domestic Total (United States & Canada)	**264**	**121**	**385**	254	116	370
International:						
Greater China	**221**	**133**	**354**	159	99	258
Asia (excluding Greater China)	**50**	**38**	**88**	40	36	76
Western Europe	**42**	**31**	**73**	37	28	65
Russia & the CIS	**—**	**50**	**50**	—	48	48
Latin America	**—**	**38**	**38**	—	34	34
Rest of the World	**15**	**34**	**49**	8	28	36
International Total	**328**	**324**	**652**	244	273	517
Worldwide Total	**592**	**445**	**1,037**	498	389	887

As at September 30, 2016, 264 (2015 — 254) of the 592 (2015 — 498) theaters under joint revenue sharing arrangements in operation, or 44.6% (2015 — 51.0%) were located in the United States and Canada, with the remaining 328 (2015 — 244) or 55.4% (2015 — 49.0%) of arrangements being located in international markets. The Company continues to seek to expand its network of theaters under joint revenue sharing arrangements, particularly in select international markets.

Sales Backlog

The Company's current sales backlog is as follows:

	September 30, 2016		September 30, 2015	
	Number of Systems	**Dollar Value (in thousands)**	Number of Systems	Dollar Value (in thousands)
Sales and sales-type lease arrangements	**158**	**$ 197,730**	175	$ 228,907
Joint revenue sharing arrangements	**389**	**55,456**	209	47,664
	547(1)(2)	**$ 253,186**	384(1)(3)	$ 276,571

(1) Includes 20 laser-based digital theater system configurations (2015 — 69), including upgrades. The Company continues to develop and roll out its laser-based digital projection system. See "Research and Development" in Item 2 of this Part I for additional information.

(2) Includes five upgrades to a laser-based digital theater system, in existing IMAX theater locations.

(3) Includes 20 upgrades to a digital theater system, in existing IMAX theater locations (two xenon configurations and 18 laser configurations, of which four are under joint revenue sharing arrangements).

The number of theater systems in the backlog reflects the minimum number of commitments under signed contracts. The dollar value fluctuates depending on the number of new theater system arrangements signed from year to year, which adds to backlog, and the installation and acceptance of theater systems and the settlement of contracts, both of which reduce backlog. Sales backlog typically represents the fixed contracted revenue under signed theater system sale and lease agreements that the Company believes will be recognized as revenue upon installation and acceptance of the associated theater. Sales backlog includes initial fees along with the estimated present value of contractual ongoing fees due over the lease term; however, it excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of contractual ongoing fees that may be received in the future. The value of sales backlog does not include revenue from theaters in which the Company has an equity interest, operating leases, letters of intent or long-term conditional theater commitments. The value of theaters under joint revenue sharing arrangements is excluded from the dollar value of sales backlog, although certain theater systems under joint revenue sharing arrangements provide for contracted upfront payments and therefore carry a backlog value based on those payments. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

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

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

	2016 IMAX Theater Backlog			2015 IMAX Theater Backlog		
	JRSA	**Sale/ Lease**	**Total**	JRSA	Sale/ Lease	Total
Domestic Total (United States & Canada)	**44**	**11**	**55**	30	21	51
International:						
Greater China	**315**	**66**	**381**	152	66	218
Asia (excluding Greater China)	**16**	**21**	**37**	12	20	32
Western Europe	**9**	**7**	**16**	8	8	16
Russia & the CIS	**—**	**22**	**22**	—	23	23
Latin America	**—**	**16**	**16**	—	22	22
Rest of the World	**5**	**15**	**20**	7	15	22
International Total	**345**	**147**	**492**	179	154	333
Worldwide Total	**389**	**158**	**547**	209	175	384

Approximately 89.9% of IMAX theater system arrangements in backlog as at September 30, 2016 are scheduled to be installed in international markets (2015 — 86.7%).

The following reflects the Company's signings and installations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Theater System Signings:				
Full new sales and sales-type lease arrangements	**5**	11	**52**	42[(1)]
New joint revenue sharing arrangements	**156**	22	**238**	39
Total new theaters	**161**	33	**290**	81
Upgrades of IMAX theater systems	**1**	2	**3**	5
Total theater signings	**162**	35	**293**	86

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Theater System Installations:				
Full new sales and sales-type lease arrangements	**15**	12	**33**[(2)]	32[(2)]
New joint revenue sharing arrangements	**33**	22	**63**	48
Total new theaters	**48**	34	**96**	80
Upgrades of IMAX theater systems	**2**[(3)]	10[(3)]	**13**[(4)(5)]	12[(4)(5)]
Total theater installations	**50**	44	**109**	92

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

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

(3) Includes two installations of an upgrade to a laser-based digital system under sales and sales-type lease arrangements (2015 — nine laser-based digital systems, seven under a sales and sales-type lease arrangement, one under a short-term operating lease arrangement and one under a joint revenue sharing arrangement).

(4) Includes 11 installations of an upgrade to a laser-based digital system under sales and sales-type lease arrangements (2015 — 10 laser-based digital systems, eight under a sales and sales-type lease arrangement, one under a short-term operating lease arrangement and one under a joint revenue sharing arrangement).

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

The Company now expects that it will install 155 new theater systems (excluding upgrades) in 2016. The Company's installation estimates includes scheduled systems from backlog, as well as the Company's estimate of installations from arrangements that will sign and install in the same calendar year. The Company cautions, however, that theater system installations may slip from period to period over the course of the Company's business, usually for reasons beyond its control.

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

Digital Re-Mastering (IMAX DMR)

In 2002, the Company developed a proprietary technology to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in IMAX theaters at a modest cost that is incurred by the Company. This system, known as IMAX DMR, digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which *The* IMAX *Experience* is known. This technology enabled the IMAX theater network to release Hollywood films simultaneously with their broader domestic release. The development of this technology was critical in helping the Company execute its strategy of expanding its commercial theater network by establishing IMAX theaters as a key, premium distribution platform for Hollywood films. In a typical IMAX DMR film arrangement, the Company receives a percentage, which in recent years has ranged between 10–15%, of net box-office receipts of any commercial films released in the IMAX network from the applicable film studio for the conversion of the film to the IMAX DMR format and for access to the Company's premium distribution platform.

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

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

The Company believes that the growth in international box-office is an important driver of future growth for the Company. During nine months ended September 30, 2016, 62.8% of the Company's gross box-office from IMAX DMR films was generated in international markets, as compared to 63.7% in the nine months ended September 30, 2015. To support growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. During 2015, eleven local language IMAX DMR films, including eight in China and three in Japan were released to the IMAX theater network. During the nine months ended September 30, 2016, eleven local language IMAX DMR films, including eight in China, two in Russia and one in Japan were released to the IMAX theatre network. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in the remainder of 2016 and beyond.

In addition to the 42 IMAX DMR films released to the IMAX theater network during the first nine months ended September 30, 2016, five additional IMAX DMR films have been announced so far to be released in the remaining three months of 2016:

- *Inferno: The* IMAX *Experience* (Sony Pictures, October 2016)*;*
- *Jack Reacher: Never Go Back: The* IMAX *Experience* (Paramount Pictures, October 2016)*;*
- *Doctor Strange: The* IMAX *Experience* (Walt Disney Studios, November 2016)*;*
- *Fantastic Beasts and Where to Find Them: The* IMAX *Experience* (Warner Bros. Pictures, November 2016)*;* and
- *Rogue One: A Star Wars Story: The* IMAX *Experience* (Walt Disney Studios, December 2016).

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

To date, the Company has announced the following 24 titles to be released in 2017 to the IMAX theater network:

- *xXx: Return of Xander Cage: The* IMAX *Experience* (Paramount Pictures, January 2017);
- *Resident Evil: The Final Chapter: The* IMAX *Experience* (Sony Pictures, February 2017);
- *Attraction: The* IMAX *Experience* (Art Pictures Studio, January 2017, Russia only)*;*
- *The Lego Batman Movie: The* IMAX *Experience* (Warner Bros. Pictures, February 2017)*;*
- *The Great Wall: The* IMAX *Experience* (Legendary East Ltd., February 2017)*;*
- *Logan: The* IMAX *Experience* (20th Century Fox, March 2017)*;*
- *Kong: Skull Island: The* IMAX *Experience* (Warner Bros. Pictures, March 2017)*;*

- *Beauty and The Beast: The* IMAX *Experience* (Walt Disney Studios, March 2017)*;*

- *Ghost in the Shell: The* IMAX *Experience* (Paramount Pictures, March 2017)*;*

- *Fast 8: The* IMAX *Experience* (Universal Pictures, April 2017)*;*

- *Guardians of the Galaxy Vol. 2: The* IMAX *Experience* (Walt Disney Studios, May 2017)*;*

- *Pirates of the Caribbean: Dead Men Tell No Tales: The* IMAX *Experience* (Walt Disney Studios, May 2017)*;*

- *Wonder Woman: The* IMAX *Experience* (Warner Bros. Pictures, June 2017)*;*

- *The Mummy: The* IMAX *Experience* (Universal Pictures, June 2017)*;*

- *Transformers: The Last Knight: The* IMAX *Experience* (Paramount Pictures, June 2017)*;*

- *Spider-Man: Homecoming: The* IMAX *Experience* (Sony Pictures-distributed and Marvel Studios and Sony Pictures-produced, July 2017)*;*

- *Dunkirk: The* IMAX *Experience* (Warner Bros. Pictures, July 2017)*;*

- *The Solutrean: The* IMAX *Experience* (Sony Pictures, September 2017)*;*

- *The Lego Ninjago Movie: The* IMAX *Experience* (Warner Bros. Pictures, September 2017);

- *Blade Runner 2049: The* IMAX *Experience* (Warner Bros. Pictures, October 2017)*;*

- *Geostorm: The* IMAX *Experience* (Warner Bros. Pictures, October 2017);

- *Thor: Ragnarök: The* IMAX *Experience* (Walt Disney Studios, November 2017)*;*

- *Justice League: The* IMAX *Experience* (Warner Bros. Pictures, November 2017)*;* and

- *Star Wars: Episode VIII: The* IMAX *Experience* (Walt Disney Studios, December 2017).

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate, and anticipates that the number of IMAX DMR films to be released to the IMAX network in 2017 will be similar to the 47 IMAX DMR films slated for release in 2016.

Other Film Revenues: Film Distribution and Post-Production

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

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

RESULTS OF OPERATIONS

Management, including the Company's CEO, who is the Company's Chief Operating Decision Maker (as defined in the Segment Reporting Topic of the FASB ASC), assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), write-downs net of recoveries, interest income, interest expense and tax (provision) recovery are not allocated to the segments. As identified in note 13 to the accompanying condensed consolidated financial statements in Item 1, the Company has the following seven reportable segments identified by category of product sold or service provided:

- **IMAX Theater Systems**

  - The IMAX systems segment, which is comprised of the design, manufacture, sale or lease of IMAX theater projection system equipment.

  - The theater system maintenance segment, which is comprised of the maintenance of IMAX theater projection system equipment in the IMAX theater network.

  - The joint revenue sharing arrangements segment, which is comprised of the provision of IMAX theater projection system equipment to exhibitors in exchange for a certain percentage of box-office receipts, and in some cases, concession revenue and/or a small upfront or initial payment.

  - The other segment, which includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items.

- **Film**

  - The film production and IMAX DMR segment, which is comprised of the production of films and performance of film re-mastering services.

  - The film distribution segment, which includes the distribution of films for which the Company has distribution rights.

  - The film post-production segment, which includes the provision of film post-production and film print services.

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

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

The Company reported net income of $4.4 million or $0.07 per basic and diluted share for the third quarter of 2016 as compared to net income of $10.5 million or $0.15 per basic share and $0.14 per diluted share for the third quarter of 2015. Net income for the third quarter of 2016 includes a $7.7 million charge, or $0.11 per diluted share (2015 — $4.3 million or $0.06 per diluted share), for stock-based compensation. Adjusted net income, which consists of net income excluding the impact of stock-based compensation and the related tax impact, was $9.9 million, or $0.15 per diluted share, for the third quarter of 2016 as compared to adjusted net income of $13.9 million, or $0.19 per diluted share, for the third quarter of 2015. Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation and the related tax impact, was $7.9 million, or $0.12 per diluted share, for the third quarter of 2016 as compared to adjusted net income attributable to common shareholders of $12.0 million, or $0.17 per diluted share, for the third quarter of 2015. A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

(In thousands of U.S. dollars, except per share amounts)	**Three Months Ended September 30, 2016**		Three Months Ended September 30, 2015	
	Net Income	**Diluted EPS**	Net Income	Diluted EPS
Reported net income	**$ 4,384**	**$ 0.07**	$ 10,514	$ 0.14[(1)]
Adjustments:				
Stock-based compensation	**7,742**	**0.11**	4,252	0.06
Tax impact on items listed above	**(2,210)**	**(0.03)**	(901)	(0.01)
Adjusted net income	**9,916**	**0.15**	13,865	0.19[(1)]
Net income attributable to non-controlling interests	**(1,859)**	**(0.03)**	(1,904)	(0.02)
Stock-based compensation (net of tax of less than $0.1 million) attributable to non-controlling interests	**(128)**	**—**	—	—
Adjusted net income attributable to common shareholders	**$ 7,929**	**$ 0.12**	$ 11,961	$ 0.17[(1)]
Weighted average diluted shares outstanding		**67,746**		**70,860**

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

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

(In thousands of U.S. dollars)	Revenue		Gross Margin	
	2016	2015	**2016**	2015
IMAX Theater Systems				
IMAX Systems				
Sales and sales-type leases[(1)]	**$ 21,804**	$ 26,635	**$ 12,936**	$ 9,775
Ongoing rent, fees, and finance income[(2)]	**3,883**	3,518	**3,807**	3,334
Other	**4,904**	3,221	**69**	(267)
	30,591	33,374	**16,812**	12,842
Theater System Maintenance	**10,293**	9,337	**3,398**	3,521
Joint Revenue Sharing Arrangements	**19,698**	19,797	**10,980**	12,130
Film				
Production and IMAX DMR	**21,549**	20,865	**12,448**	13,929
Film distribution and post-production	**4,419**	1,728	**1,261**	(33)
	25,968	22,593	**13,709**	13,896
	$ 86,550	$ 85,101	**$ 44,899**	$ 42,389

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

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

Revenues and Gross Margin

The Company's revenues for the third quarter of 2016 increased 1.7% to $86.6 million from $85.1 million in third quarter of 2015, primarily due to an increase in revenues from the Company's film distribution and post-production segment, mostly offset by a decrease in revenue from the IMAX systems segment. The gross margin across all segments in the third quarter of 2016 was $44.9 million, or 51.9% of total revenue, compared to $42.4 million, or 49.8% of total revenue in the third quarter of 2015.

IMAX Systems

IMAX systems revenue decreased 8.3% to $30.6 million in the third quarter of 2016 as compared to $33.4 million in third quarter of 2015. The Company installed 17 theater systems under sales or sales-type lease arrangements in the third quarter of 2016 versus 20 theater systems in the third quarter of 2015.

Revenue from sales and sales-type leases was $21.8 million in the third quarter of 2016, as compared to $26.6 million in the third quarter of 2015. The Company recognized revenue on 15 full, new theater systems which qualified as either sales or sales-type leases in the third quarter of 2016, with a total value of $19.0 million, versus 12 full, new theater systems in the third quarter of 2015 with a total value of $14.5 million. The Company also recognized revenue on the installation of two laser-based digital upgrades in the third quarter of 2016, with a total value of $2.6 million under sales arrangements, as compared to seven laser-based digital upgrades and one xenon-based digital upgrade in the third quarter of 2015, with a total value of $10.4 million. Digital upgrades typically have a lower sales prices and gross margin than full theater system installations.

Average revenue per full, new sales and sales-type lease systems was $1.3 million for the three months ended September 30, 2016, as compared to $1.2 million in the three months ended September 30, 2015. The average revenue per full, new sales and sales-type lease systems varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors. Average revenue per digital upgrade was $1.3 million for the three months ended September 30, 2016, which was consistent with the three months ended September 30, 2015.

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

	Three Months Ended September 30,	
	2016	2015
New IMAX digital theater systems — installed and recognized		
Sales and sales-types lease arrangements	**15**	12(1)
Joint revenue sharing arrangements	**33**	22
Total new theater systems	**48**	34
IMAX digital theater system upgrades — installed and recognized		
Sales and sales-types lease arrangements	**2(1)**	8(1)
Short-term operating lease arrangements	**—**	1(1)
Joint revenue sharing arrangements	**—**	1(1)
Total upgraded theater systems	**2**	10
Total theater systems installed	**50**	44

(1) Includes two laser-based digital system configurations under sales arrangements (2015 — one new laser-based digital system configuration and nine laser-based digital system configuration upgrades).

IMAX theater system margin from full, new sales and sales-type lease systems was 68.8% in the third quarter of 2016 which was higher than the 58.6% experienced in the third quarter of 2015. The stronger margin was driven by variances in the product mix of systems installed in the third quarter of 2016 as compared to the prior year period. Gross margin from digital upgrades was less than $0.1 million in the third quarter of 2016, as compared to $1.2 million in the third quarter of 2015. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

Revenues from sales and sales-type leases include settlement revenue of $0.2 million in the third quarter of 2016, as compared to $nil in the third quarter of 2015.

Ongoing rent revenue and finance income was $3.9 million in the third quarter of 2016 compared to $3.5 million in the third quarter of 2015. Gross margin for ongoing rent and finance income increased 14.2% to $3.8 million in the third quarter of 2016 from $3.3 million in the third quarter of 2015. Contingent fees included in this caption amounted to $0.9 million and $0.8 million in the three months ended September 30, 2016 and 2015, respectively.

Other revenue increased to $4.9 million in the third quarter of 2016 as compared to $3.2 million in 2015. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental business and after-market sales of projection system parts and 3D glasses. The growth in revenue is primarily the result of an increase in revenue from after-market sales and camera rentals during third quarter of 2016 as compared to the prior year period.

The gross margin recognized from other revenue was $0.1 million in the third quarter of 2016 as compared to a loss of $0.3 million in the third quarter of 2015, primarily driven by higher margins from the Company's camera rentals in the current period versus the prior year comparative period.

Theater System Maintenance

Theater system maintenance revenue increased 10.2% to $10.3 million in the third quarter of 2016 from $9.3 million in the third quarter of 2015. Theater system maintenance gross margin was $3.4 million in the third quarter of 2016 versus $3.5 million in the third quarter of 2015, due to the number and nature of maintenance issues experienced in the current quarter versus the prior year comparative period. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

Joint Revenue Sharing Arrangements

Revenues from joint revenue sharing arrangements was relatively consistent at $19.7 million in the third quarter of 2016 and $19.8 million in the third quarter of 2015. The Company ended the third quarter of 2016 with 592 theaters operating under joint revenue sharing arrangements, as compared to 498 theaters at the end of the third quarter of 2015, an increase of 18.9%. The decrease in revenues from joint revenue sharing arrangements was largely due to lower film box-office performance versus the prior year period, offset by an increase in the number of theater systems installed in the current period coupled with continued network growth. During the third quarter of 2016, the Company installed 33 full, new theaters under joint revenue sharing arrangements, as compared to 22 full new theaters during the third quarter of 2015.

The gross margin from joint revenue sharing arrangements decreased 9.5% to $11.0 million in the third quarter of 2016 from $12.1 million in the third quarter of 2015. Included in the calculation of gross margin for the third quarter of 2016 were certain advertising, marketing and commission costs primarily associated with new theater launches of $1.4 million, as compared to $1.3 million during the third quarter of 2015.

Film

Revenue from the Company's film segments increased 14.9% to $26.0 million in the third quarter of 2016 from $22.6 million in the third quarter of 2015 primarily due to higher film distribution and post-production revenue. Film production and IMAX DMR revenues increased 3.3% to $21.5 million in the third quarter of 2016 from $20.9 million in the third quarter of 2015, mostly the result of continued theater network growth. Gross box-office generated by IMAX DMR films decreased 1.8% to $186.3 million in the third quarter of 2016 from $189.8 million in the third quarter of 2015. Gross box-office per screen for the third quarter of 2016 averaged $184,700, in comparison to $220,500 in the third quarter of 2015. In the third quarter of 2016, gross box-office was generated primarily by the exhibition of 29 films (21 new and 8 carryovers), as compared to 21 films (14 new and 7 carryovers) exhibited in the third quarter of 2015:

Three Months Ended September 30, 2016 — Films Exhibited

The Crew: An IMAX *3D Experience*
The Jungle Book: An IMAX *3D Experience*
Alice in Wonderland: Through the Looking Glass: An IMAX *3D Experience*
Teenage Mutant Ninja Turtles: Out of the Shadows: An IMAX *3D Experience*
Warcraft: An IMAX *3D Experience*
Finding Dory: An IMAX *3D Experience*
Independence Day: Resurgence: An IMAX *3D Experience*

Three Months Ended September 30, 2015 — Films Exhibited

Wolf Totem: An IMAX *3D Experience*
The Avengers: Age of Ultron: An IMAX *3D Experience*
Jurassic World: An IMAX *3D Experience*
Terminator Genisys: An IMAX *3D Experience*
Mad Max: Fury Road: An IMAX *3D Experience*
Inside Out: An IMAX *3D Experience*
The Monk Comes Down the Mountain: An IMAX *3D Experience*
Minions: An IMAX *3D Experience*

<u>Three Months Ended September 30, 2016 — Films Exhibited</u>	<u>Three Months Ended September 30, 2015 — Films Exhibited</u>
The Legend of Tarzan: An IMAX *3D Experience*	*Monster Hunt: An* IMAX *3D Experience*
Ice Age: Collision Course: An IMAX *3D Experience*	*Ant-Man: An* IMAX *3D Experience*
The BFG: An IMAX *3D Experience*	*Pixels: An* IMAX *3D Experience*
Jason Bourne: The IMAX *Experience*	*Mission: Impossible — Rogue Nation: The* IMAX *Experience*
Godzilla: Resurgence: The IMAX *Experience*	*Attack on Titan: Part 1: The* IMAX *Experience*
Cold War 2: An IMAX *3D Experience*	*To the Fore: The* IMAX *Experience*
The Secret Life of Pets: An IMAX *3D Experience*	*The Man from U.N.C.L.E.: The* IMAX *Experience*
Ghostbusters: An IMAX *3D Experience*	*Go Away Mr. Tumor: The* IMAX *Experience*
For a Few Bullets: The IMAX *Experience*	*The Transporter Refueled: The* IMAX *Experience*
Star Trek Beyond: An IMAX *3D Experience*	*Everest: An* IMAX *3D Experience*
League of Gods: An IMAX *3D Experience*	*Attack on Titan: Part 2: The* IMAX *Experience*
Skiptrace: An IMAX *3D Experience*	*Lost in Hong Kong: The* IMAX *Experience*
Time Raiders: An IMAX *3D Experience*	*The Walk: An* IMAX *3D Experience*
Suicide Squad: An IMAX *3D Experience*	
Ben-Hur: An IMAX *3D Experience*	
Sully: The IMAX *Experience*	
My War: An IMAX *3D Experience*	
The Magnificent Seven: The IMAX *Experience*	
Storks: An IMAX *3D Experience*	
The Duelist: The IMAX *Experience*	
Deepwater Horizon: The IMAX *Experience*	
L.O.R.D.: An IMAX *3D Experience*	

Other revenues attributable to the film segment was $4.4 million in the third quarter of 2016 as compared to $1.7 million in the third quarter of 2015, primarily due to an increase in film distribution revenue from IMAX original films.

The Company's gross margin from its film segments decreased 1.3% to $13.7 million in the third quarter of 2016 from $13.9 million in the third quarter of 2015. Film production and IMAX DMR gross margins decreased to $12.4 million from $13.9 million primarily due to lower film box-office performance and higher costs, including marketing, print and sound. Other gross margin attributable to the film segment was $1.3 million in the third quarter of 2016 as compared to a loss of less than $0.1 million in the third quarter of 2015, primarily due to the release of *A Beautiful Planet* earlier in 2016.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $30.7 million in the third quarter of 2016, as compared to $25.0 million in the third quarter of 2015. Selling, general and administrative expenses excluding the impact of stock-based compensation were $23.0 million in the third quarter of 2016, as compared to $20.7 million in the third quarter of 2015. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

- a $3.4 million increase in the Company's stock-based compensation;

- a $2.1 million increase in staff costs related to the core business, including salaries and benefits; and

- a $0.5 million net increase in other general corporate expenditures including consulting, professional fees, travel and entertainment.

These increases were offset by a $0.3 million decrease due to a change in foreign exchange rates. During the third quarter ended September 30, 2016, the Company recorded a foreign exchange loss of $0.2 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of $0.5 million recorded in 2015.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of $0.3 million in the third quarter of 2016 as compared to a net provision of $0.4 million in the third quarter of 2015.

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

Asset impairments and Other Charges

In the third quarter of 2016, the Company recorded a charge related to property, plant and equipment of $0.4 million reflecting assets that no longer meet capitalization requirements as compared to $1.2 million in the third quarter of 2015.

In the third quarter of 2016, the Company recorded a charge of $1.0 million reflecting the carrying value of a documentary film asset that exceeded the expected revenues generated from estimated future gross box-office. No such charge was recognized in the third quarter of 2015.

Interest Income and Expense

Interest income was $0.4 million in the third quarter of 2016, as compared to $0.2 million in the third quarter of 2015.

Interest expense was $0.5 million in the third quarter of 2016 and 2015, respectively. Included in interest expense is the amortization of deferred finance costs in the amount of $0.1 million in the third quarter of 2016, as compared to $0.3 million in the third quarter of 2015. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Income Taxes

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

As at September 30, 2016, the Company had a gross deferred income tax asset of $26.5 million, against which the Company is carrying a $0.3 million valuation allowance. For the three months ended September 30, 2016, the Company recorded an income tax provision of $2.6 million, of which a provision of less than $0.1 million was related to an increase in its provision for uncertain tax positions.

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

Non-Controlling Interests

The Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the IMAX China IPO as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the three months ended September 30, 2016, the net income attributable to non-controlling interests of the Company's subsidiaries was $1.9 million (2015 — $1.9 million).

Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015

The Company reported net income of $27.2 million or $0.40 per basic and diluted share for the nine months ended September 30, 2016, as compared to net income of $38.4 million or $0.54 per basic share and $0.53 per diluted share for the nine months ended September 30, 2015. Net income for the nine months ended September 30, 2016 includes a $22.5 million charge or $0.32 per diluted share (2015 — $14.9 million or $0.21 per diluted share) for stock-based compensation. Adjusted net income, which consists of net income excluding the impact of stock-based compensation and the related tax impact, was $43.3 million or $0.63 per diluted share for the nine months ended September 30, 2016, as compared to adjusted net income of $50.7 million or $0.70 per diluted share for the nine months ended September 30, 2015. Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation and the related tax impact, was $35.5 million or $0.52 per diluted share for the nine months ended September 30, 2016, as compared to adjusted net income attributable to common shareholders of $45.7 million or $0.63 per diluted share for the nine months ended September 30, 2015. A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

(In thousands of U.S. dollars, except per share amounts)	**Nine Months Ended September 30, 2016**		Nine Months Ended September 30, 2015	
	Net Income	**Diluted EPS**	Net Income	Diluted EPS
Reported net income	**$ 27,244**	**$ 0.40**	$ 38,379	$ 0.53[1]
Adjustments:				
Stock-based compensation	**22,485**	**0.32**	14,930	0.21
Tax impact on items listed above	**(6,394)**	**(0.09)**	(2,603)	(0.04)
Adjusted net income	**43,335**	**0.63**	50,706	0.70[1]
Net income attributable to non-controlling interests	**(7,401)**	**(0.11)**	(5,028)	(0.07)
Stock-based compensation (net of tax of $0.1 million) attributable to non-controlling interests	**(421)**	**—**	—	—
Adjusted net income attributable to common shareholders	**$ 35,513**	**$ 0.52**	$ 45,678	$ 0.63[1]
Weighted average diluted shares outstanding		**68,721**		71,102

(1) Includes impact of $0.7 million of accretion charges associated with redeemable Class C shares of IMAX China.

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

(In thousands of U.S. dollars)	Revenue		Gross Margin	
	2016	2015	**2016**	2015
IMAX Theater Systems				
IMAX Systems				
Sales and sales-type leases[(1)]	**$ 58,522**	$ 53,924	**$ 26,795**	$ 24,720
Ongoing rent, fees, and finance income[(2)]	**11,986**	10,708	**11,457**	10,111
Other	**14,394**	11,320	**(251)**	(421)
	84,902	75,952	**38,001**	34,410
Theater System Maintenance	**30,031**	27,345	**10,207**	9,891
Joint Revenue Sharing Arrangements	**66,940**	67,259	**44,716**	46,816
Film				
Production and IMAX DMR	**78,767**	75,144	**52,398**	55,642
Film distribution and post-production	**9,781**	8,772	**2,030**	646
	88,548	83,916	**54,428**	56,288
	$ 270,421	$ 254,472	**$ 147,352**	$ 147,405

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

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

Revenues and Gross Margin

The Company's revenues for the nine months ended September 30, 2016 increased 6.3% to $270.4 million from $254.5 million in the nine months ended September 30, 2015, largely due to an increase in revenues from the Company's IMAX systems and film segments. The gross margin across all segments in the nine months ended September 30, 2016 was $147.4 million, or 54.5% of total revenue, and $147.4 million, or 57.9% of total revenue in the nine months ended September 30, 2015. Gross margin, excluding the impact of these digital upgrades, was 57.3% of total revenue in the nine months ended September 30, 2016, as compared to 60.4% in the nine months ended September 30, 2015.

IMAX Systems

IMAX systems revenue increased 11.8% to $84.9 million in the nine months ended September 30, 2016, as compared to $76.0 million in the nine months ended September 30, 2015. The Company installed 46 theater systems under sales or sales-type lease arrangements in the nine months ended September 30, 2016 versus 41 theater systems in the nine months ended September 30, 2015.

Revenue from sales and sales-type leases increased 8.5% to $58.5 million in the nine months ended September 30, 2016 from $53.9 million in the nine months ended September 30, 2015. The Company recognized revenue on 32 full, new theater systems which qualified as either sales or sales-type leases in the nine months ended September 30, 2016, with a total value of $40.9 million, versus 31 full, new theater systems in the nine months ended September 30, 2015 with a total value of $38.6 million. The Company also recognized revenue on the installation of 11 laser-based digital upgrades and two xenon-based digital upgrades in the nine months ended September 30, 2016, with a total value of $16.2 million, as compared to eight laser-based digital upgrades and one xenon-based digital upgrade in the nine months ended September 30, 2015, with a total value of $12.3 million. Digital upgrades typically have lower sales prices and gross margin than full theater system installations. There was one used xenon-based theater system installed in the nine months ended September 30, 2016 with a total value of $0.3 million, as compared to one xenon-based digital system installed and recognized in the nine months ended September 30, 2015 with a total value of $0.2 million.

Average revenue per full, new sales and sales-type lease systems was $1.3 million in the nine months ended September 30, 2016 and $1.2 million for the nine months ended September 30, 2015. The average revenue per full, new sales and sales-type lease systems varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors. Average revenue per digital upgrade was $1.2 million in the nine months ended September 30, 2016, as compared to $1.4 million in the nine months ended September 30, 2015.

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

	Nine Months Ended September 30,	
	2016	2015
New IMAX xenon-based digital theater systems		
— installed and recognized		
Sales and sales-types lease arrangements	**33**(1)	32(2)
Joint revenue sharing arrangements	**63**(1)	48
Total new theater systems	**96**	80
IMAX xenon-based digital theater system upgrades		
— installed and recognized		
Sales and sales-types lease arrangements	**13**(1)	9(2)
Short-term operating lease arrangements	**—**	2(2)
Joint revenue sharing arrangements	**—**	1(2)
Total upgraded theater systems	**13**	12
Total theater systems installed	**109**	92

(1) Includes 15 laser-based digital system configurations (four new laser-based digital systems, two under sales arrangements and two under joint revenue sharing arrangements and 11 laser-based digital system upgrades).

(2) Includes 11 laser-based digital system configurations (one new laser-based digital system and 10 laser-based digital system upgrades).

IMAX theater system margin from full, new sales and sales-type lease systems, excluding the impact of settlements, was 64.5% in the nine months ended September 30, 2016, as compared to 63.0% in the nine months ended September 30, 2015. Gross margin from digital upgrades was $1.7 million in the nine months ended September 30, 2016, as compared to $1.8 million in the nine months ended September 30, 2015. In addition, in the nine months ended September 30, 2016, the Company recorded a charge of $0.2 million upon the upgrade of xenon-based digital systems under operating lease arrangements to laser-based digital systems under sales arrangements in IMAX systems margin. In the nine months ended September 30, 2015, there was a reduction of $0.4 million included in gross margin due to a reduction in the net realizable value of its inventories. No similar charge was recorded in the nine months ended September 30, 2016. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

Revenues from sales and sales-type leases include settlement revenue of $1.0 million in the nine months ended September 30, 2016, as compared to $0.1 million in the nine months ended September 30, 2015. Gross margin from sales and sales-type leases include settlement margin of $0.9 million in the nine months ended September 30, 2016, as compared to $0.1 million in the nine months ended September 30, 2015.

Ongoing rent revenue and finance income increased to $12.0 million in the nine months ended September 30, 2016, as compared to $10.7 million in the nine months ended September 30, 2015. Gross margin for ongoing rent and finance income increased to $11.5 million in the nine months ended September 30, 2016, compared to $10.1 million in the nine months ended September 30, 2015. Contingent fees included in this caption amounted to $3.1 million and $2.0 million in the nine months ended September 30, 2016 and 2015, respectively.

Other revenue increased to $14.4 million in the nine months ended September 30, 2016, as compared to $11.3 million in the nine months ended September 30, 2015. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental business, new business initiatives and after-market sales of projection system parts and 3D glasses. The growth in revenue is primarily the result of an increase in revenue from after-market sales and camera rentals in the nine months ended September 30, 2016 versus prior year comparative period.

The gross margin recognized from other revenue was a loss of $0.3 million in the nine months ended September 30, 2016, as compared to a loss of $0.4 million in the nine months ended September 30, 2015.

Theater System Maintenance

Theater system maintenance revenue increased 9.8% to $30.0 million in the nine months ended September 30, 2016 from $27.3 million in the nine months ended September 30, 2015. Theater system maintenance gross margin increased to $10.2 million in the nine months ended September 30, 2016 from $9.9 million in the nine months ended September 30, 2015. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

Joint Revenue Sharing Arrangements

Revenues from joint revenue sharing arrangements was $66.9 million in the nine months ended September 30, 2016, as compared to $67.3 million in the nine months ended September 30, 2015. As at September 30, 2016, the Company's theater network included 592 theaters operating under joint revenue sharing arrangements, as compared to 498 theaters at the end of nine months ended September 30, 2015, an increase of 18.9%. During the nine months ended September 30, 2016, the Company installed 63 full, new theaters under joint revenue sharing arrangements, as compared to 48 full new theaters during the nine months ended September 30, 2015.

The gross margin from joint revenue sharing arrangements was $44.7 million in the nine months ended September 30, 2016, as compared to $46.8 million in the nine months ended September 30, 2015. Included in the calculation of gross margin for the nine months ended September 30, 2016 were certain advertising, marketing and commission costs primarily associated with new theater launches of $2.9 million, as compared to $2.7 million for such expenses in the nine months ended September 30, 2015.

Film

Revenue from the Company's film segments was $88.5 million in the nine months ended September 30, 2016 as compared to $83.9 million in the nine months ended September 30, 2015. Gross box-office generated by IMAX DMR films increased 3.1% to $719.1 million in the nine months ended September 30, 2016 from $697.5 million in the nine months ended September 30, 2015, primarily due to continued network growth. Film production and IMAX DMR revenues increased 4.8% to $78.8 million in the nine months ended September 30, 2016 from $75.1 million in the nine months ended September 30, 2015. Gross box-office per screen for the nine months ended September 30, 2016 averaged $732,600 in comparison to $829,000 in the nine months ended September 30, 2015. In the nine months ended September 30, 2016, gross box-office was generated primarily from the exhibition of 48 films listed below (42 new and 6 carryovers) which was consistent with the 48 (37 new and 11 carryover) films exhibited in the nine months ended September 30, 2015:

Nine Months Ended September 30, 2016 — Films Exhibited

Interstellar: The IMAX *Experience*
Mad Max: Fury Road: An IMAX *3D Experience*
The Walk: The IMAX *Experience*
The Martian: An IMAX *3D Experience*
Mojin: The Lost Legend (aka "The Ghouls"):An IMAX *3D Experience*
Star Wars: The Force Awakens: An IMAX *3D Experience*
The Revenant: The IMAX *Experience*
The Finest Hours: An IMAX *3D Experience*
Kung Fu Panda 3: An IMAX *3D Experience*
The Monkey King 2: An IMAX *3D Experience*
Crouching Tiger, Hidden Dragon: Sword of Destiny: An IMAX *3D Experience*
Deadpool: The IMAX *Experience*
Gods of Egypt: An IMAX *3D Experience*
Zootopia: An IMAX *3D Experience*
10 Cloverfield Lane: The IMAX *Experience*
The Divergent Series: Allegiant: The IMAX *Experience*
Batman v Superman: Dawn of Justice: An IMAX *3D Experience*
The Crew: An IMAX *3D Experience*

Nine Months Ended September 30, 2015 — Films Exhibited

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

Nine Months Ended September 30, 2016 — Films Exhibited

The Jungle Book: An IMAX *3D Experience*
Captain America: Civil War: An IMAX *3D Experience*
X-Men: Apocalypse: An IMAX *3D Experience*
Alice in Wonderland: Through the Looking Glass: An IMAX *3D Experience*
Teenage Mutant Ninja Turtles: Out of the Shadows: An IMAX *3D Experience*
Warcraft: An IMAX *3D Experience*
Finding Dory: An IMAX *3D Experience*
Independence Day: Resurgence: An IMAX *3D Experience*
The Legend of Tarzan: An IMAX *3D Experience*
Ice Age: Collision Course: An IMAX *3D Experience*
The BFG: An IMAX *3D Experience*
Jason Bourne: The IMAX *Experience*
Godzilla: Resurgence: The IMAX *Experience*
Cold War 2: An IMAX *3D Experience*
The Secret Life of Pets: An IMAX *3D Experience*
Ghostbusters: An IMAX *3D Experience*
For a Few Bullets: The IMAX *Experience*
Star Trek Beyond: An IMAX *3D Experience*
League of Gods: An IMAX *3D Experience*
Skiptrace: An IMAX *3D Experience*
Time Raiders: An IMAX *3D Experience*
Suicide Squad: An IMAX *3D Experience*
Ben-Hur: An IMAX *3D Experience*
Sully: The IMAX *Experience*
My War: An IMAX *3D Experience*
The Magnificent Seven: The IMAX *Experience*
Storks: An IMAX *3D Experience*
The Duelist: The IMAX *Experience*
Deepwater Horizon: The IMAX *Experience*
L.O.R.D.: An IMAX *3D Experience*

Nine Months Ended September 30, 2015 — Films Exhibited

Wolf Totem: An IMAX *3D Experience*
Dragon Blade: An IMAX *3D Experience*
Focus: The IMAX *Experience*
Chappie: The IMAX *Experience*
Cinderella: The IMAX *Experience*
The Divergent Series: Insurgent: An IMAX *3D Experience*
Furious 7: The IMAX *Experience*
The Water Diviner: The IMAX *Experience*
Dragon Ball Z: Resurrection of 'F': An IMAX *3D Experience*
The Avengers: Age of Ultron: An IMAX *3D Experience*
Tomorrowland: The IMAX *Experience*
Jurassic World: An IMAX *3D Experience*
Terminator Genisys: An IMAX *3D Experience*
San Andreas: An IMAX *3D Experience*
Mad Max: Fury Road: An IMAX *3D Experience*
Inside Out: An IMAX *3D Experience*
The Maze Runner: The IMAX *Experience*
The Monk Comes Down the Mountain: An IMAX *3D Experience*
Minions: An IMAX *3D Experience*
Monster Hunt: An IMAX *3D Experience*
Ant-Man: An IMAX *3D Experience*
Pixels: An IMAX *3D Experience*
Mission: Impossible — Rogue Nation: The IMAX *Experience*
Attack on Titan: Part 1: The IMAX *Experience*
To the Fore: The IMAX *Experience*
The Man from U.N.C.L.E.: The IMAX *Experience*
Go Away Mr. Tumor: The IMAX *Experience*
The Transporter Refueled: The IMAX *Experience*
Everest: An IMAX *3D Experience*
Attack on Titan: Part 2: The IMAX *Experience*
Lost in Hong Kong: The IMAX *Experience*
The Walk: An IMAX *3D Experience*

Other revenues attributable to the film segment increased to $9.8 million in the nine months ended September 30, 2016 from $8.8 million in the nine months ended September 30, 2015, primarily due to an increase in film distribution revenue from IMAX original films. The nine months ended September 30, 2016 includes the release of an IMAX original production, *A Beautiful Planet* on April 29, 2016, whereas no original films were released in the prior year comparative period.

The Company's gross margin from its film segments decreased 3.3% in the nine months ended September 30, 2016 to $54.4 million from $56.3 million in the nine months ended September 30, 2015. Film production and IMAX DMR gross margins decreased to $52.4 million from $55.6 million primarily due to higher costs, including marketing and print and sound. Other gross margin attributable to the film segment was $2.0 million in the nine months ended September 30, 2016, as compared to $0.6 million in the nine months ended September 30, 2015, primarily due to the release and performance of *A Beautiful Planet*; in the current year period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $92.7 million in the nine months ended September 30, 2016, as compared to $82.3 million in the nine months ended September 30, 2015. Selling, general and administrative expenses excluding the impact of stock-based compensation were $70.2 million in the nine months ended September 30, 2016, as compared to $67.4 million in the nine months ended September 30, 2015. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

- a $7.6 million increase in the Company's stock-based compensation;

- a $4.0 million increase in staff costs related to the core business, including salaries and benefits; and

- a $0.2 million net increase in other general corporate expenditures, including travel and entertainment.

These increases were offset by a $1.4 million decrease due to a change in foreign exchange rates. During the nine months ended September 30, 2016, the Company recorded a foreign exchange loss of $0.1 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of $1.5 million recorded in the nine months ended September 30, 2015.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of $0.6 million in the nine months ended September 30, 2016, as compared to $0.7 million in the nine months ended September 30, 2015.

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

Asset Impairments and Other Charges

In the nine months ended September 30, 2016, the Company recognized a $0.2 million other-than-temporary impairment of its investments as the value is not expected to recover based on the length of time and extent to which the market value has been less than cost. In the nine months ended September 30, 2015, the Company recognized a similar charge of $0.4 million.

In the nine months ended September 30, 2016, the Company recorded a charge related to property, plant and equipment of $0.8 million reflecting assets that no longer meet the capitalization requirements, as compared to $1.5 million in the nine months ended September 30, 2015.

In the nine months ended September 30, 2016, the Company recorded a charge of $1.0 million reflecting the carrying value of a documentary film asset that exceeded the expected revenues generated from estimated future gross box-office. No such charge was recognized in the nine months ended September 30, 2015.

Interest Income and Expense

Interest income was $1.2 million in the nine months ended September 30, 2016, as compared to $0.7 million in the nine months ended September 30, 2015.

Interest expense was $1.3 million in the nine months ended September 30, 2016, as compared to $1.2 million in the nine months ended September 30, 2015. Included in interest expense is the amortization of deferred finance costs in the amount of $0.4 million and $0.7 million in the nine months ended September 30, 2016 and 2015, respectively. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Income Taxes

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

As at September 30, 2016, the Company had a gross deferred income tax asset of $26.5 million, against which the Company is carrying a $0.3 million valuation allowance. For the nine months ended September 30, 2016, the Company recorded an income tax provision of $9.6 million, of which a provision of less than $0.1 million was related to an increase in its provision for uncertain tax positions.

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

Non-Controlling Interests

The Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the IMAX China IPO as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the nine months ended September 30, 2016, the net income attributable to non-controlling interests of the Company's subsidiaries was $7.4 million (2015 — $5.0 million).

LIQUIDITY AND CAPITAL RESOURCES

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

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

Total amounts drawn and available under the Credit Facility at September 30, 2016 were $nil and $200.0 million, respectively (December 31, 2015 — $nil and $200.0 million, respectively).

Under the Credit Facility, the effective interest rate for the nine months ended September 30, 2016 was nil, as no amounts were outstanding during the period (2015 — nil).

The Credit Facility provides that the Company is required at all times to satisfy a Minimum Liquidity Test (as defined in the Credit Agreement) of at least $50.0 million. The Company is also required to maintain minimum EBITDA (as defined in the Credit Agreement) of $100.0 million. The Company is also required to maintain a Maximum Total Leverage Ratio (as defined in the Credit Agreement) of 2.25:1.0, which requirement decreases to (i) 2.0:1.0 on December 31, 2016; and (ii) 1.75:1.0 on December 31, 2017. The Company was in compliance with all of these requirements at September 30, 2016. The Maximum Total Leverage Ratio was 0.21:1 as at September 30, 2016, where Total Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments and was $28.2 million. EBITDA is calculated as follows:

EBITDA per Credit Facility: ***(In thousands of U.S. Dollars)***	**For the Three Months Ended September 30, 2016**	For the Twelve Months Ended September 30, 2016[1]
Net income	**$ 4,384**	$ 53,489
Add (subtract):		
Loss from equity accounted investments	**690**	3,263
Provision for income taxes	**2,551**	17,279
Interest expense, net of interest income	**99**	358
Depreciation and amortization, including film asset amortization	**11,984**	45,036
Write-downs, net of recoveries including asset impairments and receivable provisions	**1,654**	3,700
Stock and other non-cash compensation	**7,882**	30,071
EBITDA before non-controlling interests	**29,244**	153,196
EBITDA attributable to non-controlling interests[2]	**(4,738)**	(20,006)
EBITDA attributable to common shareholders	**$ 24,506**	$ 133,190

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

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

Cash and Cash Equivalents

As at September 30, 2016, the Company's principal sources of liquidity included cash and cash equivalents of $218.1 million, the Credit Facility, anticipated collection from trade accounts receivable of $89.2 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of $23.4 million and payments expected in the next 12 months on existing backlog deals. As at September 30, 2016, the Company did not have any amount drawn on the Credit Facility (remaining availability of $200.0 million), and the Company had $28.2 million drawn on the Playa Vista Loan. There were $nil letters of credit and advance payment guarantees outstanding under the Credit Facility and $0.1 million under the Bank of Montreal Facility. Cash held outside of Canada as at September 30, 2016 was $140.1 million (December 31, 2015 — $122.2 million).

During the nine months ended September 30, 2016, the Company's operations provided cash of $45.3 million which reflects a $12.5 million increase in inventory primarily due to the anticipated roll-out of its theater systems. The Company used cash of $161.4 million to repurchase common shares, fund capital expenditures, to build equipment for use in joint revenue sharing arrangements, to purchase other intangible assets, and to purchase property, plant and equipment. Based on management's current operating plan for 2016, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements and to fund DMR agreements with studios. Cash flows from joint revenue sharing arrangements are derived from the theater box-office and concession revenues and the Company invested directly in the roll out of 33 new theater systems under joint revenue sharing arrangements during the nine months ended September 30, 2016.

In 2014, the Company's Board of Directors approved a $150.0 million share repurchase program for shares of the Company's common stock, which program was amended on April 20, 2016 to increase the aggregate purchase allowance to $200.0 million. Purchases under the program commenced in 2014, and the program expires June 30, 2017. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares, and the share repurchase program may be suspended or discontinued by the Company at any time. During the nine months ended September 30, 2016, the Company repurchased 3,290,512 common shares under the repurchase program at an average price of $30.48 per share. The retired shares were purchased for $100.4 million.

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

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

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

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

The Company's operating cash flow will be adversely affected if management's projections of future signings for theater systems and film performance, theater installations and film productions are not realized. The Company forecasts its short-term liquidity requirements on a quarterly and annual basis. Since the Company's future cash flows are based on estimates and there may be factors that are outside of the Company's control (see "Risk Factors" in Item 1A in the Company's 2015 Form 10-K), there is no guarantee that the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company's typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

Operating Activities

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

Cash provided by operating activities amounted to $45.3 million for the nine months ended September 30, 2016. Changes in other non-cash operating assets as compared to December 31, 2015 include: a decrease of $6.6 million in accounts receivable; an increase of $1.1 million in financing receivables; an increase of $12.5 million in inventories; an increase of $1.9 million in prepaid expenses; and a change in other assets of $0.9 million which includes an increase of $1.3 million in other assets, offset by a decrease of $0.3 million in commissions and other deferred selling expenses, and a decrease of $0.1 million in insurance recoveries. Changes in other operating liabilities as compared to December 31, 2015 include: a decrease in deferred revenue of $7.8 million related to amounts relieved from deferred revenue related to theater system installations, offset by backlog payments received in the current period; a decrease in accounts payable of $6.6 million; and a decrease of $5.2 million in accrued liabilities.

Investing Activities

Net cash used in investing activities amounted to $38.5 million in nine months ended September 30, 2016, which includes purchases of $10.0 million in property, plant and equipment, an investment in joint revenue sharing equipment of $25.5 million and an investment in other intangible assets of $2.9 million, primarily related to the Company's enterprise resource planning system.

Financing Activities

Net cash used in financing activities in the nine months ended September 30, 2016 amounted to $106.3 million as compared to $33.6 million provided by financing activities in the nine months ended September 30, 2015. In the nine months ended September 30, 2016, the Company paid $100.4 million for the repurchase of common shares under the Company's share repurchase program and $8.4 million to purchase treasury stock for the issuance of restricted share units and options. In addition, the Company paid $3.0 million of taxes relating to secondary sales and repatriation dividends and $0.2 million of taxes relating to employee stock award vesting. Furthermore, the Company also made $1.5 million in repayments under the Playa Vista Loan. These cash outlays were offset by $7.2 million received from the issuance of common shares resulting from stock option exercises.

Capital Expenditures

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, other intangible assets and investments in film assets were $52.7 million for the nine months ended September 30, 2016 as compared to $75.1 million for the nine months ended September 30, 2015.

CONTRACTUAL OBLIGATIONS

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

		Payments Due by Period					
(In thousands of U.S. Dollars)	**Total Obligations**	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
Purchase obligations[1]	**$ 31,699**	**$ 18,591**	**$ 13,078**	**$ 30**	**$ —**	**$ —**	**$ —**
Pension obligations[2]	**19,871**	**—**	**19,871**	**—**	**—**	**—**	**—**
Operating lease obligations[3]	**18,915**	**2,262**	**5,248**	**4,501**	**2,350**	**612**	**3,942**
Playa Vista Loan[4]	**28,167**	**500**	**2,000**	**2,000**	**2,000**	**2,000**	**19,667**
Postretirement benefits obligations	**2,652**	**130**	**154**	**168**	**181**	**150**	**1,869**
	$ 101,304	**$ 21,483**	**$ 40,351**	**$ 6,699**	**$ 4,531**	**$ 2,762**	**$ 25,478**

(1) The Company's total payments to be made under binding commitments with suppliers and outstanding payments to be made for supplies ordered but yet to be invoiced.

(2) The SERP assumptions are that Mr. Gelfond will receive a lump sum payment six months after retirement at the end of the current term of his employment agreement (December 31, 2016), although Mr. Gelfond has not informed the Company that he intends to retire at that time, and is currently in discussions regarding an extenuation of his employment agreement with the Company.

(3) The Company's total minimum annual rental payments to be made under operating leases, mostly consisting of rent at the Company's property in New York and at the various owned and operated theaters.

(4) The Playa Vista Loan is fully due and payable on October 19, 2025. The Company is required to make monthly payments of combined principal and interest.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

Foreign Exchange Rate Risk

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In addition, IMAX films generate box office in 74 different countries, and therefore unfavorable exchange rates between applicable local currencies and the U.S. dollar could have an impact on the Company's reported gross box office and revenues. The Company has incoming cash flows from its revenue generating theaters and ongoing operating expenses in China through its majority-owned subsidiary IMAX (Shanghai) Multimedia Technology Co., Ltd. In Japan, the Company has ongoing Yen-denominated operating expenses related to its Japanese operations. Net Renminbi and Japanese Yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Renminbi, Japanese Yen, Euros and Canadian dollars.

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

For the three and nine months ended September 30, 2016, the Company recorded a foreign exchange loss of $0.2 million and a loss of $0.1 million as compared to a foreign exchange loss of $0.5 million and loss of $1.5 million for the three and nine months ended September 30, 2015, associated with the translation of foreign currency denominated monetary assets and liabilities.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 2016 and 2017. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statements of operations except for derivatives designated and qualifying as foreign currency hedging instruments. All foreign currency forward contracts held by the Company as at September 30, 2016, are designated and qualify as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statements of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The notional value of foreign currency hedging instruments at September 30, 2016 was $26.9 million (December 31, 2015 — $30.7 million). A loss of $0.3 million and a gain of $1.9 million was recorded to Other Comprehensive Income with respect to the depreciation/appreciation in the value of these contracts for the three and nine months ended September 30, 2016 (2015 — loss of $2.3 million and loss of $5.0 million). A loss of $0.6 million and a loss of $2.6 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses for the three and nine months ended September 30, 2016 (2015 — loss of $1.0 million and loss of $2.2 million). The Company's estimated net amount of the existing gains as at September 30, 2016 is $0.1 million, which is expected to be reclassified to earnings within the next twelve months. Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses.

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

At September 30, 2016, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros was $50.8 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2016, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been $5.1 million. A significant portion of the Company's selling, general, and administrative expenses is denominated in Canadian dollars. Assuming a 1% change appreciation or depreciation in foreign currency exchange rates at September 30, 2016, the potential change in the amount of selling, general, and administrative expenses would be $0.1 million for every $10.0 million in Canadian denominated expenditures.

Item 4. ***Controls and Procedures***

Changes in Internal Control over Financial Reporting

During the first quarter of 2016, the Company's subsidiary, IMAX China Holding, Inc. ("**IMAX China**"), implemented a new enterprise resource planning ("**ERP**") system. The implementation of the new ERP system resulted in material changes to the nature and type of IMAX China's internal controls over financial reporting during the first half of the year. The Company reviewed the implementation effort as well as the impact on its internal controls over financial reporting and where appropriate, is making changes to these controls over financial reporting to address these system changes. The Company expects the transition period to be completed in 2016 as controls evolve under the new system. The Company believes that the internal control changes resulting from the new ERP implementation in China will improve the overall control environment. There were no other changes in the Company's internal controls over financial reporting during the quarter ended at September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Hong Kong, 20 October 2016

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

Executive Directors:
Jiande Chen
Jim Athanasopoulos
Mei-Hui Chou (Jessie)

Non-Executive Directors:
Richard Gelfond
RuiGang Li
Greg Foster

Independent Non-Executive Directors:
John Davison
Yue-Sai Kan
Dawn Taubin

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