

IMAX CORP
Form 10-K
February 19, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

Canada (State or other jurisdiction of incorporation or organization)	98-0140269 (I.R.S. Employer Identification Number)
2525 Speakman Drive, Mississauga, Ontario, Canada L5K 1B1	110 E. 59th Street, Suite 2100 New York, New York, USA 10022
(905) 403-6500 (Address of principal executive offices, zip code, telephone numbers)	(212) 821-0100

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

Title of Each Class Common Shares, no par value	Name of Exchange on Which Registered The New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

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Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting Company
Indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of the
Act). Yes No

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, computed by reference to the last sale price of such shares as of the close of trading on June 30, 2014 was \$1,651.6 million.

As of January 31, 2015, there were 68,988,050 common shares of the registrant outstanding.

Document Incorporated by Reference

Portions of the registrant's definitive Proxy Statement to be filed within 120 days of the close of IMAX Corporation's fiscal year ended December 31, 2014, with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors and the annual meeting of the stockholders of the registrant (the Proxy Statement) are incorporated by reference in Part III of this Form 10-K to the extent described therein.

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December 31, 2014

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Unless otherwise indicated, all dollar amounts in this document are expressed in United States (U.S.) dollars. The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in the City of New York for cable transfers in foreign currencies as certified for customs purposes by the Bank of Canada (the Noon Buying Rate). Such rates quoted are the number of U.S. dollars per one Canadian dollar and are the inverse of rates quoted by the Bank of Canada for Canadian dollars per U.S. \$1.00. The average exchange rate is based on the average of the exchange rates on the last day of each month during such periods. The Noon Buying Rate on December 31, 2014 was U.S. \$0.8620.

	Years Ended December 31,				
	2014	2013	2012	2011	2010
Exchange rate at end of period	0.8620	0.9402	1.0051	0.9833	1.0054
Average exchange rate during period	0.9022	0.9713	1.0006	1.0151	0.9709
High exchange rate during period	0.9422	1.0164	1.0299	1.0583	1.0054
Low exchange rate during period	0.8589	0.9348	0.9599	0.9430	0.9278

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this annual report may constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business and technology strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business, operations and technology, plans and references to the future success of IMAX Corporation together with its wholly-owned subsidiaries (the Company) and expectations regarding the Company s future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, the signing of theater system agreements; conditions, changes and developments in the commercial exhibition industry; the performance of IMAX DMR films; the potential impact of increased competition in the markets within which the Company operates; competitive actions by other companies; the failure to respond to change and advancements in digital technology; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; risks related to the Company s growth and operations in China; the Company s largest customer accounting for a significant portion of the Company s revenue and backlog; risks related to new business initiatives; conditions in the in-home and out-of-home entertainment industries; the opportunities (or lack thereof) that may be presented to and pursued by the Company; risks related to the Company s inability to protect the Company s intellectual property; risks related to the Company s implementation of a new enterprise resource planning system; general economic, market or business conditions; the failure to convert theater system backlog into revenue; changes in laws or regulations; risks related to the Company s dependence on a sole supplier for its analog film; risks related to cyber-security; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements, and actual results or anticipated developments by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or

effects on, the Company. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

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

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PART I

Item 1. Business
GENERAL

IMAX Corporation, together with its wholly-owned subsidiaries (the Company), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. 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 theater network is among the most important and successful theatrical distribution platforms for major event films around the world.

The Company's principal businesses are:

the design and manufacture of premium theater systems (IMAX theater systems) and the sale, lease or contribution of those systems to customers under theater system arrangements; and

the Digital Re-Mastering of films into the IMAX format and the exhibition of those films in the IMAX theater network.

IMAX theater systems are based on proprietary and patented technology developed over the course of the Company's 47-year history. The Company's customers who purchase, lease or otherwise acquire the IMAX theater systems 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 to exhibitors along with the sale, lease or contribution of its equipment. The Company refers to all theaters using the IMAX theater system as IMAX theaters.

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 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.

The Company believes the IMAX theater network is the most extensive premium theater network in the world with 934 theater systems (828 commercial, 106 institutional) operating in 62 countries as at December 31, 2014. This compares to 837 theater systems (720 commercial, 117 institutional) operating in 57 countries as at December 31, 2013. The success of the Company's digital and joint revenue sharing strategies and the strength of its film slate has enabled the Company's theater network to expand significantly since the beginning of 2008, with the Company's overall network increasing by 212% and its commercial network increasing by 363%. In 2014 and 2013, the Company signed theater agreements for 118 and 277 theater systems, respectively, which are expected to drive additional growth in the Company's theater network in 2015 and thereafter.

The Company has identified approximately 1,700 IMAX zones worldwide. The Company believes that these zones present the potential for the IMAX theater network to grow significantly from the 809 commercial multiplex IMAX theaters operating as of December 31, 2014. While the Company continues to grow domestically, particularly in small to mid-tier markets, a significant

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portion of the Company's recent growth has come from international markets, a trend that the Company anticipates will continue into the future. In fact, 2013 marked the first year in the Company's history that revenues and gross box-office derived from outside the United States and Canada exceeded revenues and gross box-office from the United States and Canada. This trend has continued in 2014, when 77.1% of the Company's 118 new theater signings were for theaters in international markets. Key international growth markets include Greater China (which includes the People's Republic of China, Hong Kong, Taiwan and Macau), Japan, Latin America (which includes South America, Central America and Mexico) and Eastern and Western Europe.

Greater China continues to be the Company's second-largest and fastest-growing market. As at December 31, 2014, the Company had 234 theaters operating in Greater China and an additional 217 theaters (including 2 upgrades) in backlog which represents 54.7% of the Company's current backlog and which are scheduled to be installed in Greater China by 2021. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. The Company's largest single international partnership is in China with Wanda Cinema Line Corporation (Wanda). Wanda's total commitment to the Company is for 210 IMAX theater systems, of which 195 theater systems are under the parties' joint revenue sharing arrangement. Furthermore, the Company has a partnership with CJ CGV Holdings, Ltd., for a commitment of 95 IMAX theater systems, of which 75 theater systems will reside in China. The Company believes that the China market presents opportunities for additional growth with favorable market trends, including government initiatives to foster cinema screen growth, to support the film industry and to increase the number of Hollywood films distributed in China. Recent initiatives include a 2012 agreement between the U.S. and Chinese governments to permit 14 additional IMAX or 3D format films to be distributed in China each year and to permit distributors to receive higher distribution fees. The Company cautions, however, that its expansion in China faces a number of challenges. See Risk Factors – The Company faces risks in connection with the continued expansion of its business in China – in Item 1A.

In 2010, the Company formed IMAX China Holding, Inc. (IMAX China) to facilitate the Company's expansion in China. As of December 31, 2014, IMAX China had offices in Shanghai and Beijing and a total of 62 employees. On April 8, 2014, the Company announced the investment (the IMAX China Investment) in its Greater China business by CMC Capital Partners (CMC), an investment fund that is focused on media and entertainment, and FountainVest Partners (FountainVest), a China-focused private equity firm. The IMAX China Investment provides for the sale and issuance of 20% of the shares of IMAX China to entities owned and controlled by CMC and FountainVest, with the intent of further strengthening the Company's competitive position in China.

The Company believes there have been a number of financial, strategic and operating benefits resulting from the IMAX China Investment. In particular, the Company believes that the investors' knowledge of, and influence in, the Chinese media and entertainment industry has contributed to the continued expansion of IMAX's theater network in China, and the further strengthening of the Company's government and industry relationships within China.

The sale price for the interest was \$80.0 million, to be paid by the investors in two equal installments. The first installment was received on April 8, 2014, and the second installment was received on February 10, 2015. IMAX China remains a consolidated subsidiary of the Company.

Over the years, several technological breakthroughs have established IMAX as an important distribution platform for Hollywood's biggest event films. These include:

DMR – IMAX's proprietary DMR technology digitally converts live-action digital films or 35mm to its large-format, while meeting the Company's high standards of image and sound quality. In a typical IMAX DMR

film arrangement, the Company will receive a percentage, which generally ranges from 10-15%, of net box-office receipts of a film from the film studio in exchange for the conversion of the film to the IMAX DMR format and for access to the IMAX distribution platform. At December 31, 2014, the Company had released 197 IMAX DMR films since the introduction of IMAX DMR in 2002. The number of films released on an annual basis that have been converted through the DMR process has increased significantly in recent years with the advent of digital technology that has reduced the DMR conversion time and with the strengthening of the Company's relationships with major Hollywood studios. Accordingly, 40 films converted through the IMAX DMR process were released in 2014, as compared to 6 in 2007.

IMAX Digital Projection System The Company introduced its digital xenon projection system in 2008. Prior to 2008, all of IMAX's large format projectors were film-based and required analog film prints. The IMAX digital projection system, which operates without the need for such film prints, was designed specifically for use by commercial multiplex operators and allows operators to reduce the capital and operating costs required to run an IMAX theater without sacrificing the image and sound quality of *The IMAX Experience*. By making *The IMAX Experience* more accessible for commercial multiplex operators, the introduction of the IMAX digital projection system paved the way for a number of important joint revenue sharing arrangements

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which have allowed the Company to rapidly expand its theater network. Since announcing that the Company was developing digital projection technology, the vast majority of the Company's theater system signings have been for digital systems. As at December 31, 2014, the Company has signed agreements for 1,149 xenon-based digital systems since 2007 (including the upgrade of film-based systems), 108 of which were signed in 2014 alone. As at December 31, 2014, 817 IMAX digital xenon projection systems were in operation, an increase of 17.4% over the 696 digital projection systems in operation as at December 31, 2013.

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. Accordingly, one of the Company's key short-term initiatives has been the development of a next-generation laser-based digital projection system, which it began rolling out at the end of 2014. In order to develop the laser-based digital projection system, the Company obtained exclusive rights to certain laser projection technology and other technology with applicability in the digital cinema field from Eastman Kodak Company (Kodak) in 2011 and entered a co-development arrangement with Barco N.V. (Barco) to co-develop a laser-based digital projection system that incorporates Kodak technology in 2012. Furthermore, in 2014, the Company announced an agreement with Necsel IP, Inc. (Necsel) to be the exclusive worldwide provider of specified lasers for IMAX's laser projection systems in exchange for preferred pricing and supply terms. The Company believes that these arrangements with Kodak, Barco and Necsel enable IMAX laser projectors to present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The Company also believes that its laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network. As of December 31, 2014, the Company had 71 laser-based digital theater systems in its backlog, one of which is now operational.

The Company is also undertaking new lines of business, particularly in the area of home entertainment. In 2013, the Company announced new home theater initiatives, including a joint venture with TCL Multimedia Technology Holding Limited (TCL) to design, develop, manufacture and sell a premium home theater system. The Company and TCL expect to launch the new home theater system in China, the Middle East and other select global markets in 2015. In April 2014, the Company, TCL and Wasu Digital TV media group (WASU) announced a joint-venture partnership whereby WASU will license and distribute IMAX-enhanced Hollywood and Chinese current theatrical and other content to the new home theater system. The Company is also developing other, related facets of a premium home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*[®] in their homes.

In addition to the design and manufacture of premium theater systems, the Company is also engaged in the production and distribution of original large-format films, the provision of services in support of the IMAX theater network, the provision of post-production services for large-format films, the operation of three IMAX theaters and, from time-to-time the conversion of two-dimensional (2D) and three-dimensional (3D) Hollywood feature films for exhibition on IMAX theater systems around the world. IMAX Corporation, a Canadian corporation, was formed in March 1994 as a result of an amalgamation between WGIM Acquisition Corp. and the former IMAX Corporation (Predecessor IMAX). Predecessor IMAX was incorporated in 1967.

On May 21, 2014, the Company announced the creation of the IMAX Original Film Fund (the Film Fund) to co-finance a portfolio of 10 original large-format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company, which will contribute \$9.0 million to the Film Fund over five years, anticipates the Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous, steady flow of high-quality documentary content.

The Company also recently began marketing and selling the IMAX Private Theatre, a cinema-grade, ultra-premium home theater system, and has signed agreements for 7 of such theaters to date.

PRODUCT LINES

The Company believes it is the world's largest designer and manufacturer of specialty premium projection and sound system components for large-format theaters around the world, as well as a significant producer and distributor of large-format films. The Company's theater systems include specialized IMAX projectors, advanced sound systems and specialty screens. The Company derives its revenues from:

IMAX theater systems (design, manufacture, sale or lease of, and provision of services related to, its theater systems);

Films (production and digital re-mastering of films, the distribution of film products to the IMAX theater network, post-production and print services for films);

Joint revenue sharing arrangements (the provision of its theater system to an exhibitor in exchange for a certain percentage of theater revenue and, in some cases, a small upfront or initial payment);

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Theater system maintenance (the use of maintenance services related to its theater systems); and

Other activities, which include theater operations (owning equipment, operating, managing or participating in the revenues of IMAX theaters), the sale of after-market parts and camera rentals.

Segmented information is provided in note 19 to the accompanying audited consolidated financial statements in Item 8.

IMAX Theater Systems, Theater System Maintenance and Joint Revenue Sharing Arrangements

The Company's primary products are its theater systems. The Company's digital projection systems include a projector that offers superior image quality and stability and a digital theater control system; a 6-channel, digital audio system delivering up to 12,000 watts of sound; a screen with a proprietary coating technology, and, if applicable, 3D glasses cleaning equipment. IMAX's digital projection system also operates without the need for analog film prints. Traditional IMAX film-based theater systems contain the same components as the digital projection systems but include a rolling loop 15/70-format projector and require the use of analog film prints. Since its introduction in 2008, the vast majority of the Company's theater sales have been digital systems. Furthermore, a majority of the Company's existing film-based theater systems have been upgraded, at a cost to the exhibitor, to an IMAX digital system. As part of the arrangement to sell or lease its theater systems, the Company provides extensive advice on theater planning and design and supervision of installation services. Theater systems are also leased or sold with a license for the use of the world-famous IMAX brand. IMAX theater systems consist of the following configurations:

IMAX digital systems, which are digital-based theater systems, represents 87.5% of the IMAX theater network;

IMAX GT projection systems, which are film-based theater systems for the largest IMAX theaters;

IMAX SR systems, which are film-based theater systems for smaller theaters than the IMAX GT systems; and

theater systems featuring heavily curved and tilted screens that are used in dome-shaped theaters.

The Company has installed one digital laser-based theater system and is expecting the roll-out of additional laser systems in 2015.

The Company's digital projection system provides a premium and differentiated experience to moviegoers that is consistent with what they have come to expect from the IMAX brand, while providing for the compelling economics and flexibility that digital technology affords. The relatively low cost of a digital file delivery (approximately \$100 per movie per system compared to \$30 thousand per 2D print and \$60 thousand per 3D print for an IMAX analog film print) ensures programming flexibility, which in turn allows theaters to program significantly more IMAX DMR films per year. More programming increases customer choice and potentially increases total box-office revenue significantly. In 2014, 40 films converted through the IMAX DMR process were released to the IMAX theater network as compared to 6 films in 2007. To date, the Company has contracted for the release of 26 DMR titles to its theater network for 2015; however, the Company expects a similar number of films to be released to the network in

2015 as experienced in 2014. The Company remains in active discussions with all the major studios regarding future titles for 2015 and beyond. Furthermore, the Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in 2015 and beyond. Supplementing the Company's film slate of Hollywood DMR titles with appealing local DMR titles is an important component of the Company's international film strategy.

To complement its viewing experience, the Company provides digital sound system components which are specifically designed for IMAX theaters. These components are among the most advanced in the industry and help to heighten the realistic feeling of an IMAX presentation, thereby providing IMAX theater systems with an important competitive edge over other theater systems. The Company believes it is a world leader in the design and manufacture of digital sound system components for applications including traditional movie theaters, auditoriums and IMAX theaters.

The GT, SR and IMAX digital systems are flat screens that have a minimum of curvature and tilt and can exhibit both 2D and 3D films, while the screen components in dome shaped theaters are 2D only and are popular with the Company's institutional clients. All IMAX theaters, with the exception of dome configurations, feature a steeply inclined floor to provide each audience member with a clear view of the screen. The Company holds patents on the geometrical design of IMAX theaters.

The Company's arrangements for theater system equipment involve a sale, sales-type lease or joint revenue sharing arrangement. As part of the purchase, lease or other acquisition of an IMAX theater system, the Company also advises the customer on theater design, supervises the installation of the theater systems and provides projectionists with training in using the equipment. The supervision of installation requires that the equipment also be put through a complete functional start-up and test procedure to ensure

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proper operation. Theater owners or operators are responsible for providing the theater location, the design and construction of the theater building, the installation of the system components and any other necessary improvements, as well as the theater's marketing and programming. The Company's typical arrangement also includes trademark license rights whose term tracks the term of the underlying agreement. The theater system equipment components (including the projector, sound system, screen system, and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and trademark rights are all elements of what the Company considers the system deliverable (the System Deliverable). For a separate fee, the Company provides ongoing maintenance and extended warranty services for the theater system. The Company's contracts are generally denominated in U.S. dollars, except in Canada, China, Japan and parts of Europe, where contracts are sometimes denominated in local currency.

Sales-type leases generally have a 10-year initial term and are typically renewable by the customer for one or more additional 5 to 10-year terms. Under the terms of the typical lease agreement, the title to the theater system equipment (including the projector, the sound system and the projection screen) remains with the Company. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally not cancelable by the customer unless the Company fails to perform its obligations.

Under a sales agreement, by contrast, the title to the theater system transfers 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.

The typical sales-type lease or sales arrangement provides for three major sources of cash flows for the Company: (i) initial fees; (ii) ongoing minimum fixed and contingent fees; and (iii) ongoing maintenance and extended warranty fees. Initial fees generally are received over the period of time from the date the arrangement is executed to the date the equipment is installed and customer acceptance has been received. However, in certain cases, the payments of the initial fee may be scheduled over a period of time after the equipment is installed and customer acceptance has been received. Ongoing minimum fixed and contingent fees and ongoing maintenance and extended warranty fees are generally received over the life of the arrangement and are usually adjusted annually based on changes in the local consumer price index. The ongoing minimum fixed and contingent fees generally provide for a fee which is the greater of a fixed amount or a certain percentage of the theater box-office. The terms of each arrangement vary according to the configuration of the theater system provided, the cinema market and the film distribution market relevant to the geographic location of the customer.

The Company also offers certain commercial clients IMAX theater systems under joint revenue sharing arrangements. 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. In rare cases, the contract provides certain performance thresholds that, if not met by either party, allows the other party to terminate the agreement. By offering arrangements in which exhibitors do not need to invest the significant initial capital required of a sales-type lease or a sale arrangement, the Company has been able to expand its theater network at a significantly faster pace than it had previously. As at December 31, 2014, the Company has entered into joint revenue sharing arrangements for 672 systems with 41 partners, 451 of which were in operation as at December 31, 2014.

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In 2012, Dalian Wanda Group Co., Ltd., the parent company of Wanda, acquired AMC Entertainment Holdings, Inc. (AMC). Prior to this transaction, AMC and Wanda were, respectively, the Company's first and third largest customers. Under common ownership, Wanda and AMC together is the Company's largest customer, representing approximately 14.5%, 13.9% and 12.2% of the Company's total revenue in 2014, 2013 and 2012, respectively. In addition, Wanda and AMC together represented approximately 25.8% of the Company's backlog as of December 31, 2014. See Risk Factors. Under common ownership, Wanda and AMC together account for a significant and growing portion of the Company's revenue and backlog. A deterioration in the Company's relationship with Wanda and/or AMC could materially, adversely affect the Company's business, financial condition or results of operations. in Item 1A.

Sales Backlog.

The Company's sales backlog is as follows:

	December 31, 2014		December 31, 2013	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sales-type lease arrangements	176	\$ 223,482	144	\$ 177,956
Joint revenue sharing arrangements	221	45,648	263	51,983
	397 ⁽¹⁾⁽²⁾	\$ 269,130	407 ⁽¹⁾⁽³⁾	\$ 229,939

- (1) Includes 71 laser theater system configurations (2013 = 62), including upgrades and one of which is now operational. The Company continues to develop and roll out its laser projection system. See Research and Development in this Part I for additional information.
- (2) Includes 27 upgrades to a digital theater system, in an existing IMAX theater location (2 xenon and 25 laser, of which 4 are under joint revenue sharing arrangements).
- (3) Includes 23 upgrades to a digital theater system, in an existing IMAX theater location (3 xenon and 20 laser, of which 4 are under joint revenue sharing arrangements).

The number of theater systems in the backlog reflects the minimum number of commitments from signed contracts. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments. Signed contracts for theater systems are listed as sales backlog prior to the time of revenue recognition. 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 sales backlog represents the total value of all signed theater system agreements that are expected to be recognized as revenue in the future. Sales backlog includes initial fees along with the estimated present value of contractual fixed minimum fees due over the term, however it excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of contractual minimums that may be received in the future. 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, which is reflected in the table above.

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The following chart shows the number of the Company's theater systems by configuration, opened theater network base and backlog as at December 31:

	2014		2013	
	Theater Network		Theater Network	
	Base	Backlog	Base	Backlog
Flat Screen (2D)	14		22	
Dome Screen (2D)	56		58	
IMAX 3D Dome (3D)	2		2	
IMAX 3D GT (3D)	29		41	
IMAX 3D SR (3D)	16		18	
IMAX Digital: Xenon (3D)	817	326 ⁽¹⁾	696	345 ⁽³⁾
IMAX Digital: Laser (3D)		71 ⁽²⁾		62 ⁽⁴⁾
Total	934	397	837	407

- (1) Includes 2 upgrades from film-based theater systems to digital xenon theater systems in existing IMAX theater locations (1 commercial and 2 institutional).
- (2) Backlog includes 25 upgrades to IMAX digital laser theater systems from IMAX digital xenon theater systems in existing IMAX theater locations (12 commercial and 13 institutional), of which one is now operational.
- (3) Includes 3 upgrades from film-based theater systems to digital xenon theater systems in existing IMAX theater locations (all institutional).
- (4) Backlog includes 20 upgrades to IMAX digital laser theater systems from IMAX digital xenon theater systems in existing IMAX theater locations (12 commercial and 8 institutional).

The Company estimates that it will install a similar number of new theater systems (excluding digital upgrades) as the Company installed in 2014. 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.

IMAX Digital: Xenon Theater Systems. In July 2008, the Company introduced a proprietary IMAX xenon-based digital projection system that it believes delivers higher quality imagery compared with other digital systems and that is consistent with the Company's brand. As at December 31, 2014, the Company had installed 817 xenon-based digital theater systems, including 138 upgrades, and has an additional 326 xenon-based digital theater systems in its backlog.

IMAX Digital: Laser Theater Systems. One of the Company's key initiatives has been the development of a next-generation laser-based digital projection system, which it began rolling out at the end of 2014. The Company believes the IMAX laser 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, capable of illuminating the largest screens in the IMAX theater network. As at December 31, 2014, the Company had 71 laser-based digital theater systems in its backlog and one of which is now operational.

IMAX Flat Screen and IMAX Dome Theater Systems. As at December 31, 2014, there were 72 IMAX flat screen and IMAX Dome theater systems in the IMAX network, as compared to 82 IMAX flat screen and IMAX Dome theater systems as at December 31, 2013. IMAX flat screen and IMAX Dome systems primarily have been installed in institutions such as museums and science centers. Flat screen IMAX theaters were introduced in 1970, while IMAX Dome theaters, which are designed for tilted dome screens, were introduced in 1973. There have been several significant proprietary and patented enhancements to these systems since their introduction. With the introduction of the IMAX digital theater systems, there has been a decrease in the number of IMAX flat screen theater systems in the network.

IMAX 3D GT and IMAX 3D SR Theater Systems. IMAX 3D theaters utilize a flat screen 3D system, which produces realistic 3D images on an IMAX screen. As at December 31, 2014, there were 45 IMAX 3D GT and IMAX 3D SR theater systems in operation compared to 59 IMAX 3D GT and IMAX 3D SR theater systems in operation as at December 31, 2013. The decrease in the number of

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3D GT and 3D SR theater systems is largely attributable to the conversion of existing 3D GT and 3D SR theater systems to IMAX digital theater systems.

Films

Film Production and 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 technology, 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. In a typical IMAX DMR film arrangement, the Company will receive a percentage, which generally ranges from 10-15%, of net box-office receipts of a film from the film studio in exchange for the conversion of the film to the IMAX DMR format and for access to IMAX's premium distribution and marketing platform. The box-office performance of IMAX DMR releases has positioned IMAX theaters as a key premium distribution platform for Hollywood films, which is separate and distinct from their wider theatrical release.

Factors other than the IMAX DMR format, and IMAX's proprietary projection and sound technology, are increasingly differentiating IMAX content from other film content. Filmmakers are choosing IMAX cameras to shoot selected scenes to increase the audience's immersion in the film and are taking advantage of the unique dimensions of the IMAX screen by shooting the film in a larger aspect ratio. Several recent films have featured select sequences shot with IMAX cameras including *Transformers: Age of Extinction: An IMAX 3D Experience*, released in June 2014 and *Interstellar: The IMAX Experience*, released in November 2014, which featured over an hour of footage shot with IMAX film cameras. In addition, several recent movies, including *Guardians of the Galaxy: An IMAX 3D Experience*, released in August 2014 and *I, Frankenstein: An IMAX 3D Experience*, released in January 2014, have featured footage taking advantage of the larger projected IMAX aspect ratio. IMAX theaters therefore serve as an additional distribution platform for Hollywood films, just as home video and pay-per-view are ancillary distribution platforms. In some cases, the Company may also have certain distribution rights to the films produced using its IMAX DMR technology.

The IMAX DMR process involves the following:

in certain instances, scanning, at the highest possible resolution, each individual frame of the movie and converting it into a digital image;

optimizing the image using proprietary image enhancement tools;

enhancing the digital image using techniques such as sharpening, color correction, grain and noise removal and the elimination of unsteadiness and removal of unwanted artifacts;

recording the enhanced digital image onto IMAX 15/70-format film or IMAX digital cinema package (DCP) format; and

specially re-mastering the sound track to take full advantage of the unique sound system of IMAX theater systems.

The first IMAX DMR film, *Apollo 13: The IMAX Experience*, produced in conjunction with Universal Pictures and Imagine Entertainment, was released in September 2002 to 48 IMAX theaters. One of the more recent IMAX DMR films, *The Hobbit: The Battle of the Five Armies: An IMAX 3D Experience*, was released in December 2014 to 592 IMAX theaters. Since the release of *Apollo 13: The IMAX Experience*, to December 31, 2014, an additional 196 IMAX DMR films have been released to the IMAX theater network.

Recent advances in the IMAX DMR process allow the re-mastering process to meet aggressive film production schedules. The Company has decreased the length of time it takes to reformat a film with its IMAX DMR technology. *Apollo 13: The IMAX Experience*, released in September 2002, was re-mastered in 16 weeks, while certain current films can be re-mastered in less than one week. The IMAX DMR conversion of simultaneous, or day-and-date releases are done in parallel with the movie's filming and editing, which is necessary for the simultaneous release of an IMAX DMR film with the domestic release to conventional theaters.

The original soundtrack of a film to be released to the IMAX network is re-mastered for the IMAX five or six-channel digital sound systems for 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.

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The Company believes that its international expansion is an important driver of future growth for the Company. In fact, during the year ended December 31, 2014, 60.9% of the Company's gross box-office from IMAX DMR films was generated in international markets. The Company believes that the growth in international box-office has been bolstered by the Company's strategy of supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. In 2014, the Company released seven local language IMAX DMR films, including six in China and one in India, and in 2013, the Company released nine local language IMAX DMR films, including five in China and one in each of Japan, Russia, France, and India. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX network in 2015 and beyond.

In 2014, 40 films were converted through the IMAX DMR process and released to theaters in the IMAX network by film studios as compared to 38 films in 2013. These films were:

Jack Ryan: Shadow Recruit: The IMAX Experience (Paramount Pictures, January 2014);

I, Frankenstein: An IMAX 3D Experience (Lionsgate, January 2014);

The Monkey King: The IMAX Experience (Global Star Productions, January 2014, China only);

Robocop: The IMAX Experience (Metro-Goldwyn-Mayer Studios, Inc., February 2014);

300: Rise of an Empire: An IMAX 3D Experience (Warner Bros. Pictures, March 2014);

Need for Speed: An IMAX 3D Experience (Walt Disney Studios, March 2014, select international markets);

Divergent: The IMAX Experience (Summit Entertainment, March 2014);

Noah: The IMAX Experience (Paramount Pictures, March 2014);

Captain America: The Winter Soldier: An IMAX 3D Experience (Marvel Entertainment, April 2014);

Transcendence: The IMAX Experience (Warner Bros. Pictures, April 2014);

The Amazing Spider-Man 2: An IMAX 3D Experience (Sony Pictures, May 2014);

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Godzilla: An IMAX 3D Experience (Warner Bros. Pictures, May 2014);

Coming Home: The IMAX Experience (Le Vision Pictures, May 2014, China Only);

Maleficent: An IMAX 3D Experience (Walt Disney Studios, May 2014);

Edge of Tomorrow: An IMAX 3D Experience (Warner Bros. Pictures, June 2014);

How to Train Your Dragon 2: An IMAX 3D Experience (DreamWorks Animation, June 2014, select international markets);

Transformers: Age of Extinction: An IMAX 3D Experience (Paramount Pictures, June 2014);

Hercules: An IMAX 3D Experience (Paramount Pictures, July 2014);

Lucy: The IMAX Experience (Universal Pictures, August 2014);

The White Haired Witch of Lunar Kingdom: An IMAX 3D Experience (Bona Film Group, August 2014, China only);

Guardians of the Galaxy: An IMAX 3D Experience (Walt Disney Studios, August 2014);

Teenage Mutant Ninja Turtles: An IMAX 3D Experience (Paramount Pictures, August 2014);

The Expendables 3: The IMAX Experience (Lionsgate, September 2014, China only);

Forrest Gump: The IMAX Experience (Paramount Pictures, September 2014);

The Maze Runner: The IMAX Experience (20th Century Fox, September 2014);

The Equalizer: The IMAX Experience (Sony Pictures, September 2014);

Breakup Buddies: The IMAX Experience (China Film Group, September 2014, China only);

Bang Bang: The IMAX Experience (Fox Star Studios, October 2014, India only);

Dracula Untold: The IMAX Experience (Universal Studios, October 2014);

John Wick: The IMAX Experience (Summit Entertainment, October 2014);

Fury: The IMAX Experience (Sony Pictures Entertainment, October 2014, select international markets);

Interstellar: The IMAX Experience (Paramount Pictures and Warner Bros. Pictures, November 2014);

Big Hero 6: An IMAX 3D Experience (Walt Disney Studios, November 2014, select international markets);

Penguins of Madagascar: An IMAX 3D Experience (20th Century Fox, November 2014, select international markets);

Exodus: Gods and Kings: An IMAX 3D Experience (20th Century Fox, December 2014, select international markets);

The Hobbit: The Battle of the Five Armies: An IMAX 3D Experience (Warner Bros. Pictures, December 2014);

Gone with the Bullets: An IMAX 3D Experience (Dongwang Yibudaowei Films Co., December 2014, China only);

Seventh Son: An IMAX 3D Experience (Universal Studios, December 2014, China only);

The Crossing Part 1: An IMAX 3D Experience (LeVision, December 2014, China only); and

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Night at the Museum: Secret of the Tomb: An IMAX 3D Experience (20th Century Fox, December 2014, select international markets).

In addition, in 2014, the Company had a wide release of *Island of Lemurs: Madagascar*, an IMAX original production, in conjunction with Warner Bros. Pictures. Also in 2014, the Company broadly released *Journey to the South Pacific*, an IMAX original production, in conjunction with MacGillivray Freeman Films, which previously had a limited release in 2013.

To date, the Company has announced the following 26 DMR titles to be released in 2015 to the IMAX theater network:

Taken 3: The IMAX Experience (20th Century Fox, January 2015, select international markets);

American Sniper: The IMAX Experience (Warner Bros. Pictures, January 2015);

Game of Thrones: The IMAX Experience (Season 4, Episodes 9 and 10)(Warner Bros. Pictures, January 2015);

Kingsman: The Secret Service: The IMAX Experience (20th Century Fox, January 2015, international only);

Seventh Son: An IMAX 3D Experience (Universal Studios, January 2015, wide release);

Jupiter Ascending: An IMAX 3D Experience (Warner Bros. Pictures, February 2015);

Fifty Shades of Grey: The IMAX Experience (Universal Studios, February 2015, Domestic only);

Wolf Totem: The IMAX Experience (China Film Group, February 2015, China only);

Dragon Blade: An IMAX 3D Experience (Shanghai Film Group, February 2015, China only);

Focus: The IMAX Experience (Warner Bros. Pictures, February 2015);

Chappie: The IMAX Experience (Sony Pictures Entertainment, March 2015);

Cinderella: The IMAX Experience (Walt Disney Studios, March 2015);

The Divergent Series: Insurgent: An IMAX 3D Experience (Summit Entertainment, March 2015);

Furious 7: The IMAX Experience (Universal Studios, April 2015);

Dragon Ball Z: Revival of F : An IMAX 3D Experience (Toei Animation, April 2015, Japan only);

The Avengers: Age of Ultron: An IMAX 3D Experience (Walt Disney Studios, May 2015);

Tomorrowland: The IMAX Experience (Walt Disney Studios, May 2015);

Jurassic World: An IMAX 3D Experience (Universal Studios, June 2015);

Terminator Genisys: The IMAX Experience (Paramount Pictures, July 2015);

Mission: Impossible 5: The IMAX Experience (Paramount Pictures, July 2015);

Crouching Tiger, Hidden Dragon: The Green Legend: The IMAX Experience (China Film Group, August 2015);

Everest: An IMAX 3D Experience (Universal Studios, September 2015);

The Walk: The IMAX Experience (Sony Pictures Entertainment, October 2015);

Crimson Peak: The IMAX Experience (Universal Studios, October 2015);

The Hunger Games: Mockingjay Part 2: An IMAX 3D Experience (Lionsgate, November 2015); and

Star Wars: The Force Awakens: An IMAX 3D Experience (Walt Disney Studios, December 2015).

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate, and anticipates that a similar number of IMAX DMR films will be released to the IMAX theater network in 2015 to the films that were released to the IMAX theater network in 2014 .

The Company also expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in 2015 and beyond. Supplementing the Company's film slate of Hollywood DMR titles with appealing local DMR titles is an important component of the Company's international film strategy.

Film Distribution

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.

Films produced by the Company are typically financed through third parties, whereby the Company will generally receive a film production fee in exchange for producing the film and a distribution fee for distributing the film. The ownership rights to such films may be held by the film sponsors, the film investors and/or the Company. As at December 31, 2014, the Company's film library consisted of 483 large-format films, which cover such subjects as space, wildlife, music, history and natural wonders. The Company currently has distribution rights with respect to 45 of such films. Large-format films that have been successfully distributed by the Company include: *Island of Lemurs: Madagascar*, which was released in April 2014 and has grossed over \$9.5 million as at the end of

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2014; *Journey to the South Pacific*, which had a limited release in November 2013 and a broader release in 2014 and has grossed \$1.1 million as at the end of 2014; *To the Arctic 3D*, which was released in April 2012 and has grossed over \$23.1 million as at the end of 2014; *Born to be Wild 3D*, which was released by the Company and WB in April 2011 and has grossed over \$38.3 million as at the end of 2014; *Hubble 3D*, which was released by the Company and WB in March 2010 and has grossed over \$66.6 million as at the end of 2014; *Under the Sea 3D*, which was released by the Company and WB in February 2009 and has grossed over \$50.5 million as at the end of 2014; *Deep Sea 3D*, which was released by the Company and WB in March 2006 and has grossed more than \$96.2 million as at the end of 2014; *SPACE STATION*, which was released in April 2002 and has grossed over \$126.9 million as at the end of 2014 and *T-REX: Back to the Cretaceous*, which was released by the Company in 1998 and has grossed over \$104.0 million as at the end of 2014. Large-format films have significantly longer exhibition periods than conventional commercial films and many of the films in the large-format library have remained popular for many decades, including the films *To Fly!* (1976), *Grand Canyon* *The Hidden Secrets* (1984) and *The Dream Is Alive* (1985).

Film Post-Production

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.

Other***Theater Operations***

As at December 31, 2014, the Company had three owned and operated theaters on leased premises as compared to four owned and operated theaters at the end of 2013. In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses. The Company also provides management services to two theaters.

Cameras

The Company rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The Company also provides production technical support and post-production services for a fee. All IMAX 2D and 3D film cameras run 65mm negative film, exposing 15 perforations per frame and resulting in an image area nearly 10x larger than standard 35mm film. The Company's film-based 3D camera, which is a patented, state-of-the-art dual and single filmstrip 3D camera, is among the most advanced motion picture cameras in the world and is the only 3D camera of its kind. The IMAX 3D camera simultaneously shoots left-eye and right-eye images and enables filmmakers to access a variety of locations, such as underwater or aboard aircraft. The Company has also developed a high speed 3D digital camera which utilizes a pair of the world's largest digital sensors.

Due to the increasing success major Hollywood filmmakers have had with IMAX cameras, the Company has identified the development and manufacture of additional IMAX cameras as an important research and development initiative.

The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers.

MARKETING AND CUSTOMERS

The Company markets its theater systems through a direct sales force and marketing staff located in offices in Canada, the United States, Greater China, Europe and Asia. In addition, the Company has agreements with consultants, business brokers and real estate professionals to locate potential customers and theater sites for the Company on a commission basis. During 2012, the Company re-invested in its brand with a consumer brand marketing campaign that encompasses social media, in-theater marketing and Internet advertising. During 2013 and 2014, the Company restructured its Marketing team to improve efficiency, partner more closely with exhibitors and studios and improve direct-to-consumer communication efforts. The Company has developed a significant and growing social media presence and makes heavy use of digital communications to reach a global audience, with a particular emphasis on China.

The commercial multiplex theater segment of the Company's theater network is now its largest segment, comprising 809 IMAX theaters, or 86.6%, of the 934 IMAX theaters open as at December 31, 2014. The Company's institutional customers include science and natural history museums, zoos, aquaria and other educational and cultural centers. Over the last several years the Company has not been able to digitally upgrade many of its institutional locations due to the size of the screen. The development of the IMAX digital laser-based system, which was recently demonstrated to members of the institutional community, and the completion of the Film Fund should assist in supporting this segment of the Company's customer base. The Company also sells or leases its theater

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systems to theme parks, private home theaters, tourist destination sites, fairs and expositions (the Commercial Destination segment). At December 31, 2014, approximately 53.9% of all opened IMAX theaters were in locations outside of the United States and Canada.

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

	2014 Theater Network Base				2013 Theater Network Base			
	Commercial		Institutional	Total	Commercial		Institutional	Total
	Multiplex	Destination			Multiplex	Destination		
United States	329	6	50	385	319	6	55	380
Canada	36	2	8	46	34	2	8	44
Greater China ⁽¹⁾	215		19	234	150		23	173
Asia (excluding Greater China)	68	3	6	77	61	3	7	71
Western Europe	56	7	10	73	49	7	11	67
Russia & the CIS	45			45	40			40
Latin America ⁽²⁾	31		11	42	25		11	36
Rest of the World	29	1	2	32	23	1	2	26
Total⁽³⁾	809	19	106	934	701	19	117	837

(1) Greater China includes the People's Republic of China, Hong Kong, Taiwan and Macau.

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

(3) Includes 451 and 382 theater systems in operation as at December 31, 2014 and 2013, respectively, under joint revenue sharing arrangements.

For information on revenue breakdown by geographic area, see note 19 to the accompanying audited consolidated financial statements in Item 8. The Company's foreign operations are subject to certain risks. See Risk Factors The Company conducts business internationally which exposes it to uncertainties and risks that could negatively affect its operations and sales and Risk Factors The Company faces risks in connection with the continued expansion of its business in China in Item 1A. The Company's two largest customers as at December 31, 2014, collectively represent 37.9% of the Company's network base of theaters, 25.8% of the Company's theater system backlog and 18.3% of revenues.

INDUSTRY AND COMPETITION

In recent years, as the motion picture industry has transitioned from film projection to digital projection, a number of companies have introduced digital 3D projection technology and, since 2008, an increasing number of Hollywood features have been exhibited using these technologies. According to the National Association of Theater Owners, as at December 31, 2014, there were approximately 16,000 conventional-sized screens in North American multiplexes equipped with such digital 3D systems. In 2008, the Company introduced its proprietary digitally-based projector which is capable of 2D and 3D presentations on large screens and which comprises the majority of its current theater system sales. Over the last several years, a number of commercial exhibitors have introduced their own large screen branded theaters, while certain projection manufacturers and entertainment technology companies have also announced their own proprietary theater systems. The Company believes that all of these alternative film formats

deliver images and experiences that are inferior to *The IMAX Experience*.

The Company may also face competition in the future from companies in the entertainment industry with new technologies and/or substantially greater capital resources to develop and support them. The Company also faces in-home competition from a number of alternative motion picture distribution channels such as home video, pay-per-view, video-on-demand, DVD, Internet and syndicated and broadcast television. The Company further competes for the public's leisure time and disposable income with other forms of entertainment, including gaming, sporting events, concerts, live theater, social media and restaurants.

The Company believes that its competitive strengths include the value of the IMAX brand name, the premium IMAX consumer experience, the design, quality and historic reliability rate of IMAX theater systems, the return on investment of an IMAX theater, the number and quality of IMAX films that it distributes, the relationships the Company maintains with prominent Hollywood filmmakers, a number of whom desire to film portions of their movies with IMAX cameras, the quality of the sound system components included with the IMAX theater, the availability of Hollywood event films to IMAX theaters through IMAX DMR

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technology, consumer loyalty and the level of the Company's service and maintenance and extended warranty efforts. The Company believes that its next-generation laser-based projection system increases further the technological superiority of the consumer experience it delivers. The Company believes that all of the best performing premium theaters in the world are IMAX theaters.

THE IMAX BRAND

The world-famous IMAX brand stands for the highest-quality, most immersive motion picture entertainment. Consumer research conducted for the Company in the U.S. by a third-party research firm shows that the IMAX brand is known for cutting-edge technology and an experience that immerses audiences in the movie. The research also shows that the brand inspires strong consumer loyalty and that consumers place a premium on it, often willing to travel significantly farther and pay more for *The IMAX Experience* than for a conventional movie. The Company believes that its significant brand loyalty among consumers provides it with a strong, sustainable position in the exhibition industry. Recognition of the IMAX brand name cuts across geographic and demographic boundaries. The Company believes that the strength of the IMAX brand has resulted in IMAX DMR films significantly outperforming other formats on a per screen basis.

The Company believes the strength of the IMAX brand is an asset that has helped to establish the IMAX theater network as a unique and desirable release window for Hollywood movies. In 2014 and 2013, the Company reinvested in its brand with consumer brand marketing that encompassed social media, in-theater marketing and traditional and digital advertising. The Company also recruited a team of seasoned international marketing talent to improve the global reach and relevance of its marketing activities.

RESEARCH AND DEVELOPMENT

The Company believes that it is one of the world's leading entertainment technology companies with significant proprietary expertise in digital and film-based projection and sound system component design, engineering and imaging technology, particularly in 3D. During 2012, 2013 and 2014, the Company increased its level of research and development in order to develop its next-generation laser-based projection system. The laser-based projection system provides greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. The Company intends for additional research and development to continue in 2015 to support the further development of the laser-based digital projection system. In addition, the Company plans to continue research and development activity in the future in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing and manufacturing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology, and using such technology to help expand the Company's home entertainment platform, developing IMAX theater systems' capabilities in both home and live entertainment and further enhancing the IMAX theater and sound system design through the addition of more channels, improvements to the Company's proprietary tuning system and mastering processes.

The Company has also made significant investments in other areas of digital technologies, including the development of a proprietary technology to digitally enhance image resolution and quality of motion picture films, the creation of an IMAX digital projector and the licensing of prominent laser illumination technology. Accordingly, the Company holds a number of patents, patents pending and other intellectual property rights in these areas. In addition, the Company holds numerous digital patents and relationships with key manufacturers and suppliers in digital technology.

In 2009, the Company developed its first 3D digital camera primarily for use in IMAX documentary productions. Portions of *Born to Be Wild 3D* and *Island of Lemurs: Madagascar* were filmed with the IMAX 3D digital camera and the camera has subsequently been used to film footage for *Transformers: Age of Extinction: An IMAX 3D Experience*, released in June 2014 and over one hour of footage for *Interstellar: The IMAX Experience*, released in November 2014. Due to the increasing success major Hollywood filmmakers have had with IMAX cameras, the Company has identified the development and manufacture of additional IMAX cameras as an important research and development initiative. To that end, the Company is also in early stages of development of an IMAX 2D digital camera for use by Hollywood directors who are seeking IMAX differentiation for portions of their movies.

The Company expects to deploy its proprietary expertise in image technology and 3D technology, as well as its proprietary film content and the IMAX brand, for applications in in-home entertainment technology. In December 2013, the Company announced a joint venture with TCL to design, develop, manufacture and sell a premium home theater system. The premium home theater system is expected to incorporate 4K projection technology, as well as components of IMAX's projection and sound technology adapted for a broader home environment. The premium home theater system is also expected to incorporate technology that will enable the viewing of current theatrical releases that have been digitally re-mastered with IMAX enhancement technology. The Company is also

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developing other, related facets of a premium home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*® in their homes.

For the years ended December 31, 2014, 2013, and 2012, the Company recorded research and development expenses of \$16.1 million, \$14.8 million and \$11.4 million, respectively. As at December 31, 2014, 88 of the Company's employees were connected with research and development projects.

MANUFACTURING AND SERVICE***Projector Component Manufacturing***

The Company assembles the projector of its theater systems at its office in Mississauga, Ontario, Canada (near Toronto). The Company develops and designs all of the key elements of the proprietary technology involved in this component. Fabrication of a majority of parts and sub-assemblies is subcontracted to a group of carefully pre-qualified third-party suppliers. Manufacture and supply contracts are signed for the delivery of the component on an order-by-order basis. The Company believes its significant suppliers will continue to supply quality products in quantities sufficient to satisfy its needs. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the projector to comprehensive testing individually and as a system prior to shipment. In 2014, these projectors, including the Company's digital projection system, had reliability rates based on scheduled shows of approximately 99.9%.

Sound System Component Manufacturing

The Company develops, designs and assembles the key elements of its theater sound system component. The standard IMAX theater sound system component comprises parts from a variety of sources, with approximately 50% of the materials of each sound system attributable to proprietary parts provided under original equipment manufacturers agreements with outside vendors. These proprietary parts include custom loudspeaker enclosures and horns, specialized amplifiers, and signal processing and control equipment. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the sound system component to comprehensive testing individually and as a system prior to shipment.

Screen and Other Components

The Company purchases its screen component and glasses cleaning equipment from third parties. The standard screen system component is comprised of a projection screen manufactured to IMAX specifications and a frame to hang the projection screen. The proprietary glasses cleaning machine is a stand-alone unit that is connected to the theater's water and electrical supply to automate the cleaning of 3D glasses.

Maintenance and Extended Warranty Services

The Company also provides ongoing maintenance and extended warranty services to IMAX theater systems. These arrangements are usually for a separate fee, although the Company often includes free service in the initial year of an arrangement. The maintenance and extended warranty arrangements include service, maintenance and replacement parts for theater systems.

To support the IMAX theater network, the Company has personnel stationed in major markets throughout the world who provide periodic and emergency maintenance and extended warranty services on existing theater systems. The Company provides various levels of maintenance and warranty services, which are priced accordingly. Under full

service programs, Company personnel typically visit each theater every six months to provide preventative maintenance, cleaning and inspection services and emergency visits to resolve problems and issues with the theater system. Under some arrangements, customers can elect to participate in a service partnership program whereby the Company trains a customer's technician to carry out certain aspects of maintenance. Under such shared maintenance arrangements, the Company participates in certain of the customer's maintenance checks each year, provides a specified number of emergency visits and provides spare parts, as necessary. For digital systems, the Company provides pre-emptive maintenance through minor bug fixes, and also provides remote system monitoring and a network operations center that provides continuous access to product experts.

Table of Contents**PATENTS AND TRADEMARKS**

The Company's inventions cover various aspects of its proprietary technology and many of these inventions are protected by Letters of Patent or applications filed throughout the world, most significantly in the United States, Canada, Belgium, Japan, France, Germany and the United Kingdom. The subject matter covered by these patents, applications and other licenses encompasses theater design and geometry, electronic circuitry and mechanisms employed in projectors and projection equipment (including 3D projection equipment), a method for synchronizing digital data, a method of generating stereoscopic (3D) imaging data from a monoscopic (2D) source, a process for digitally re-mastering 35mm films into large-format, a method for increasing the dynamic range and contrast of projectors, a method for visibly seaming or superimposing images from multiple projectors and other inventions relating to digital projectors. In 2011, the Company entered into a deal in which it secured the exclusive license rights from Kodak to a portfolio of more than 50 patent families covering laser projection technology as well as certain exclusive rights to a broad range of Kodak patents in the field of digital cinema. The Company has been and will continue to be diligent in the protection of its proprietary interests.

As at December 31, 2014, the Company holds or licenses 105 patents, has 24 patents pending in the United States and has corresponding patents or filed applications in many countries throughout the world. While the Company considers its patents to be important to the overall conduct of its business, it does not consider any particular patent essential to its operations. Certain of the Company's patents in the United States, Canada and Japan for improvements to the IMAX projection system components expire between 2016 and 2031.

The Company owns or otherwise has rights to trademarks and trade names used in conjunction with the sale of its products, systems and services. The following trademarks are considered significant in terms of the current and contemplated operations of the Company: IMAX®, IMAX® Dome, IMAX® 3D, IMAX® 3D Dome, Experience It In IMAX®, *The IMAX Experience*®, *An IMAX Experience*®, *An IMAX 3D Experience*®, IMAX DMR®, DMR®, IMAX nXos®, IMAX think big®, think big® and IMAX Is Believing®. These trademarks are widely protected by registration or common law throughout the world. The Company also owns the service mark IMAX THEATRE™.

EMPLOYEES

The Company had 600 employees as at December 31, 2014, compared to 541 employees as at December 31, 2013. Both employee counts exclude hourly employees at the Company's owned and operated theaters.

AVAILABLE INFORMATION

The Company makes available, free of charge, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to such reports, as soon as reasonably practicable after such filings have been made with the United States Securities and Exchange Commission (the "SEC"). The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, as well as obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Reports may be obtained free of charge through the SEC's website at www.sec.gov and through the Company's website at www.imax.com or by calling the Company's Investor Relations Department at 212-821-0100.

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Item 1A. Risk Factors

If any of the risks described below occurs, the Company's business, operating results and financial condition could be materially adversely affected.

The risks described below are not the only ones the Company faces. Additional risks not presently known to the Company or that it deems immaterial, may also impair its business or operations.

The Company depends principally on commercial movie exhibitors to purchase or lease IMAX theater systems, to supply box-office revenue under joint revenue sharing arrangements and under its sales and sales-type lease agreements and to supply venues in which to exhibit IMAX DMR films and the Company can make no assurances that exhibitors will continue to do any of these things.

The Company's primary customers are commercial multiplex exhibitors, whose systems represent 94.5% of the 397 systems in the Company's backlog as at December 31, 2014. The Company is unable to predict if, or when, they or other exhibitors will purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, or whether any of the Company's existing customers will continue to do any of the foregoing. If exhibitors choose to reduce their levels of expansion or decide not to purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, the Company's revenues would not increase at an anticipated rate and motion picture studios may be less willing to convert their films into the Company's format for exhibition in commercial IMAX theaters. As a result, the Company's future revenues and cash flows could be adversely affected.

The success of the IMAX theater network is directly related to the availability and success of IMAX DMR films for which there can be no guarantee.

An important factor affecting the growth and success of the IMAX theater network is the availability of films for IMAX theaters and the box-office performance of such films. The Company itself produces only a small number of such films and, as a result, the Company relies principally on films produced by third party filmmakers and studios, including both Hollywood and local language features converted into the Company's large format using the Company's IMAX DMR technology. In 2014, 40 IMAX DMR films were released by studios to the worldwide IMAX theater network. There is no guarantee that filmmakers and studios will continue to release films to the IMAX theater network, or that the films they produce will be commercially successful. The steady flow and successful box-office performance of IMAX DMR releases have become increasingly important to the Company's financial performance as the number of joint revenue sharing arrangements included in the overall IMAX network has grown considerably. The Company is directly impacted by box-office results for the films released to the IMAX network through its joint revenue sharing arrangements as well as through the percentage of the box-office receipts the Company receives from the studios releasing IMAX DMR films, and the Company's continued ability to secure films, find suitable partners for joint revenue share arrangements and to sell IMAX theater systems also depends on the number and commercial success of films released to its network. The commercial success of films released to IMAX theaters depends on a number of factors outside of the Company's control, including whether the film receives critical acclaim, the timing of its release, the success of the marketing efforts of the studio releasing the film and consumer preferences. Moreover, films can be subject to delays in production or changes in release schedule, which can negatively impact the number, timing and quality of IMAX DMR and IMAX original films released to the IMAX theater network.

The introduction of new, competing products and technologies could harm the Company's business.

The out-of-home entertainment industry is very competitive, and the Company faces a number of competitive challenges. According to the National Association of Theater Owners, as at December 31, 2014, there were approximately 16,000 conventional-sized screens in North American multiplexes equipped with digital 3D systems. In

addition, some commercial exhibitors, projection manufacturers and entertainment technology companies have announced or introduced their own branded, large-screen 3D auditoriums or other proprietary theater systems, and in many cases have marketed those auditoriums or theater systems as having the same quality or attributes as an IMAX theater. The Company also may face competition in the future from companies in the entertainment industry with new technologies and/or substantially greater capital resources to develop and support them. If the Company is unable to continue to deliver a premium movie-going experience, or if other technologies surpass those of the Company, the Company may be unable to continue to produce theater systems which are premium to, or differentiated from, other theater systems. If the Company is unable to produce a differentiated theater experience, consumers may be unwilling to pay the price premiums associated with the cost of IMAX theater tickets and box-office performance of IMAX films may decline. Declining box-office performance of IMAX films would materially and adversely harm the Company's business and prospects. The Company also faces in-home competition from a number of alternative motion picture distribution channels such as home video, pay-per-view,

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video-on-demand, DVD, Internet and syndicated and broadcast television. The Company further competes for the public's leisure time and disposable income with other forms of entertainment, including gaming, sporting events, concerts, live theater, social media and restaurants.

Failure to respond adequately or in a timely fashion to changes and advancements in digital technology could negatively affect the Company's business.

There have been a number of advancements in the digital cinema field in recent years. In order to keep pace with these changes and in order to continue to provide an experience which is premium to and differentiated from conventional cinema experiences, the Company has made, and expects to continue to make, significant investments in digital technology in the form of research and development and the acquisition of third party intellectual property and/or proprietary technology. Recently, the Company has made significant investments in laser technology as part of its effort to develop a next-generation laser-based digital projection system, which it began rolling out at the end of 2014. The process of developing new technologies is inherently uncertain and subject to certain factors that are outside of the Company's control, including reliance on third party partners and suppliers, and the Company can provide no assurance its investments will result in commercially viable advancements to the Company's existing products or in commercially successful new products, or that any such advancements or products will be developed within the timeframe expected.

The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects.

A significant portion of the Company's revenues are generated by customers located outside the United States and Canada. Approximately 60%, 53% and 48% of the Company's revenues were derived outside of the United States and Canada in 2014, 2013 and 2012, respectively, with 2013 marking the first year in the Company's history that revenues and gross box-office derived from outside the United States and Canada exceeded revenues and gross box-office from the United States and Canada. This trend has continued in 2014. As at December 31, 2014, approximately 85.6% of IMAX theater systems arrangements in backlog are scheduled to be installed in international markets. Accordingly, the Company expects its international operations to account for an increasingly significant portion of its revenues in the future. There are a number of risks associated with operating in international markets that could negatively affect the Company's operations, sales and future growth prospects. These risks include:

new restrictions on access to markets, both for theater systems and films;

unusual or burdensome foreign laws or regulatory requirements or unexpected changes to those laws or requirements;

fluctuations in the value of foreign currency versus the U.S. dollar and potential currency devaluations;

new tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers;

imposition of foreign exchange controls in such foreign jurisdictions;

dependence on foreign distributors and their sales channels;

difficulties in staffing and managing foreign operations;

local business practices that can present challenges to compliance with applicable anti-corruption and bribery laws;

difficulties in establishing market-appropriate pricing;

adverse changes in monetary and/or tax policies;

poor recognition of intellectual property rights;

difficulties in enforcing contractual rights;

inflation;

requirements to provide performance bonds and letters of credit to international customers to secure system component deliveries; and

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political, economic and social instability.

As the Company continues to expand the number of its theaters under joint revenue sharing arrangements in international markets, the Company's revenues from its international operations are becoming increasingly dependent on the box-office performance of its films. In addition, as the Company's international network has expanded, the Company has signed deals with movie studios in other countries to convert their films to the Company's large format and release them to IMAX theaters. The Company may be unable to select films which will be successful in international markets or may be unsuccessful in selecting the right mix of Hollywood and local DMR films for a particular country or region. Also, conflicts in international release schedules may make it difficult to release every IMAX film in certain markets. Finally, box-office reporting in certain countries may be less accurate and therefore less reliable than in the United States and Canada.

The Company faces risks in connection with the continued expansion of its business in China.

At present, Greater China is the Company's second-largest and fastest growing market. As at December 31, 2014, the Company had 234 theaters operating in Greater China with an additional 217 theaters (includes 2 upgrades) in backlog that are scheduled to be installed in Greater China by 2021. The Company has made, and continues to make significant investments in its China business. In 2010, the Company formed IMAX China, a wholly-owned subsidiary of the Company established for the purposes of overseeing the Company's business in the Greater China region, and which as of December 31, 2014 had offices in Shanghai and Beijing and a total of 62 employees. The Company's largest single international partnership is in China with Wanda. Wanda's total commitment to the Company is for 210 theater systems, of which 195 theater systems are under the parties' joint revenue sharing arrangement. Furthermore, the Company has a partnership with CJ CGV Holdings, Ltd., for a commitment of 95 theater systems, of which 75 theater systems will reside in China. In addition, the Company has released an increasing number of Chinese IMAX DMR films to its growing network in Greater China in recent years, including six films in 2014. In October 2013, the Company announced its joint venture with TCL to design, develop and manufacture a premium home theater system, and in April 2014, the Company, TCL and Wasu announced a joint venture for the distribution of content to the new home theater system, each of which is set to further expand the scope of the Company's operations in China. As the Company continues to further its commitment to China, it is increasingly exposed to risks in that region. These risks include changes in laws and regulations, currency fluctuations, increased competition and changes in economic conditions, including those related to consumer spending. Adverse developments in these areas could cause the Company to lose some or all of its investment in China and could cause the Company to fail to achieve anticipated growth.

Moreover, certain risks and uncertainties of doing business in China are solely within the control of the Chinese government, and Chinese law regulates both the scope of the Company's investment in China and the business conducted by it within China. For instance, the Chinese government regulates both the number and timing or terms of Hollywood films released to the China market. The Company cannot provide assurance that the Chinese government will continue to permit the release of IMAX films in China or that the timing of IMAX releases will be favorable to the Company. There are also uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights in China. If the Company were unable to navigate China's regulatory environment, including with respect to its current customs inquiry, or if the Company were unable to enforce its intellectual property or contract rights in China, the Company's business could be adversely impacted. See note 13(g) Contingencies and Guarantees to the accompanying audited consolidated financial statements in Item 8 for more information.

In addition, on April 8, 2014, the Company announced the sale of a 20% stake in IMAX China to entities owned and controlled by FountainVest Partners and China Media Capital. The sale is comprised of two equal payment installments, the first of which was received on April 8, 2014, and the second of which was received on February 10,

2015. The Company believes that the sale has provided IMAX China with financial, strategic and operating benefits; however, there can be no assurances that these benefits will continue to be realized. Moreover, under certain circumstances, the investors have rights to redeem their interest in IMAX China, including for Company shares, which could have a potentially dilutive impact on the Company's common shareholders.

Under common ownership, Wanda and AMC together account for a significant and growing portion of the Company's revenue and backlog. A deterioration in the Company's relationship with Wanda and/or AMC could materially, adversely affect the Company's business, financial condition or results of operation.

In 2012, Dalian Wanda Group Co., Ltd. (Dalian Wanda), the parent company of Wanda, acquired AMC. Prior to the acquisition, AMC and Wanda were, respectively, the Company's first and third largest customers. In December 2013, AMC completed an initial public offering of approximately 20% of its outstanding shares, with Dalian Wanda retaining the approximately 80% remaining. Under common ownership, Wanda and AMC together represent approximately 14.5%, 13.9% and 12.2% of the Company's total revenue in 2014, 2013 and 2012, respectively. On December 18, 2013, Wanda exercised its option to expand its joint revenue sharing

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arrangement with IMAX with 80 additional IMAX theater systems. With the latest expansion of the Company's joint revenue sharing arrangement with Wanda, Wanda and AMC together represented approximately 25.8% of the Company's backlog as of December 31, 2014. The share of the Company's revenue that is generated by Wanda and AMC is expected to continue to grow as the significant number of Wanda theater systems currently in backlog are opened. No assurance can be given that either Wanda and/or AMC will continue to purchase theater systems and/or enter into joint revenue sharing arrangements with the Company and if so, whether contractual terms will be affected. If the Company does business with either Wanda and/or AMC less frequently or on less favorable terms than currently, the Company's business, financial condition or results of operations may be adversely affected.

The Company is undertaking new lines of business and these new business initiatives may not be successful.

The Company is undertaking new lines of business. These initiatives represent new areas of growth for the Company and could include the offering of new products and services that may not be accepted by the market. Some areas of potential growth for the Company are in the field of in-home entertainment technology, which is an intensively competitive business and which is dependent on consumer demand, over which the Company has no control. If any new business in which the Company invests or attempts to develop does not progress as planned, the Company may be adversely affected by investment expenses that have not led to the anticipated results, by write-downs of its equity investments, by the distraction of management from its core business or by damage to its brand or reputation.

In addition, these initiatives may involve the formation of joint ventures and business alliances. While the Company seeks to employ the optimal structure for each such business alliance, the alliance may require a high level of cooperation with and reliance on the Company's partners and there is a possibility that the Company may have disagreements with its relevant partner with respect to financing, technological management, product development, management strategies or otherwise. Any such disagreement may cause the joint venture or business alliance to be terminated.

The Company may not be able to adequately protect its intellectual property, and competitors could misappropriate its technology or brand, which could weaken its competitive position.

The Company depends on its proprietary knowledge regarding IMAX theater systems and digital and film technology. The Company relies principally upon a combination of copyright, trademark, patent and trade secret laws, restrictions on disclosures and contractual provisions to protect its proprietary and intellectual property rights. These laws and procedures may not be adequate to prevent unauthorized parties from attempting to copy or otherwise obtain the Company's processes and technology or deter others from developing similar processes or technology, which could weaken the Company's competitive position and require the Company to incur costs to secure enforcement of its intellectual property rights. The protection provided to the Company's proprietary technology by the laws of foreign jurisdictions may not protect it as fully as the laws of Canada or the United States. The lack of protection afforded to intellectual property rights in certain international jurisdictions may be increasingly problematic given the extent to which future growth of the Company is anticipated to come from foreign jurisdictions. Finally, some of the underlying technologies of the Company's products and system components are not covered by patents or patent applications.

The Company owns or licenses patents issued and patent applications pending, including those covering its digital projector, digital conversion technology and laser illumination technology. The Company's patents are filed in the United States, often with corresponding patents or filed applications in other jurisdictions, such as Canada, China, Belgium, Japan, France, Germany and the United Kingdom. The patent applications pending may not be issued or the patents may not provide the Company with any competitive advantages. The patent applications may also be challenged by third parties. Several of the Company's issued patents in the United States, Canada and Japan for improvements to IMAX projectors, IMAX 3D Dome and sound system components expire between 2016 and 2031.

Any claims or litigation initiated by the Company to protect its proprietary technology could be time consuming, costly and divert the attention of its technical and management resources.

The IMAX brand stands for the highest quality, most immersive motion picture entertainment. Protecting the IMAX brand is a critical element in maintaining the Company's relationships with studios and its exhibitor clients. Though the Company relies on a combination of trademark and copyright law as well as its contractual provisions to protect the IMAX brand, those protections may not be adequate to prevent erosion of the brand over time, particularly in foreign jurisdictions. Erosion of the brand could threaten the demand for the Company's products and services and impair its ability to grow future revenue streams.

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The Company's implementation of a new enterprise resource planning (ERP) system may adversely affect the Company's business and results of operations or the effectiveness of internal control over financial reporting.

The Company began implementation of a new ERP system in the first quarter of 2013. The Company continues to implement the ERP system and expand upon its functionality, with the next phase focused on implementation in additional business units and in its international operations. When implementation is complete, the new ERP system is expected to deliver a new generation of work processes and information systems. However, ERP implementations are complex and time-consuming projects that involve substantial expenditures on system software and implementation activities that take several years. ERP implementations also require transformation of business and financial processes in order to reap the benefits of the ERP system. If the Company does not effectively implement the ERP system as planned or if the system does not operate as intended, it could adversely affect the Company's operations, financial reporting systems, the Company's ability to produce financial reports, and/or the effectiveness of internal control over financial reporting. The Company continues to review 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.

General political, social and economic conditions can affect the Company's business by reducing both revenue generated from existing IMAX theater systems and the demand for new IMAX theater systems.

The Company's success depends in part on general political, social and economic conditions and the willingness of consumers to purchase tickets to IMAX movies. If going to the movies becomes less popular, the Company's business could be adversely affected. In addition, our operations could be adversely affected if consumers' discretionary income falls as a result of an economic downturn. In recent years, the majority of the Company's revenue has been directly derived from the box-office revenues of its films. Accordingly, any decline in attendance at commercial IMAX theaters could materially and adversely affect several sources of key revenue streams for the Company.

The Company also depends on the sale and lease of IMAX theater systems to commercial movie exhibitors to generate revenue. Commercial movie exhibitors generate revenues from consumer attendance at their theaters, which depends on the willingness of consumers to visit movie theaters and spend discretionary income at movie theaters. In the event of declining box-office and concession revenues, commercial exhibitors may be less willing to invest capital in new IMAX theaters.

The Company may experience adverse effects due to exchange rate fluctuations.

A substantial portion of the Company's revenues are denominated in U.S. dollars, while a substantial portion of its expenses are denominated in Canadian dollars. The Company also generates revenues in Chinese Yuan Renminbi, Euros and Japanese Yen. While the Company periodically enters into forward contracts to hedge its exposure to exchange rate fluctuations between the U.S. and the Canadian dollar, the Company may not be successful in reducing its exposure to these fluctuations. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility. Even in jurisdictions in which the Company does not accept local currency, significant local currency issues may impact the profitability of the Company's arrangements for the Company's customers, which ultimately affect the Company's ability to negotiate cost-effective arrangements and, therefore, the Company's results of operations.

The Company's revenues from existing customers are derived in part from financial reporting provided by its customers, which may be inaccurate or incomplete, resulting in lost or delayed revenues.

The Company's revenue under its joint revenue sharing arrangements, a portion of the Company's payments under lease or sales arrangements and its film license fees are based upon financial reporting provided by its customers. If such reporting is inaccurate, incomplete or withheld, the Company's ability to receive the appropriate payments in a timely fashion that are due to it may be impaired. The Company's contractual ability to audit IMAX theaters may not rectify payments lost or delayed as a result of customers not fulfilling their contractual obligations with respect to financial reporting.

There is collection risk associated with payments to be received over the terms of the Company's theater system agreements.

The Company is dependent in part on the viability of its exhibitors for collections under long-term leases, sales financing agreements and joint revenue sharing arrangements. Exhibitors or other operators may experience financial difficulties that could cause them to be unable to fulfill their contractual payment obligations to the Company. As a result, the Company's future revenues and cash flows could be adversely affected.

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The Company may not convert all of its backlog into revenue and cash flows.

At December 31, 2014, the Company's sales backlog included 397 theater systems, consisting of 176 systems under sales arrangements and 221 theater systems under joint revenue sharing arrangements. The Company lists signed contracts for theater systems for which revenue has not been recognized as sales backlog prior to the time of revenue recognition. The total value of the sales backlog represents all signed theater system sale or lease agreements that are expected to be recognized as revenue in the future and includes initial fees along with the present value of fixed minimum ongoing fees due over the term, but excludes contingent fees in excess of fixed minimum ongoing fees that might be received in the future and maintenance and extended warranty fees. Notwithstanding the legal obligation to do so, not all of the Company's customers with which it has signed contracts may accept delivery of theater systems that are included in the Company's backlog. This could adversely affect the Company's future revenues and cash flows. In addition, customers with theater system obligations in backlog sometimes request that the Company agree to modify or reduce such obligations, which the Company has agreed to in the past under certain circumstances. Customer requested delays in the installation of theater systems in backlog remain a recurring and unpredictable part of the Company's business.

The Company's operating results and cash flow can vary substantially from period to period and could increase the volatility of its share price.

The Company's operating results and cash flow can fluctuate substantially from period to period. In particular, fluctuations in theater system installations and gross box-office performance of IMAX DMR content can materially affect operating results. Factors that have affected the Company's operating results and cash flow in the past, and are likely to affect its operating results and cash flow in the future, include, among other things:

- the timing of signing and installation of new theater systems (particularly for installations in newly-built multiplexes, which can result in delays that are beyond the Company's control);

- the timing and commercial success of films distributed to the Company's theater network;

- the demand for, and acceptance of, its products and services;

- the recognition of revenue of sales and sales-type leases;

- the classification of leases as sales-type versus operating leases;

- the volume of orders received and that can be filled in the quarter;

- the level of its sales backlog;

the signing of film distribution agreements;

the financial performance of IMAX theaters operated by the Company's customers and by the Company;

financial difficulties faced by customers, particularly customers in the commercial exhibition industry;

the magnitude and timing of spending in relation to the Company's research and development efforts and related investments as well as new business initiatives; and

the number and timing of joint revenue sharing arrangement installations, related capital expenditures and timing of related cash receipts.

Most of the Company's operating expenses are fixed in the short term. The Company may be unable to rapidly adjust its spending to compensate for any unexpected shortfall in sales, joint revenue sharing arrangements revenue or IMAX DMR revenue which would harm operating results for a particular period, although the results of any particular period are not necessarily indicative of its results for any period.

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The Company's theater system revenue can vary significantly from its cash flows under theater system sales or lease agreements.

The Company's theater systems revenue can vary significantly from the associated cash flows. The Company often provides financing to customers for theater systems on a long-term basis through long-term leases or notes receivables. The terms of leases or notes receivable are typically 10 years. The Company's sale and lease-type agreements typically provide for three major sources of cash flow related to theater systems:

initial fees, which are paid in installments generally commencing upon the signing of the agreement until installation of the theater systems;

ongoing fees, which are paid monthly after all theater systems have been installed and are generally equal to the greater of a fixed minimum amount per annum and a percentage of box-office receipts; and

ongoing annual maintenance and extended warranty fees, which are generally payable commencing in the second year of theater operations.

Initial fees generally make up the vast majority of cash received under theater system sales or lease agreements for a theater arrangement.

For sales and sales-type leases, the revenue recorded is generally equal to the sum of initial fees and the present value of minimum ongoing fees due under the agreement. Cash received from initial fees in advance of meeting the revenue recognition criteria for the theater systems is recorded as deferred revenue. Contingent fees are recognized as they are reported by the theaters after annual minimum fixed fees are exceeded.

Leases that do not transfer substantially all of the benefits and risks of ownership to the customer are classified as operating leases. For these leases, initial fees and minimum fixed ongoing fees are recognized as revenue on a straight-line basis over the lease term. Contingent fees are recognized as they are reported by the theaters after annual minimum fixed fees are exceeded.

As a result of the above, the revenue set forth in the Company's financial statements does not necessarily correlate with the Company's cash flow or cash position. Revenues include the present value of future contracted cash payments and there is no guarantee that the Company will receive such payments under its lease and sale agreements if its customers default on their payment obligations.

The Company faces risks in connection with political instability in Ukraine and Russia.

As at December 31, 2014, the Company had 45 theaters operating and a backlog of 25 theaters in Russia and the CIS. The continuation or escalation of the current geopolitical instability in Russia and the CIS could negatively impact the Company's operations, sales, and future growth prospects in that region.

The Company's stock price has historically been volatile and declines in market price, including as a result a market downturn, may negatively affect its ability to raise capital, issue debt, secure customer business and retain employees.

The Company is listed on the New York Stock Exchange (NYSE) and its publicly traded shares have in the past experienced, and may continue to experience, significant price and volume fluctuations. This market volatility could reduce the market price of its common stock, regardless of the Company s operating performance. A decline in the capital markets generally, or an adjustment in the market price or trading volumes of the Company s publicly traded securities, may negatively affect its ability to raise capital, issue debt, secure customer business or retain employees. These factors, as well as general economic and geopolitical conditions, may have a material adverse effect on the market price of the Company s publicly traded securities.

The credit agreement governing the Company s senior secured credit facility contains significant restrictions that limit its operating and financial flexibility.

The credit agreement governing the Company s senior secured credit facility contains certain restrictive covenants that, among other things, limit its ability to:

incur additional indebtedness;

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pay dividends and make distributions;

repurchase stock;

make certain investments;

transfer or sell assets;

create liens;

enter into transactions with affiliates;

issue or sell stock of subsidiaries;

create dividend or other payment restrictions affecting restricted subsidiaries; and

merge, consolidate, amalgamate or sell all or substantially all of its assets to another person.

These restrictive covenants impose operating and financial restrictions on the Company that limit the Company's ability to engage in acts that may be in the Company's long-term best interests.

The Company is subject to impairment losses on its film assets.

The Company amortizes its film assets, including IMAX DMR costs capitalized using the individual film forecast method, whereby the costs of film assets are amortized and participation costs are accrued for each film in the ratio of revenues earned in the current period to management's estimate of total revenues ultimately expected to be received for that title. Management regularly reviews, and revises when necessary, its estimates of ultimate revenues on a title-by-title basis, which may result in a change in the rate of amortization of the film assets and write-downs or impairments of film assets. Results of operations in future years include the amortization of the Company's film assets and may be significantly affected by periodic adjustments in amortization rates.

The Company is subject to impairment losses on its inventories.

The Company records write-downs for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, technological developments, signings in negotiation and anticipated market acceptance of the Company's current and pending theater systems.

The Company is dependent on a single supplier, the Eastman Kodak Company, for its analog film.

Kodak is the Company's sole supplier of analog film. Kodak has stated publicly that it intends to continue to own and operate its film products business, and to date, Kodak has continued to supply the Company with analog film. However, the Company can provide no assurance that Kodak either will continue to supply analog film under terms acceptable to the Company, or that it will continue to manufacture film at all. Furthermore, Fujifilm Corporation, which had been another significant supplier of analog film to the movie industry, announced in September 2012 that it would cease production for motion pictures beginning in March 2013. Although the Company released analog film print for only one film in 2014 and expects to release a very small number of analog film prints in 2015, as of December 31, 2014, the Company had 117 film-based theaters in its network, and the Company also uses analog film in its film-based cameras. Without a sufficient supply of analog film, the Company may be unable to supply film prints to its film-based theater customers, and it may be unable to utilize its film-based cameras for shooting IMAX films.

If the Company's goodwill or long lived assets become impaired the Company may be required to record a significant charge to earnings.

Under United States Generally Accepted Accounting Principles (U.S. GAAP), the Company reviews its long lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be qualitatively assessed at least annually and when events or changes in circumstances arise or can be quantitatively tested for impairment. Factors that may be considered a change in circumstances include (but are not limited to) a decline in stock price and market capitalization, declines in future cash flows, and slower growth rates in the Company's industry. The Company may be

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required to record a significant charge to earnings in its financial statements during the period in which any impairment of its goodwill or long lived assets is determined.

Changes in accounting and changes in management's estimates may affect the Company's reported earnings and operating income.

U.S. GAAP and accompanying accounting pronouncements, implementation guidelines and interpretations for many aspects of the Company's business, such as revenue recognition, film accounting, accounting for pensions and other postretirement benefits, accounting for income taxes, and treatment of goodwill or long lived assets, are highly complex and involve many subjective judgments. Changes in these rules, their interpretation, management's estimates, or changes in the Company's products or business could significantly change its reported future earnings and operating income and could add significant volatility to those measures, without a comparable underlying change in cash flow from operations. See Critical Accounting Policies in Item 7.

The Company relies on its key personnel, and the loss of one or more of those personnel could harm its ability to carry out its business strategy.

The Company's operations and prospects depend in large part on the performance and continued service of its senior management team. The Company may not find qualified replacements for any of these individuals if their services are no longer available. The loss of the services of one or more members of the Company's senior management team could adversely affect its ability to effectively pursue its business strategy.

The Company faces cyber-security and similar risks, which could result in the disclosure, theft or loss of confidential or other proprietary information, including intellectual property; damage to the Company's brand and reputation; legal exposure and financial losses.

The nature of the Company's business involves access to and storage of confidential and proprietary content and other information including intellectual property, as well as information regarding the Company's customers, employees, licensees and suppliers. Although the Company maintains robust procedures to safeguard such content and information, the Company's information technology systems could be penetrated by internal or external parties intent on extracting information, corrupting information, stealing intellectual property or trade secrets, or disrupting business processes. Information security risks have increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. It is possible that computer hackers could compromise the Company's security measures or the security measures of parties with whom the Company does business, and thereby obtain the confidential or proprietary information of the Company or its customers, employees, licensees and suppliers. Any such breach or unauthorized access could result in a disruption of the Company's operations, the theft, unauthorized use or publication of the Company's intellectual property and other proprietary information, a reduction of the revenues the Company is able to generate from its operations, damage to the Company's brand and reputation, a loss of confidence in the security of the Company's business and products, and significant legal and financial exposure, each of which could potentially have an adverse effect on the Company's business.

Because the Company is incorporated in Canada, it may be difficult for plaintiffs to enforce against the Company liabilities based solely upon U.S. federal securities laws.

The Company is incorporated under the federal laws of Canada, some of its directors and officers are residents of Canada and a substantial portion of its assets and the assets of such directors and officers are located outside the United States. As a result, it may be difficult for U.S. plaintiffs to effect service within the United States upon those

directors or officers who are not residents of the United States, or to realize against them or the Company in the United States upon judgments of courts of the United States predicated upon the civil liability under the U.S. federal securities laws. In addition, it may be difficult for plaintiffs to bring an original action outside of the United States against the Company to enforce liabilities based solely on U.S. federal securities laws.

Item 1B. *Unresolved Staff Comments*

None.

Table of Contents**Item 2. *Properties***

The Company's principal executive offices are located in Mississauga, Ontario, Canada, New York, New York, and Santa Monica, California. The Company's principal facilities are as follows:

	Operation	Own/Lease	Expiration
Mississauga, Ontario ⁽¹⁾	Headquarters, Administrative, Assembly and Research and Development	Own	N/A
Playa Vista, California ⁽²⁾	Sales, Marketing, Film Production and Post-Production	Own	N/A
Santa Monica, California	Sales, Marketing, Film Production and Post-Production	Lease	2015
New York, New York	Executive	Lease	2019
Beijing, China	Sales	Lease	2015
Tokyo, Japan	Sales, Marketing and Maintenance	Lease	2015
Shanghai, China	Sales, Marketing, Maintenance and Administrative	Lease	2016
Moscow, Russia	Sales	Lease	2015
London, United Kingdom	Sales	Lease	2015

- (1) This facility is subject to a charge in favor of Wells Fargo Bank in connection with a secured term and revolving credit facility (see note 11 to the accompanying audited consolidated financial statements in Item 8).
- (2) The lease on the Company's current facility in Santa Monica, California is scheduled to expire in 2015. In 2014, the Company purchased land and commenced construction of a new Los Angeles-area facility in Playa Vista. The Company anticipates that construction of the new Playa Vista facility will be completed in 2015. A significant portion of the project is financed through a construction loan.

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Item 3. *Legal Proceedings*

In March 2005, the Company, together with Three-Dimensional Media Group, Ltd. (3DMG), filed a complaint in the U.S. District Court for the Central District of California, Western Division, against In-Three, Inc. (In-Three) alleging patent infringement. On March 10, 2006, the Company and In-Three entered into a settlement agreement settling the dispute between the Company and In-Three. Despite the settlement reached between the Company and In-Three, co-plaintiff 3DMG refused to dismiss its claims against In-Three. Accordingly, the Company and In-Three moved jointly for a motion to dismiss the Company s and In-Three s claims. On August 24, 2010, the Court dismissed all of the claims pending between the Company and In-Three, thus dismissing the Company from the litigation.

On May 15, 2006, the Company initiated arbitration against 3DMG before the International Centre for Dispute Resolution in New York (the ICDR), alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties license agreement. On June 21, 2007, the ICDR unanimously denied 3DMG s Motion for Summary Judgment filed on April 11, 2007 concerning the Company s claims and 3DMG s counterclaims. The proceeding was suspended on May 4, 2009 due to failure of 3DMG to pay fees associated with the proceeding. The proceeding was further suspended on October 11, 2010 pending resolution of reexamination proceedings currently pending involving one of 3DMG s patents. The Company will continue to pursue its claims vigorously and believes that all allegations made by 3DMG are without merit. The Company further believes that the amount of loss, if any, suffered in connection with the counterclaims would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration.

In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chamber of Commerce (the ICC) with respect to the breach by Electronic Media Limited (EML) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML s affiliate, E-City Entertainment (I) PVT Limited (E-City). On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, consisting of past and future rents owed to the Company, plus interest and costs, as well as an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. On June 13, 2013, the Bombay High Court ruled that it has jurisdiction over the proceeding but on November 19, 2013, the Supreme Court of India stayed proceedings in the High Court pending Supreme Court review of the High Court s ruling. On June 24, 2011, the Company commenced a proceeding in the Ontario Superior Court of Justice for recognition of the ICC final award. On December 2, 2011, the Ontario Court issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application. On December 22, 2014, E-City filed a notice of motion in Ontario to set aside or stay the 2011 order recognizing the arbitral award in Ontario. In January 2013, the Company filed an action in the New York Supreme Court seeking to collect the amount owed to the Company by certain entities and individuals affiliated with E-City, and on July 11, 2014, the Company moved to amend its petition in the New York matter to have the Canadian judgment recognized as part of this proceeding. The Respondents in the New York action have answered and objected to the Company s petition, and they have moved to dismiss for improper service of process. On July 29, 2014, the Company commenced a separate proceeding to have the Canadian judgment recognized in New York. On November 26, 2014, E-City filed a motion in the Bombay High Court seeking to enjoin IMAX from continuing the New York legal proceedings. On February 2, 2015, the Bombay High Court denied E-City s request for an ad interim injunction.

The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws.

These eight actions were filed in the U.S. District Court for the Southern District of New York (the Court) and were subsequently consolidated by the Court. The plaintiffs filed a consolidated amended class action complaint on October 2, 2007, which added PricewaterhouseCoopers LLP, the Company's auditors, as a defendant. The amended complaint, brought on behalf of shareholders who purchased the Company's common stock on the NASDAQ between February 27, 2003 and July 20, 2007 (the U.S. Class), alleged primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company's revenue recognition of theater system installations, and failing to disclose material information concerning the Company's revenue recognition practices. On March 26, 2012, the parties executed and filed with the Court an amended formal stipulation of settlement and proposed form of notice to the class. On June 20, 2012 the Court issued an order granting final approval of the settlement. Under the terms of the settlement, members of the U.S. Class who did not opt out of the settlement released defendants from liability for all claims that were alleged in this action or could have been alleged in this action or any other proceeding (including the action in Canada as described in (d) of this note (the Canadian Action) relating to the purchase of the Company's securities on the NASDAQ between February 27, 2003 and July 20, 2007 or the subject matter and facts relating to this

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action. As part of the settlement and in exchange for the release, defendants agreed to pay \$12.0 million to a settlement fund which amount was funded by the carriers of the Company's directors and officers insurance policy and by PricewaterhouseCoopers LLP. The settlement was distributed to the U.S. Class on May 5, 2014.

A class action lawsuit was filed on September 20, 2006 in the Canadian Court against the Company and certain of its officers and directors, alleging violations of Canadian securities laws. This lawsuit was brought on behalf of shareholders who acquired the Company's securities between February 17, 2006 and August 9, 2006. The lawsuit seeks \$210.0 million in compensatory and punitive damages, as well as costs. For reasons released December 14, 2009, the Canadian Court granted leave to the plaintiffs to amend their statement of claim to plead certain claims pursuant to the Securities Act (Ontario) against the Company and certain individuals (the Defendants) and granted certification of the action as a class proceeding. These are procedural decisions, and do not contain any conclusions binding on a judge at trial as to the factual or legal merits of the claim. Leave to appeal those decisions was denied. In March 2013, the Defendants obtained an Order enforcing the settlement Order in the parallel class action in the United States in this Canadian class action lawsuit, with the result that the class in this case was reduced in size by approximately 85%. A motion by the Plaintiffs for leave to appeal that Order was dismissed. The Company believes the allegations made against it in the statement of claim are meritless and will vigorously defend the matter, although no assurance can be given with respect to the ultimate outcome of such proceedings. The Company's directors and officers' insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits, exclusions and deductibles.

The Company has also been involved in litigation against Gary Tsui (Tsui) and related parties in both Canada and China based on Tsui's theft and use of the Company's trade secrets. The Company filed a lawsuit against Tsui and other related individuals and entities in the Ontario Superior Court of Justice on December 8, 2009, through which the Company sought injunctive relief to prohibit Tsui from disclosing or using the Company's confidential and proprietary information and from competing with the Company. The Ontario Court awarded the injunctive relief sought by the Company on December 22, 2009. On April 30, 2013, a warrant was issued for Tsui's arrest based on his refusal to comply with the orders of the Ontario Court, including with respect to the continued use of the Company's trade secrets. The Ontario action was heard in June 2014 and judgment was rendered in the Company's favor. The Court awarded the Company \$6.0 million in damages against all defendants for conversion and misuse of confidential information, \$456,000 against all defendants for disgorgement of profits from the lost business opportunity, \$50,000 from Tsui in punitive damages of prejudgment interest on the forgoing and \$300,000 in costs against all defendants. The Company also initiated suits against Tsui in Beijing No. 1 Intermediate People's Court in Beijing, China on February 16, 2013 and December 3, 2013, seeking relief similar to that sought in the Ontario action (the Beijing Action). In October, 2013, Jiangsu Sunway Digital Technology Co. Ltd (a company incorporated by Tsui), commenced an action against the Company in Zhenjiang Intermediate People's Court, in Zhenjiang, China, alleging that the Company defamed and slandered the plaintiff through the commencement of the actions against Tsui in Canada and China referred to above, as well as several written communications to third parties (the Zhenjiang Action). In December 2014, the parties entered into a settlement agreement to settle, on terms which they agreed to maintain as confidential, all outstanding matters in connection with the Beijing Action and the Zhenjiang Action. The Company does not expect the settlement agreement to have a material impact on the financial position of the Company.

In November 2013, a purported class action complaint was filed in the United States District Court for the Northern District of Illinois (the Court) against IMAX Chicago Theatre LLC (IMAX Chicago Theatre), a subsidiary of the Company. The plaintiff, Scott Redman, alleges that IMAX Chicago Theatre provided certain credit card and debit card receipts to customers that were purportedly not in compliance with the applicable truncation requirements of the Fair and Accurate Credit Transactions Act. The plaintiff seeks statutory damages individually and on behalf of a putative class. On February 20, 2014, IMAX Chicago Theatre filed a motion to dismiss the complaint, which the

Court denied on January 23, 2015. IMAX Chicago Theatre believes that it has meritorious defenses and intends to defend the lawsuit vigorously. However, given the early stage of the proceedings, IMAX Chicago Theatre is unable to predict the outcome of this matter and is unable to assess the potential impact, if any, of the lawsuit at this time.

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

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

Item 4. *Mine Safety Disclosures*

Not applicable.

Table of Contents**PART II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities***

The Company's common shares are listed for trading under the trading symbol **IMAX** on the NYSE. Prior to the Company's voluntary delisting on January 19, 2015, the Company's shares were also listed for trading on the Toronto Stock Exchange (**TSX**). Prior to February 11, 2011, the Company's common shares were listed for trading on the NASDAQ. The following table sets forth the range of high and low sales prices per share for the common shares on NYSE and the TSX.

	U.S. Dollars	
	High	Low
NYSE		
Year ended December 31, 2014		
Fourth quarter	\$ 31.38	\$ 26.18
Third quarter	\$ 28.56	\$ 24.29
Second quarter	\$ 28.51	\$ 24.77
First quarter	\$ 29.28	\$ 25.97
Year ended December 31, 2013		
Fourth quarter	\$ 30.83	\$ 25.84
Third quarter	\$ 30.24	\$ 24.70
Second quarter	\$ 28.74	\$ 23.80
First quarter	\$ 26.80	\$ 22.67
	Canadian Dollars	
	High	Low
TSX		
Year ended December 31, 2014		
Fourth quarter	\$ 36.12	\$ 29.13
Third quarter	\$ 32.50	\$ 26.17
Second quarter	\$ 31.17	\$ 26.97
First quarter	\$ 31.61	\$ 28.47
Year ended December 31, 2013		
Fourth quarter	\$ 32.47	\$ 26.77
Third quarter	\$ 31.05	\$ 25.83
Second quarter	\$ 29.43	\$ 24.99
First quarter	\$ 27.41	\$ 22.31

As at January 31, 2015, the Company had approximately 283 registered holders of record of the Company's common shares.

Over the last four years, the Company has not paid, nor does the Company have any current plans to pay, cash dividends on its common shares. The payment of dividends by the Company is subject to certain restrictions under the terms of the Company's indebtedness (see note 11 to the accompanying audited consolidated financial statements in Item 8 and "Liquidity and Capital Resources" in Item 7). The payment of any future dividends will be determined by the

Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board of Directors.

Table of Contents**Equity Compensation Plans**

The following table sets forth information regarding the Company's Equity Compensation Plan as at December 31, 2014:

Plan Category	Number of Securities to be		Weighted Average	Number of Securities
	Issued Upon	Exercise		
	Exercise of	Price of	Future Issuance	
	Outstanding	Outstanding Options,	Under	
	Options,	Warrants	Equity Compensation Plans	
	Warrants and	and Rights	(Excluding	
	Rights	and Rights	Securities	
	(a)	(b)	Reflected in	
			Column (a))	
			(c)	
Equity compensation plans approved by security holders	6,521,494	\$ 24.50	2,651,612	
Equity compensation plans not approved by security holders	nil	nil	nil	
Total	6,521,494	\$ 24.50	2,651,612	

Performance Graph

The following graph compares the total cumulative shareholder return for \$100 invested (assumes that all dividends were reinvested) in common shares of the Company against the cumulative total return of the NYSE Composite Index, the S&P/TSX Composite Index and the Bloomberg Hollywood Reporter Index on December 31, 2009 to the end of the most recently completed fiscal year.

Table of Contents**Issuer Purchases of Equity Securities**

The Company's common stock repurchase program activity for the three months ended December 31, 2014 was as follows:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program ^(a)	Maximum value of shares that may yet be purchased under the program
October 1 through October 31, 2014	26,629	\$ 26.00	26,629	\$ 146,941,074
November 1 through November 30, 2014				\$ 146,941,074
December 1 through December 31, 2014				\$ 146,941,074
Total	26,629	\$ 26.00	26,629	

- (a) On June 16, 2014, the Company's Board of Directors approved a new \$150.0 million share repurchase program for shares of the Company's common stock, which 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.

The total number of shares purchased during the three months ended December 31, 2014 does not include any shares received in the administration of employee share-based compensation plans.

CERTAIN INCOME TAX CONSIDERATIONS**United States Federal Income Tax Considerations**

The following discussion is a general summary of the material U.S. federal income tax consequences of the ownership and disposition of the common shares by a holder of common shares that is an individual resident of the United States or a United States corporation (a U.S. Holder). This discussion does not discuss all aspects of U.S. federal income taxation that may be relevant to investors subject to special treatment under U.S. federal income tax law (including, for example, owners of 10.0% or more of the voting shares of the Company).

Distributions on Common Shares

In general, distributions (without reduction for Canadian withholding taxes) paid by the Company with respect to the common shares will be taxed to a U.S. Holder as dividend income to the extent that such distributions do not exceed the current and accumulated earnings and profits of the Company (as determined for U.S. federal income tax purposes). Subject to certain limitations, under current law dividends paid to non-corporate U.S. Holders may be

eligible for a reduced rate of taxation as long as the Company is considered to be a qualified foreign corporation . A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States. The amount of a distribution that exceeds the earnings and profits of the Company will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in the common shares and thereafter as taxable capital gain. Corporate holders generally will not be allowed a deduction for dividends received in respect of distributions on common shares. Subject to the limitations set forth in the U.S. Internal Revenue Code, as modified by the U.S.-Canada Income Tax Treaty, U.S. Holders may elect to claim a foreign tax credit against their U.S. federal income tax liability for Canadian income tax withheld from dividends. Alternatively, U.S. Holders may claim a deduction for such amounts of Canadian tax withheld.

Disposition of Common Shares

Upon the sale or other disposition of common shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale and such holder's tax basis in the common shares. Gain or loss upon the disposition of the common shares will be long-term if, at the time of the disposition, the common shares have been held for more than one year. Long-term capital gains of non-corporate U.S. Holders may be eligible for a reduced rate of taxation. The deduction of capital losses is subject to limitations for U.S. federal income tax purposes.

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Canadian Federal Income Tax Considerations

This summary is applicable to a holder or prospective purchaser of common shares who, for the purposes of the *Income Tax Act* (Canada) and any applicable treaty and at all relevant times, is not (and is not deemed to be) resident in Canada, does not (and is not deemed to) use or hold the common shares in, or in the course of, carrying on a business in Canada, and is not an insurer that carries on an insurance business in Canada and elsewhere.

This summary is based on the current provisions of the *Income Tax Act* (Canada), the regulations thereunder, all specific proposals to amend such Act and regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and the Company's understanding of the administrative policies and assessing practices published in writing by the Canada Revenue Agency prior to the date hereof. This summary does not otherwise take into account any change in law or administrative policy or assessing practice, whether by judicial, governmental, legislative or administrative decision or action, nor does it take into account other federal or provincial, territorial or foreign tax consequences, which may vary from the Canadian federal income tax considerations described herein.

This summary is of a general nature only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder of the common shares and no representation with respect to Canadian federal income tax consequences to any holder of common shares is made herein. Accordingly, prospective purchasers and holders of the common shares should consult their own tax advisers with respect to their individual circumstances.

Dividends on Common Shares

Canadian withholding tax at a rate of 25.0% (subject to reduction under the provisions of any applicable tax treaty) will be payable on dividends (or amounts paid or credited on account or in lieu of payment of, or in satisfaction of, dividends) paid or credited to a holder of common shares. Under the Canada - U.S. Income Tax Convention (1980), as amended (the Canada - U.S. Income Tax Treaty) the withholding tax rate is generally reduced to 15.0% for a holder entitled to the benefits of the Canada - U.S. Income Tax Treaty who is the beneficial owner of the dividends (or 5.0% if the holder is a company that owns at least 10.0% of the common shares).

Capital Gains and Losses

Subject to the provisions of any relevant tax treaty, capital gains realized by a holder on the disposition or deemed disposition of common shares held as capital property will not be subject to Canadian tax unless the common shares are taxable Canadian property (as defined in the *Income Tax Act* (Canada)), in which case the capital gains will be subject to Canadian tax at rates which will approximate those payable by a Canadian resident. Common shares generally will not be taxable Canadian property to a holder provided that, at the time of the disposition or deemed disposition, the common shares are listed on a designated stock exchange (which currently includes the NYSE) unless at any time within the 60 month period immediately preceding such time (a) any combination of (i) such holder, (ii) persons with whom such holder did not deal at arm's length or (iii) a partnership in which such holder or any such persons holds a membership interest either directly or indirectly through one or more partnerships, owned 25.0% or more of the issued shares of any class or series of shares of the Company and (b) more than 50% of the fair market value of the common shares was derived directly or indirectly from one or any combination of (i) real or immovable property situated in Canada, (ii) Canadian resource properties, (iii) timber resource properties, and (iv) options in respect of, or interests in, or for civil law rights in, property described in any of paragraphs (i) to (iii), whether or not the property exists. In certain circumstances set out in the *Income Tax Act* (Canada), the common shares may be deemed to be taxable Canadian property. Under the Canada-U.S. Income Tax Treaty, a holder entitled to the benefits of the Canada - U.S. Income Tax Treaty and to whom the common shares are taxable Canadian property will not be

subject to Canadian tax on the disposition or deemed disposition of the common shares unless at the time of disposition or deemed disposition, the value of the common shares is derived principally from real property situated in Canada.

Table of Contents**Item 6. Selected Financial Data**

The selected financial data set forth below is derived from the consolidated financial information of the Company. The financial information has been prepared in accordance with U.S. GAAP. All financial information referred to herein is expressed in U.S. dollars unless otherwise noted.

<i>(In thousands of U.S. dollars, except per share amounts)</i>	Years Ended December 31,				
	2014	2013 ⁽¹²⁾	2012	2011	2010
Statements of Operations Data:					
Revenues					
Equipment and product sales	\$ 78,705	\$ 78,663	\$ 78,161	\$ 85,016	\$ 72,578
Services	142,607	139,464	135,071	105,262	121,026
Rentals	60,705	61,293	61,268	34,810	46,936
Finance income	8,524	8,142	7,523	6,162	4,789
Other ⁽¹⁾		375	732	3,848	400
	290,541	287,937	282,755	235,098	245,729
Costs and expenses applicable to revenues					
Equipment and product sales ⁽²⁾⁽³⁾	36,997	37,517	37,538	38,742	36,394
Services ⁽²⁾⁽³⁾	62,228	68,844	70,570	66,972	60,287
Rentals ⁽³⁾	17,928	16,973	21,402	14,301	11,111
Other				1,018	32
	117,153	123,334	129,510	121,033	107,824
Gross margin	173,388	164,603	153,245	114,065	137,905
Selling, general and administrative expenses ⁽⁴⁾	93,260	84,854	81,560	73,157	78,757
Gain on curtailment of postretirement benefit plan ⁽⁵⁾		(2,185)			
Provision for arbitration award ⁽⁶⁾				2,055	
Research and development	16,096	14,771	11,411	7,829	6,249
Amortization of intangibles	1,724	1,618	706	465	513
Receivable provisions, net of recoveries	918	445	524	1,570	1,443
Asset impairments ⁽⁷⁾	314			20	
Impairment of investments ⁽⁸⁾	3,206		150		
Income from operations	57,870	65,100	58,894	28,969	50,943
Interest income	405	55	85	57	399
Interest expense	(924)	(1,345)	(689)	(1,827)	(1,886)
Income from operations before income taxes	57,351	63,810	58,290	27,199	49,456
(Provision for) recovery of income taxes ⁽⁹⁾	(14,466)	(16,629)	(15,079)	(9,293)	52,574
Loss from equity-accounted investments, net of tax	(1,071)	(2,757)	(1,362)	(1,791)	(493)
Income from continuing operations	41,814	44,424	41,849	16,115	101,537
Income (loss) from discontinued operations, net of tax ⁽¹⁰⁾	355	(309)	(512)	(855)	(297)

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Net income	\$ 42,169	\$ 44,115	\$ 41,337	\$ 15,260	\$ 101,240
Less: net income attributable to non-controlling interests ⁽¹¹⁾	(2,433)				
Net income attributable to common shareholders	\$ 39,736	\$ 44,115	\$ 41,337	\$ 15,260	\$ 101,240
Net income per share attributable to common shareholders - basic and diluted:					
Net income per share - basic:					
Net income per share from continuing operations	\$ 0.57	\$ 0.66	\$ 0.64	\$ 0.25	\$ 1.60
Net income (loss) per share from discontinued operations	0.01		(0.01)	(0.01)	(0.01)
	\$ 0.58	\$ 0.66	\$ 0.63	\$ 0.24	\$ 1.59
Net income per share - diluted:					
Net income per share from continuing operations	\$ 0.56	\$ 0.64	\$ 0.62	\$ 0.23	\$ 1.52
Net income (loss) per share from discontinued operations			(0.01)	(0.01)	
	\$ 0.56	\$ 0.64	\$ 0.61	\$ 0.22	\$ 1.52

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- (1) The Company enters into theater system arrangements with customers that typically contain customer payment obligations prior to the scheduled installation of the theater systems. Each year, during the period of time between signing and theater system installation, certain customers are unable to, or elect not to, proceed with the theater system installation for a number of reasons, including business considerations, or the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the customer and/or the Company may terminate the arrangement by default or by entering into a consensual buyout. In these situations the parties are released from their future obligations under the arrangement, and the initial payments that the customer previously made to the Company and recognized as revenue are typically not refunded. In addition, the Company enters into agreements with customers to terminate their obligations for a theater system configuration and enter into a new arrangement for a different configuration. Other revenues from settlement arrangements were \$nil, \$0.4 million, \$0.7 million, \$3.8 million, and \$0.4 million in 2014, 2013, 2012, 2011 and 2010, respectively.
- (2) In 2014, the Company recognized a charge of \$0.4 million in costs and expenses applicable to revenues for the write-down of certain service parts and theater system inventories. Included for the periods 2010 through 2014 are the following inventory write-downs:

	2014	2013	2012	2011	2010
Equipment and product sales	\$ 209	\$ 274	\$ 795	\$	\$ 827
Services	150	170	103		172
	\$ 359	\$ 444	\$ 898	\$	\$ 999

- (3) The Company recorded advertising, marketing, and commission costs for the periods 2010 through 2014 as listed below:

	2014	2013	2012	2011	2010
Equipment and product sales	\$ 3,271	\$ 2,522	\$ 2,690	\$ 2,394	\$ 1,925
Services	7,701	4,552	4,773	5,648	2,793
Rentals	2,579	3,582	3,382	5,432	4,236
Advertising, marketing, and commission costs	\$ 13,551	\$ 10,656	\$ 10,845	\$ 13,474	\$ 8,954

- (4) Includes share-based compensation expense of \$15.1 million, \$11.9 million, \$13.1 million, \$11.7 million and \$26.0 million for 2014, 2013, 2012, 2011 and 2010, respectively.
- (5) In 2013, the Company amended its Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this amendment, the Company recognized a pre-tax curtailment gain of \$2.2 million. See note 21(d) of the accompanying audited consolidated financial statements in Item 8 for more information.
- (6) In 2011, the Company recorded a provision of \$2.1 million regarding an award issued in connection with an arbitration proceeding brought against the Company, relating to agreements entered into in 1994 and 1995 by its former Ridefilm subsidiary, whose business the Company discontinued through a sale to a third party in March

2001. The award was vacated as the parties entered into a confidential settlement agreement in which the parties agreed to dismiss any outstanding disputes among them.

- (7) In 2014, the Company recorded asset impairment charges of \$0.3 million. Asset impairment charges related to the impairment of property, plant and equipment amounted to \$nil, \$nil, less than \$0.1 million and less than \$0.1 million in 2013, 2012, 2011 and 2010, respectively, after the Company assessed the carrying value of certain assets.
- (8) In 2014, the Company recognized a \$3.2 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. See notes 20(b) and 20(e) of the accompanying audited consolidated financial statements in Item 8 for more information. Charges resulting from the impairment of investments amounted to \$nil, \$0.2 million, \$nil and \$nil in 2013, 2012, 2011 and 2010, respectively.

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- (9) The recovery for income taxes in the year ended December 31, 2010 includes a net non-cash income tax benefit of \$55.5 million related to a decrease in the valuation allowance for the Company's deferred tax assets and other tax adjustments. This release of the valuation allowance was recorded after it was determined that realization of this deferred income tax benefit is now more likely than not based on current and anticipated future earnings trends.
- (10) In 2014, the Company discontinued the operations of its owned and operated Nyack IMAX theater. The net income (loss) from the operation of the theater is reflected as a discontinued operation. See note 23 of the accompanying audited consolidated financial statements in Item 8 for more information.
- (11) Beginning in 2014, the Company's consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the net proceeds are classified as redeemable non-controlling interest in temporary equity. In addition, the Company recognized the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. See note 22 of the accompanying audited consolidated financial statements in Item 8 for more information.
- (12) Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

BALANCE SHEET DATA*(in thousands of U.S. dollars)*

	As at December 31,				
	2014	2013	2012	2011	2010
Cash and cash equivalents	\$ 106,503	\$ 29,546	\$ 21,336	\$ 18,138	\$ 30,390
Total assets	\$ 621,533	\$ 481,145	\$ 421,872	\$ 407,249	\$ 349,948
Total indebtedness	\$ 4,710	\$	\$ 11,000	\$ 55,083	\$ 17,500
Total shareholders' equity	\$ 382,775	\$ 319,585	\$ 253,079	\$ 189,868	\$ 155,878

QUARTERLY STATEMENTS OF OPERATIONS SUPPLEMENTARY DATA (UNAUDITED)*(in thousands of U.S. dollars, except per share amounts)*

	2014			
	Q1	Q2	Q3	Q4
Revenues	\$ 48,197	\$ 79,145	\$ 60,742	\$ 102,457
Costs and expenses applicable to revenues	21,789	31,351	25,300	38,713
Gross margin	\$ 26,408	\$ 47,794	\$ 35,442	\$ 63,744
Income from continuing operations	\$ 224	\$ 13,779	\$ 5,297	\$ 22,514
Income from discontinued operations, net of tax	355			
Net income	\$ 579	\$ 13,779	\$ 5,297	\$ 22,514
Net income attributable to common shareholders	\$ 579	\$ 13,307	\$ 4,858	\$ 20,992
Net income per share - basic	\$ 0.01	\$ 0.19	\$ 0.07	\$ 0.30
Net income per share - diluted	\$ 0.01	\$ 0.19	\$ 0.07	\$ 0.30
	2013			
	Q1	Q2	Q3	Q4
Revenues	\$ 49,666	\$ 81,713	\$ 51,507	\$ 105,051

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Costs and expenses applicable to revenues	23,476	38,078	24,055	37,725
Gross margin	\$ 26,190	\$ 43,635	\$ 27,452	\$ 67,326
Income from continuing operations	\$ 2,961	\$ 11,855	\$ 1,737	\$ 27,871
Loss from discontinued operations, net of tax	(100)	(39)	(128)	(42)
Net income	\$ 2,861	\$ 11,816	\$ 1,609	\$ 27,829
Net income attributable to common shareholders	\$ 2,861	\$ 11,816	\$ 1,609	\$ 27,829
Net income per share - basic	\$ 0.04	\$ 0.18	\$ 0.03	\$ 0.41
Net income per share - diluted	\$ 0.04	\$ 0.17	\$ 0.03	\$ 0.40

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
GENERAL

IMAX Corporation, together with its wholly-owned 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 934 IMAX theater systems (809 commercial multiplexes, 19 commercial destinations, 106 institutional) operating in 62 countries as of December 31, 2014. This compares to 837 theater systems (701 commercial multiplexes, 19 commercial destinations, 117 institutional) operating in 57 countries as of December 31, 2013.

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 40 films in 2014, up from 38 films in 2013 and 6 films in 2007. The Company expects to release a similar number of IMAX DMR films in 2015 as compared to 2014.

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. Accordingly, one of the Company's key short-term initiatives has been the development of a next-generation laser-based digital projection system, which it began rolling out at the end of 2014. In order to develop the laser-based digital projection system, the Company obtained exclusive rights to certain laser projection technology and other technology with applicability in the digital cinema field from Eastman Kodak Company (Kodak) in 2011 and entered a co-development arrangement with Barco N.V. (Barco) to co-develop a laser-based digital projection system that incorporates Kodak technology in 2012. Furthermore, in the second quarter of 2014, the Company announced an agreement with Necsel IP, Inc. (Necsel) to be the exclusive worldwide provider of specified lasers for IMAX's laser projection systems in exchange for preferred pricing and supply terms. The Company believes that these arrangements with Kodak, Barco and Necsel enable IMAX laser projectors to present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The Company also believes that its laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network.

The Company is also undertaking new lines of business, particularly in the area of home entertainment. In 2013, the Company announced new home theater initiatives, including a joint venture with TCL Multimedia Technology Holding Limited (TCL) to design, develop, manufacture and sell a premium home theater. The Company and TCL expect to launch the new home theater system in China, the Middle East and other select global markets in 2015. In April 2014, the Company, TCL and Wasu Digital TV media group (WASU) announced a joint-venture partnership whereby WASU will license and distribute IMAX-enhanced Hollywood and Chinese current

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theatrical and other content to the new home theater system. The Company is also developing other, related facets of a premium home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*[®] in their homes. The Company also recently began marketing and selling the IMAX Private Theatre, a cinema-grade, ultra-premium home theater system, and has signed agreements for 7 of such theaters to date.

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.

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 47-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.

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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. 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 363% 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 and the Company's credit facility. As at December 31, 2014, the Company had 451 theaters in operation under joint revenue sharing arrangements, a 18.1% increase as compared to the 382 joint revenue sharing arrangements open as at December 31, 2013. The Company also had contracts in

backlog for an additional 221 theaters under joint revenue sharing arrangements as at December 31, 2014.

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.

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Other Theater Revenues

The Company derives a small portion of its revenues from other sources. As at December 31, 2014, the Company had three owned and operated IMAX theaters (December 31, 2013 – four owned and operated theaters). On January 30, 2014, the Company discontinued the operations of its owned and operated theater in Nyack, New York. In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses and provides management services to two 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 below 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 December 31:

	2014 Theater Network Base				2013 Theater Network Base			
	Commercial		Institutional	Total	Commercial		Institutional	Total
	Multiplex	Destination			Multiplex	Destination		
United States	329	6	50	385	319	6	55	380
Canada	36	2	8	46	34	2	8	44
Greater China ⁽¹⁾	215		19	234	150		23	173
Asia (excluding Greater China)	68	3	6	77	61	3	7	71
Western Europe	56	7	10	73	49	7	11	67
Russia & the CIS	45			45	40			40
Latin America ⁽²⁾	31		11	42	25		11	36
Rest of the World	29	1	2	32	23	1	2	26
Total	809	19	106	934	701	19	117	837

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

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

As of December 31, 2014, 46.1% of IMAX systems in operation were located in the United States and Canada compared to 50.7% as at the end of last year. To minimize the Company's credit risk, the Company retains title to the underlying theater systems leased, 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 1,700 IMAX theaters worldwide from 809 commercial multiplex IMAX theaters operating as of December 31, 2014. 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 December 31, 2014, 53.9% of IMAX theater systems in operation

were located within international markets (defined as all countries other than the United States and Canada), up from 49.3% as at December 31, 2013 with 2013 marking the first year in the Company's history that revenues and gross box-office derived from outside the United States and Canada exceeded revenues and gross box-office from the United States and Canada. This trend has continued in 2014. Risks associated with the Company's international business are described 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 Part I.

Greater China continues to be the Company's second-largest and fastest-growing market. As at December 31, 2014, the Company had 234 theaters operating in Greater China with an additional 217 theaters (including two upgrades) in backlog that are scheduled to be installed in Greater China by 2021. The Company's backlog in Greater China represents 54.7% 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).

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Wanda's total commitment to the Company is for 210 theater systems, of which 195 theater systems are under the parties' joint revenue sharing arrangement. Furthermore, the Company has a partnership with CJ CGV Holdings, Ltd., for a commitment of 95 theater systems, of which 75 theater systems will reside in China. The Company believes that the China market presents opportunities for additional growth with favorable market trends, including government initiatives to foster cinema screen growth, to support the film industry and to increase the number of Hollywood films distributed in China, including a 2012 agreement between the U.S. and the Chinese government to permit 14 additional IMAX or 3D format films to be distributed in China each year and to permit distributors to receive higher distribution fees. The Company cautions, however, that its expansion in China faces a number of challenges. See Risk Factors. The Company faces risks in connection with the continued expansion of its business in China in Item 1A of Part I. In 2010, the Company formed IMAX China Holding, Inc. (IMAX China) to facilitate the Company's expansion in China. As of December 31, 2014, IMAX China had offices in Shanghai and Beijing and a total of 62 employees.

On April 8, 2014, the Company announced the investment (the IMAX China Investment) in its Greater China business by CMC Capital Partners (CMC), an investment fund that is focused on media and entertainment, and FountainVest Partners (FountainVest), a China-focused private equity firm. The IMAX China Investment provides for the sale and issuance of 20% of the shares of IMAX China to entities owned and controlled by CMC and FountainVest, with the intent of further strengthening the Company's competitive position in China.

The sale price for the interest was \$80.0 million, to be paid by the investors in two equal installments. The first installment was received on April 8, 2014, and the second installment was received on February 10, 2015. IMAX China remains a consolidated subsidiary of the Company.

The Company believes there have been a number of financial, strategic and operating benefits resulting from the IMAX China Investment. In particular, the Company believes that the investors' knowledge of, and influence in, the Chinese media and entertainment industry has contributed to the continued expansion of IMAX's theater network in China and the further strengthening of the Company's government and industry relationships within China.

The following table outlines the breakdown of the Commercial Multiplex theater network by arrangement type and geographic location as at December 31:

	2014			2013		
	JRSA	Sale / Sales- type lease	Total	JRSA	Sale / Sales- type lease	Total
Domestic Total (United States & Canada)	252	113	365	237	116	353
International:						
Greater China	127	88	215	85	65	150
Asia (excluding Greater China)	36	32	68	30	31	61
Western Europe	31	25	56	29	20	49
Russia & the CIS		45	45		40	40
Latin America		31	31		25	25
Rest of the World	5	24	29	1	22	23

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International Total	199	245	444	145	203	348
Worldwide Total	451	358	809	382	319	701

As at December 31, 2014, 252 (2013 237) of the 451 (2013 382) theaters under joint revenue sharing arrangements in operation, or 55.9% (2013 62.0%) were located in the United States and Canada, with the remaining 199 (2013 145) or 44.1% (2013 38.0%) 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.

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The Company's current sales backlog is as follows:

	December 31, 2014		December 31, 2013	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sales-type lease arrangements	176	\$ 223,482	144	\$ 177,956
Joint revenue sharing arrangements	221	45,648	263	51,983
	397 ⁽¹⁾⁽²⁾	\$ 269,130	407 ⁽¹⁾⁽³⁾	\$ 229,939

- (1) Includes 71 laser theater system configurations (2013 = 62), including upgrades and one of which is now operational. The Company continues to develop and roll out its laser projection system. See Research and Development in Item 1 of Part I for additional information.
- (2) Includes 27 upgrades to a digital theater system, in existing IMAX theater locations (2 xenon and 25 laser, of which 4 are under joint revenue sharing arrangements).
- (3) Includes 23 upgrades to a digital theater system, in existing IMAX theater locations (3 xenon and 20 laser, of which 4 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 quarter to quarter, 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.

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The following table outlines the breakdown of the total backlog by arrangement type and geographic location as at December 31:

	2014			2013		
	JRSA	Sale / Lease	Total	JRSA	Sale / Lease	Total
Domestic Total (United States & Canada)	30	27	57	33	22	55
International:						
Greater China	164	53	217	200	39	239
Asia (excluding Greater China)	14	24	38	17	22	39
Western Europe	10	9	19	10	3	13
Russia & the CIS		25	25		19	19
Latin America		27	27		32	32
Rest of the World	3	11	14	3	7	10
International Total	191	149	340	230	122	352
Worldwide Total	221	176	397 ⁽¹⁾⁽²⁾	263	144	407 ⁽¹⁾⁽³⁾

- (1) Includes 71 laser theater system configurations (2013 62), including upgrades and one of which is now operational. The Company continues to develop and roll out its laser projection system. See Research and Development in Part I for additional information.
- (2) Includes 27 upgrades to a digital theater system, in existing IMAX theater locations (2 xenon and 25 laser, of which 4 are under joint revenue sharing arrangements).
- (3) Includes 23 upgrades to a digital theater system, in existing IMAX theater locations (3 xenon and 20 laser, of which 4 are under joint revenue sharing arrangements).

Approximately 85.6% of IMAX theater system arrangements in backlog as at December 31, 2014 are scheduled to be installed in international markets (2013 86.5%).

The following reflects the Company's signings and installations for the years ended December 31:

	Years Ended December 31,	
	2014	2013
Theater System Signings:		
Full new sales and sales-type lease arrangements	81 ⁽¹⁾	56 ⁽¹⁾
New joint revenue sharing arrangements	23	190
Total new theaters	104	246
Upgrades of IMAX theater systems	14 ⁽²⁾⁽³⁾	31 ⁽²⁾⁽³⁾
Total theater signings	118	277

	Years	
	2014	2013
Theater System Installations:		
Full new sales and sales-type lease arrangements	46	47 ⁽⁴⁾
New joint revenue sharing arrangements	67	65
Total new theaters	113	112
Upgrades of IMAX theater systems	8 ⁽³⁾	21 ⁽⁴⁾
Total theater installations	121	133

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- (1) Includes three signings which replaced theaters under an existing arrangement in backlog (2013 – three signings) and one new xenon-based digital system under a short-term operating lease arrangement.
- (2) Includes five signings for the installation of laser-based digital systems in existing theater locations (2013 – 15 signings).
- (3) Includes three signings and two installations of upgrades to xenon-based digital systems under short-term operating lease arrangements (2013 - 10 signings, 8 installations).
- (4) Includes the following items: (i) one new xenon-based digital system under a short-term operating lease arrangement in an existing theater location; (ii) one theater system which has increased the Company's institutional theater network; and (iii) one IMAX Private Theater (the first of its kind in the IMAX theater network).

The Company estimates that it will install a similar number of new theater systems (excluding digital upgrades) in 2015 as the Company installed in 2014. 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 ranges 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 exclusively in IMAX. Several recent films have featured select sequences shot with IMAX cameras including *Interstellar: The IMAX Experience*, released in November 2014; *Transformers Age of Extinction: An IMAX 3D Experience*, released in June 2014; *Star Trek Into Darkness: An IMAX 3D Experience*, released in May 2013; *The Hunger Games: Catching Fire: The IMAX Experience*, released in November 2013 and *The Dark Knight Rises: The IMAX Experience*, released in July 2012, which featured over an hour of footage shot with IMAX cameras. In addition, several recent movies, including *Guardians of the Galaxy: An IMAX 3D Experience*, released in August 2014; *Transformers; Age of Extinction: An IMAX 3D Experience*, released in June 2014; *I, Frankenstein: An IMAX 3D Experience*, released in January 2014; *Oblivion: The IMAX Experience*, released in 2013 and *Skyfall: The IMAX Experience*, released in 2012 have featured footage taking advantage of the larger projected IMAX aspect ratio.

The original soundtrack of a film to be released to the IMAX network is re-mastered for the IMAX five or six-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 2014, 60.9% of the Company's gross box-office from IMAX DMR films was generated in international markets, as compared to 54.0% in 2013. 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 2014, the Company released seven local language IMAX DMR films, including six in China and one in India. In 2013, nine local language IMAX DMR films were released, including five in China and one in each of Japan, Russia, France, and India. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX network in 2015 and beyond.

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To date, the Company has announced the following 26 DMR titles to be released in 2015 to the IMAX theater network:

Taken 3: The IMAX Experience (20th Century Fox, January 2015, select international markets);

American Sniper: The IMAX Experience (Warner Bros. Pictures, January 2015);

Game of Thrones: The IMAX Experience (Season 4, Episodes 9 and 10)(Warner Bros. Pictures, January 2015);

Kingsman: The Secret Service: The IMAX Experience (20th Century Fox, January 2015, international only);

Seventh Son: An IMAX 3D Experience (Universal Studios, January 2015, wide release);

Jupiter Ascending: An IMAX 3D Experience (Warner Bros. Pictures, February 2015);

Fifty Shades of Grey: The IMAX Experience (Universal Studios, February 2015, Domestic only);

Wolf Totem: The IMAX Experience (China Film Group, February 2015, China only);

Dragon Blade: An IMAX 3D Experience (Shanghai Film Group, February 2015, China only);

Focus: The IMAX Experience (Warner Bros. Pictures, February 2015);

Chappie: The IMAX Experience (Sony Pictures Entertainment, March 2015);

Cinderella: The IMAX Experience (Walt Disney Studios, March 2015);

The Divergent Series: Insurgent: An IMAX 3D Experience (Summit Entertainment, March 2015);

Furious 7: The IMAX Experience (Universal Studios, April 2015);

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Dragon Ball Z: Revival of F : An IMAX 3D Experience (Toei Animation, April 2015, Japan only);

The Avengers: Age of Ultron: An IMAX 3D Experience (Walt Disney Studios, May 2015);

Tomorrowland: The IMAX Experience (Walt Disney Studios, May 2015);

Jurassic World: An IMAX 3D Experience (Universal Studios, June 2015);

Terminator Genisys: The IMAX Experience (Paramount Pictures, July 2015);

Mission: Impossible 5: The IMAX Experience (Paramount Pictures, July 2015);

Crouching Tiger, Hidden Dragon: The Green Legend: The IMAX Experience (China Film Group, August 2015);

Everest: An IMAX 3D Experience (Universal Studios, September 2015);

The Walk: The IMAX Experience (Sony Pictures Entertainment, October 2015);

Crimson Peak: The IMAX Experience (Universal Studios, October 2015);

The Hunger Games: Mockingjay Part 2: An IMAX 3D Experience (Lionsgate, November 2015); and

Star Wars: The Force Awakens: An IMAX 3D Experience (Walt Disney Studios, December 2015).

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate, and anticipates that a similar number of IMAX DMR films will be released to the IMAX network in 2015 to the films that were released to the IMAX network in 2014 .

Other Film Revenues: Film Distribution and Post-Production

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

In 2014, the Company announced the creation of the Film Fund to co-finance a portfolio of 10 original large format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company, which will contribute \$9.0 million to the Film Fund over

five years, anticipates the Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous, steady flow of high-quality documentary content. In 2014, the Film Fund invested \$7.5 million toward the development original films.

The Company anticipates that the Film Fund will finance a number of Company-produced films going forward. Previously, films produced by the Company were typically financed through third parties, whereby the Company generally received a film production fee and a distribution fee in exchange for producing and distributing the film. The ownership rights to such films were held by the film sponsors, the film investors and/or the Company. The Company utilizes third-party funding for the majority of original films it produces and distributes. In 2014, the Company, in conjunction with WB, the Company released an IMAX original production, *Island of Lemurs: Madagascar*. In 2012, the Company, along with WB and MacGillivray Freeman Films, Inc. (MFF), released an original title, *To the Arctic 3D*. In 2011, the Company, along with WB, released *Born to be Wild 3D*. In January 2013, the Company announced an agreement with MFF to jointly finance, market and distribute up to four films (with an option for four additional films) produced

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by MFF to be released exclusively to IMAX theaters. The agreement will ensure IMAX's institutional theater partners access to a steady flow of the highest-quality, large-format documentaries over the years to come. One of the four films produced under the MFF agreement, *Journey to the South Pacific* had a limited release in November 2013 and a wide release in early 2014.

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to selling prices associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; write-downs for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company's significant accounting policies are discussed in note 2 to its audited consolidated financial statements in Item 8 of the Company's 2014 Form 10-K.

The Company considers the following significant estimates, assumptions and judgments to have the most significant effect on its results:

Revenue Recognition

The Company generates revenue from various sources as follows:

- design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 62 countries as at December 31, 2014;

- production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;

- operation of certain IMAX theaters primarily in the United States;

provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems; and

other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

Multiple Element Arrangements

The Company's revenue arrangements with certain customers may involve multiple elements consisting of a theater system (projector, sound system, screen system and, if applicable, 3D glasses cleaning machine); services associated with the theater system including theater design support, supervision of installation, and projectionist training; a license to use of the IMAX brand; 3D glasses; maintenance and extended warranty services; and licensing of films. The Company evaluates all elements in an arrangement to determine what are considered typical deliverables for accounting purposes and which of the deliverables represent separate units of accounting based on the applicable accounting guidance in the Leases Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification); the Guarantees Topic of the FASB ASC; the Entertainment Films Topic of the FASB ASC; and the Revenue Recognition Topic of the FASB ASC. If separate units of accounting are either required

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under the relevant accounting standards or determined to be applicable under the Revenue Recognition Topic, the total consideration received or receivable in the arrangement is allocated based on the applicable guidance in the above noted standards.

Theater Systems

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

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

For arrangements entered into or materially modified after January 1, 2011, consideration is allocated to each unit of accounting based on the unit's relative selling prices. The Company uses vendor-specific objective evidence of selling price (VSOE) when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. VSOE is established for the Company's System Deliverable, maintenance and extended warranty services and film license arrangements. The Company uses a best estimate of selling price (BESP) for units of accounting that do not have VSOE or third party evidence of selling price. The Company determines BESP for a deliverable by considering multiple factors including the Company's historical pricing practices, product class, market competition and geography.

Sales Arrangements

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

The initial revenue recognized consists of the initial payments received and the present value of any future initial payments and fixed minimum ongoing payments that have been attributed to this unit of accounting. Contingent

payments in excess of the fixed minimum ongoing payments are recognized when reported by theater operators, provided collectibility is reasonably assured.

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

Lease Arrangements

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

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

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

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

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

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

Equipment and components allocated to be used in future joint revenue sharing arrangements, as well as direct labor costs and an allocation of direct production costs, are included in assets under construction until such equipment is installed and in working condition, at which time the equipment is depreciated on a straight-line basis over the lesser of the term of the joint revenue sharing arrangement and the equipment's anticipated useful life.

Finance Income

Finance income is recognized over the term of the lease or over the period of time specified in the sales arrangement, provided collectibility is reasonably assured. Finance income recognition ceases when the Company determines that the associated receivable is not collectible.

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

Terminations, Consensual Buyouts and Concessions

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

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In addition, the Company could agree with customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX digital theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new arrangement for the IMAX digital theater system. For all arrangements entered into or modified prior to the date of adoption of the amended FASB ASC 605-25, the Company continues to defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the selling price of the IMAX digital theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed. Under the amended FASB ASC 605-25, as described in note 2(m) to the accompanying notes to the audited consolidated financial statements, for all arrangements entered into or materially modified after the date of adoption, the total arrangement consideration to be received is allocated on a relative selling price basis to the digital upgrade and the termination of the previous theater system. The arrangement consideration allocated to the termination of the existing arrangement is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed.

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

Maintenance and Extended Warranty Services

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

Other

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

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

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

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

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

Film Production and IMAX DMR Services

In certain film arrangements, the Company produces a film financed by third parties, whereby the third party retains the copyright and the Company obtains exclusive distribution rights. Under these arrangements, the Company is entitled to receive a fixed fee or to retain as a fee the excess of funding over cost of production (the production fee). The third parties receive a portion of the revenues received by the Company from distributing the film, which is charged to costs and expenses applicable to revenues-services. The

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production fees are deferred, and recognized as a reduction in the cost of the film, based on the ratio of the Company's distribution revenues recognized in the current period to the ultimate distribution revenues expected from the film.

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

Revenues from digitally re-mastering (IMAX DMR) films where third parties own or hold the copyrights and the rights to distribute the film are derived in the form of processing fees and recoupments calculated as a percentage of box-office receipts generated from the re-mastered films. Processing fees are recognized as Service revenues when the performance of the related re-mastering service is completed, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is reasonably assured. Recoupments, calculated as a percentage of box-office receipts, are recognized as Services revenues when box-office receipts are reported by the third party that owns or holds the related film rights, provided collectibility is reasonably assured.

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

Film Distribution

Revenue from the licensing of films is recognized in Services revenues when persuasive evidence of a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed or determinable and collectibility is reasonably assured. When license fees are based on a percentage of box-office receipts, revenue is recognized when box-office receipts are reported by exhibitors, provided collectibility is reasonably assured.

Film Post-Production Services

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

Allowances for Accounts Receivable and Financing Receivables

Allowances for doubtful accounts receivable are based on the Company's assessment of the collectibility of specific customer balances, which is based upon a review of the customer's credit worthiness, past collection history and the underlying asset value of the equipment, where applicable. Interest on overdue accounts receivable is recognized as income as the amounts are collected.

The Company monitors the performance of the theaters to which it has leased or sold theater systems which are subject to ongoing payments. When facts and circumstances indicate that there is a potential impairment in the accounts receivable, net investment in lease or a financing receivable, the Company will evaluate the potential outcome of either renegotiations involving changes in the terms of the receivable or defaults on the existing lease or financed sale agreements. The Company will record a provision if it is considered probable that the Company will be unable to collect all amounts due under the contractual terms of the arrangement or a renegotiated lease amount will cause a reclassification of the sales-type lease to an operating lease.

When the net investment in lease or the financing receivable is impaired, the Company will recognize a provision for the difference between the carrying value in the investment and the present value of expected future cash flows discounted using the effective interest rate for the net investment in the lease or the financing receivable. If the Company expects to recover the theater system, the provision is equal to the excess of the carrying value of the investment over the fair value of the equipment.

When the minimum lease payments are renegotiated and the lease continues to be classified as a sales-type lease, the reduction in payments is applied to reduce unearned finance income.

These provisions are adjusted when there is a significant change in the amount or timing of the expected future cash flows or when actual cash flows differ from cash flow previously expected.

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Once a net investment in lease or financing receivable is considered impaired, the Company does not recognize interest income until the collectibility issues are resolved. When finance income is not recognized, any payments received are applied against outstanding gross minimum lease amounts receivable or gross receivables from financed sales.

Inventories

Inventories are carried at the lower of cost, determined on an average cost basis, and net realizable value except for raw materials, which are carried out at the lower of cost and replacement cost. Finished goods and work-in-process include the cost of raw materials, direct labor, theater design costs, and an applicable share of manufacturing overhead costs.

The costs related to theater systems under sales and sales-type lease arrangements are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met. The costs related to theater systems under operating lease arrangements and joint revenue sharing arrangements are transferred from inventory to assets under construction in property, plant and equipment when allocated to a signed joint revenue sharing arrangement or when the arrangement is first classified as an operating lease.

The Company records write-downs for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, technological developments, signings in negotiation, growth prospects within the customers' ultimate marketplace and anticipated market acceptance of the Company's current and pending theater systems.

Finished goods inventories can contain theater systems for which title has passed to the Company's customer, under the contract, but the revenue recognition criteria as discussed above have not been met.

Asset Impairments

The Company performs a qualitative, and when necessary quantitative, impairment test on its goodwill on an annual basis, coincident with the year-end, as well as in quarters where events or changes in circumstances suggest that the carrying amount may not be recoverable.

Goodwill impairment is assessed at the reporting unit level by comparing the unit's carrying value, including goodwill, to the fair value of the unit. The Company completed a full quantitative analysis as required by ASC 350-Intangibles Goodwill and Other (Step 1) in 2014. The carrying values of each unit are subject to allocations of certain assets and liabilities that the Company has applied in a systematic and rational manner. The fair value of the Company's units is assessed using a discounted cash flow model. The model is constructed using the Company's budget and long-range plan as a base. The Company performs a qualitative assessment of its reporting units and certain select quantitative calculations against its current long range plan to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount (Step 0).

Long-lived asset impairment testing is performed at the lowest level of an asset group at which identifiable cash flows are largely independent. In performing its review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset or asset group and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is recognized in the consolidated statement of operations. Measurement of the impairment loss is based on the excess of the carrying amount of the asset or asset group over the fair value calculated using discounted expected future cash flows.

The Company's estimates of future cash flows involve anticipating future revenue streams, which contain many assumptions that are subject to variability, as well as estimates for future cash outlays, the amounts of which, and the timing of which are both uncertain. Actual results that differ from the Company's budget and long-range plan could result in a significantly different result to an impairment test, which could impact earnings.

Pension Plan and Postretirement Benefit Obligations Assumptions

The Company's pension plan and postretirement benefit obligations and related costs are calculated using actuarial concepts, within the framework of the Compensation - Retirement Benefits Topic of the FASB ASC. A critical assumption to this accounting is the

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discount rate. The Company evaluates this critical assumption annually or when otherwise required to by accounting standards. Other assumptions include factors such as expected retirement date, mortality rate, rate of compensation increase, and estimates of inflation.

The discount rate enables the Company to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. The Company's discount rate was determined by considering the average of pension yield curves constructed from a large population of high-quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

The discount rate used is a key assumption in the determination of the pension benefit obligation and expense. A 1.0% change in the discount rate used would result in a \$2.4 million reduction or a \$2.9 million increase in the pension benefit obligation with a corresponding benefit or charge recognized in other comprehensive income in the year.

Deferred Tax Asset Valuation

As at December 31, 2014, the Company had net deferred income tax assets of \$23.1 million. The Company's management assesses realization of its deferred tax assets based on all available evidence in order to conclude whether it is more likely than not that the deferred tax assets will be realized. Available evidence considered by the Company includes, but is not limited to, the Company's historical operating results, projected future operating results, reversing temporary differences, contracted sales backlog at December 31, 2014, changing business circumstances, and the ability to realize certain deferred tax assets through loss and tax credit carry-back and carry-forward strategies.

When there is a change in circumstances that causes a change in judgment about the realizability of the deferred tax assets, the Company would adjust the applicable valuation allowance in the period when such change occurs.

Tax Exposures

The Company is subject to ongoing tax exposures, examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts tax expense to reflect the Company's ongoing assessments of such matters which require judgment and can materially increase or decrease its effective rate as well as impact operating results. The Company provides for such exposures in accordance with Income Taxes Topic of the FASB ASC.

Stock-Based Compensation

The Company's stock-based compensation generally includes stock options, restricted share units (RSUs) and stock appreciation rights (SARs).

The Company estimates the fair value of stock option and SAR awards on the date of grant using fair value measurement techniques. The fair value of RSU awards is equal to the closing price of the Company's common stock on the date of grant.

The Company utilizes a lattice-binomial option-pricing model (the Binomial Model) to determine the fair value of stock option and SAR awards. The fair value determined by the Binomial Model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The Binomial Model also considers the expected exercise

multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options and SARs have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the Binomial Model best provides an accurate measure of the fair value of the Company's employee stock options and SARs. Although the fair value of employee stock options and SARs are determined in accordance with the Equity topic of the FASB ASC using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Table of Contents**Impact of Recently Issued Accounting Pronouncements**

See note 3 to the audited consolidated financial statements in Item 8 of the Company's 2014 Form 10-K for information regarding the Company's recent changes in accounting policies and the impact of recently issued accounting pronouncements impacting the Company.

DISCONTINUED OPERATIONS

On January 30, 2014, the Company's lease with respect to its owned and operated Nyack IMAX theater ended and the Company decided not to renew the lease. In 2014, revenues for the Nyack IMAX theater were less than \$0.1 million (2013 \$1.3 million, 2012 \$1.5 million) and the Company recognized income of \$0.4 million, net of a tax expense of \$0.2 million, in 2014 (2013 loss of \$0.3 million, 2012 loss of \$0.5 million) from the operation of the theater. The transactions of the Company's owned and operated Nyack theater are reflected as discontinued operations. See note 23 to the audited consolidated financial statements in Item 8 of the Company's 2014 Form 10-K for more information.

ASSET IMPAIRMENTS AND OTHER CHARGES (RECOVERIES)

The following table identifies the Company's charges (recoveries) relating to the impairment of assets:

<i>(in thousands of U.S. dollars)</i>	Years Ended December 31,		
	2014	2013	2012
Asset impairments			
Property, plant and equipment	\$ 314	\$	\$
Other charges (recoveries):			
Accounts receivable	725	(35)	606
Financing receivables	193	480	(82)
Inventories	359	444	898
Impairment of investments	3,206		150
Property, plant and equipment	440	384	18
Other intangible assets	57	63	11
Other assets			6
Total asset impairments and other charges	\$ 5,294	\$ 1,336	\$ 1,607

Asset Impairments

The Company records asset impairment charges for property, plant and equipment after an assessment of the carrying value of certain asset groups in light of their future expected cash flows. During 2014, the Company recorded total asset impairment charges of \$0.3 million as the Company recognized that the carrying values for the assets exceeded the expected undiscounted future cash flows. No such charges were recognized in 2013 and 2012.

Other Charges (Recoveries)

The Company recorded a \$0.4 million provision (2013 \$0.5 million; 2012 \$0.9 million) in costs and expenses applicable to revenues due to a reduction in the net realizable value of its inventories. These charges primarily resulted from a reduction in the net realizable value of its theater system equipment inventories and certain service part

inventories due to normal operational activity.

The Company recorded a net provision of \$0.7 million in 2014 (2013 less than \$0.1 million recovery; 2012 \$0.6 million provision) in accounts receivable based on the Company's ongoing assessment of the collectability of specific customer balances.

In 2014, the Company also recorded a net provision of \$0.2 million in financing receivables (2013 \$0.5 million provision; 2012 \$0.1 million recovery). Provisions of the Company's financing receivables is recorded when the collectability associated with certain financing receivables is uncertain. These provisions are adjusted when there is a significant change in the amount or timing of the expected future cash flows or when actual cash flows differ from cash flows previously expected.

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In 2014, the Company recognized a \$3.2 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 (2013 \$nil; 2012 \$0.2 million).

In 2014, the Company recorded a charge of \$0.5 million (2013 \$0.4 million; 2012 less than \$0.1 million) reflecting assets that were no longer in use.

NON-GAAP FINANCIAL MEASURES

In this report, the Company presents adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share as supplemental measures of performance of the Company, which are not recognized under U.S. GAAP. The Company presents adjusted net income and adjusted net income per diluted share because it believes that they are important supplemental measures of its comparable controllable operating performance and it wants to ensure that its investors fully understand the impact of its stock-based compensation (net of any related tax impact) on net income. In addition, the Company presents adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share because it believes that they are important supplemental measures of its comparable financial results and could potentially distort the analysis of trends in business performance and it wants to ensure that its investors fully understand the impact of net income attributable to non-controlling interests and its stock-based compensation (net of any related tax impact) in determining net income attributable to common shareholders. The Company presents adjusted gross margin from its joint revenue sharing arrangements segment excluding initial launch costs because it believes that it is an important supplemental measure used by management to evaluate ongoing joint revenue sharing arrangement theater performance. Management uses these measures to review operating performance on a comparable basis from period to period. However, these non-GAAP measures may not be comparable to similarly titled amounts reported by other companies. Adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share should be considered in addition to, and not as a substitute for, net income and net income attributable to common shareholders and other measures of financial performance reported in accordance with U.S. GAAP.

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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 19 to the audited consolidated financial statements in Item 8 of the Company's 2014 Form 10-K, 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 accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements in Item 8 of the Company's 2014 Form 10-K.

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

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The following table sets forth the breakdown of revenue and gross margin by category:

<i>(In thousands of U.S. dollars)</i>	Revenue			Gross Margin		
	Years Ended December 31,			Years Ended December 31,		
	2014	2013	2012	2014	2013	2012
IMAX Theater Systems						
IMAX Systems						
Sales and sales-type leases ⁽¹⁾	\$ 58,875	\$ 65,944	\$ 69,988	\$ 34,483	\$ 35,652	\$ 36,974
Ongoing rent, fees, and finance income ⁽²⁾	14,117	14,245	13,417	13,445	13,388	13,271
Other	12,154	11,182	13,019	129	102	1,057
	85,146	91,371	96,424	48,057	49,142	51,302
Theater System Maintenance	34,042	31,978	28,629	12,375	12,096	10,970
Joint Revenue Sharing Arrangements	68,418	64,130	57,526	44,714	44,565	37,308
Film						
Production and IMAX DMR	83,172	83,496	78,050	62,922	56,088	49,355
Film distribution and post-production	19,763	16,962	22,126	5,320	2,712	4,310
	102,935	100,458	100,176	68,242	58,800	53,665
	\$ 290,541	\$ 287,937	\$ 282,755	\$ 173,388	\$ 164,603	\$ 153,245

(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.

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The Company reported net income of \$42.2 million or \$0.61 per basic share and \$0.59 per diluted share for the year ended December 31, 2014 as compared to net income of \$44.1 million or \$0.66 per basic share and \$0.64 per diluted share for the year ended December 31, 2013. Net income for the year ended December 31, 2014 includes a \$15.1 million charge or \$0.22 per diluted share (2013 \$11.9 million or \$0.17 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 \$54.9 million or \$0.78 per diluted share for the year ended December 31, 2014 as compared to adjusted net income of \$55.7 million or \$0.81 per diluted share for the year ended December 31, 2013. 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 \$52.5 million or \$0.75 per diluted share for the year ended December 31, 2014 as compared to adjusted net income attributable to common shareholders of \$55.7 million or \$0.81 per diluted share for the year ended December 31, 2013. 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:

	Year Ended December 31, 2014		Year Ended December 31, 2013	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 42,169	\$ 0.59 ⁽¹⁾	\$ 44,115	\$ 0.64
Adjustments:				
Stock-based compensation	15,128	0.22	11,928	0.17
Tax impact on items listed above	(2,370)	(0.03)	(344)	
Adjusted net income	54,927	0.78	55,699	0.81
Net income attributable to non-controlling interests	(2,433)	(0.03)		
Adjusted net income attributable to common shareholders	\$ 52,494	\$ 0.75 ⁽¹⁾	\$ 55,699	\$ 0.81
Weighted average diluted shares outstanding		69,754		68,961

(1) Includes impact of \$0.4 million of accretion charges associated with redeemable common stock.

Revenues and Gross Margin

The Company's revenues for the year ended December 31, 2014 increased 0.9% to \$290.5 million from \$287.9 million in 2013, primarily due to an increase in revenues from the Company's joint revenue sharing arrangements, theater system maintenance and film segments, mostly offset by a decrease in revenues from the Company's IMAX systems segment. The gross margin across all segments in 2014 was \$173.4 million, or 59.7% of total revenue, compared to \$164.6 million, or 57.2% of total revenue in 2013.

IMAX Systems

IMAX systems revenue decreased 6.8% to \$85.1 million in 2014 as compared to \$91.4 million in 2013 resulting primarily from the revenue recognition in 2013 of a number of previously installed digital upgrade theater systems which had been deferred from a prior period.

Revenue from sales and sales-type leases decreased 10.7% to \$58.9 million in 2014 from \$65.9 million in 2013. The Company recognized revenue on 46 full, new theater systems which qualified as either sales or sales-type leases in 2014, with a total value of \$55.6 million, versus 45 full, new theater systems in 2013 with a total value of \$54.9 million. The Company also recognized revenue on the installation of 3 xenon-based digital upgrades in 2014, with a total value of \$2.3 million, as compared to 5 xenon-based digital upgrades in 2013, with a total value of \$3.2 million. Digital upgrades typically have lower sales prices and gross margin than full theater system installations. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital theater systems increase flexibility and profitability for the Company's existing exhibition customers. There were no used theater systems installed in the year ended December 31, 2014. In 2013, the Company installed and recognized one used 3D GT theater system with a total value of \$1.2 million.

In 2013, the Company recognized revenue under a digital upgrade arrangement for 13 theater systems (10 sales and 3 operating leases) which were previously installed, but for which revenue recognition was deferred. The arrangement provided the customer with

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standard digital upgrades, which were installed, and a number of as-of-yet undeveloped upgrades. The Company's policy is to defer revenue recognition until the upgrade right expires, if applicable, or a digital upgrade is delivered. In 2013, the upgrade right in the agreement expired such that contract consideration became fixed. Therefore, the Company recognized revenue and gross margin of \$3.1 million and a loss of \$0.3 million, respectively, from the 10 theater systems which qualify as sales. Revenue earned from the 3 theater systems, which qualify as operating leases, are included in the Company's ongoing rent revenue and finance income discussion below.

In 2013, one of the Company's customers acquired an IMAX theater from another existing customer that had been operating under a joint revenue sharing arrangement. This theater was purchased from the Company under a sale arrangement. As a result of this sale transaction, the Company recorded revenue and margin of \$0.9 million and \$0.6 million, respectively. The above-referenced theater was included in the Company's 2013 signings total.

Average revenue per full, new sales and sales-type lease systems was \$1.2 million in 2014, which was consistent with the prior year. Average revenue per digital upgrade was \$0.8 million in 2014, as compared to \$0.6 million in 2013. 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.

The installation of theater systems in newly-built theaters or multiplexes, which make up a large portion of the Company's theater system backlog, depends primarily on the timing of the construction of those projects, which is not under the Company's control. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system configuration for 2014 and 2013 is outlined in the table below:

	2014	2013
New IMAX xenon-based digital theater systems - installed and recognized		
Sales and sales-types lease arrangements	46	46 ⁽²⁾⁽³⁾
Short-term operating lease arrangement		1 ⁽¹⁾
Joint revenue sharing arrangements	67	65 ⁽¹⁾
Total new theater systems	113	112
IMAX xenon-based digital theater system upgrades - installed and recognized		
Sales and sales-types lease arrangements	3	5
Short-term operating lease arrangements	3 ⁽¹⁾	13 ⁽¹⁾
Joint revenue sharing arrangements	2	3 ⁽¹⁾
Total upgraded theater systems	8	21
Total theater systems installed	121	133

(1) Reflects xenon-based digital system configurations, which will be upgraded to a laser-based digital system configuration at a future date.

- (2) Includes one used IMAX 3D GT system resulting in an addition to the Company's institutional theater network.
- (3) Includes one IMAX Private Theater, the first of its kind in the Company's theater network.

Revenues from sales and sales-type leases include settlement revenue of \$nil in 2014 as compared to \$0.4 million in 2013.

IMAX theater system margin from full, new sales and sales-type lease systems, excluding the impact of settlements, was 63.4% in 2014, as compared to 63.3% in 2013. Gross margin from digital upgrades was \$1.2 million in 2014, as compared to \$1.3 million in 2013. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors. In addition, in 2014, the Company incurred a charge of \$0.8 million for equipment to enable certain theaters to elect to exhibit certain films in analog format. Furthermore, in 2014, the Company recorded a write-down of certain film-based projector inventories of \$0.2 million, as compared to \$0.3 million in 2013.

In 2014, the Company donated, and recognized the associated costs, of a full, new xenon-based digital theater system to the University of Southern California's School of Cinematic Arts. The theater, which is the first teaching lab of its kind in a collegiate setting, will give students the opportunity to learn about the latest innovations in filmmaking, set design, sound and post-production.

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Ongoing rent revenue and finance income decreased to \$14.1 million in 2014 compared to \$14.2 million in 2013. Gross margin for ongoing rent and finance income was consistent at \$13.4 million in 2014 and 2013, respectively. Contingent fees included in this caption amounted to \$3.0 million and \$3.7 million in 2014 and 2013, respectively.

Other revenue increased to \$12.2 million in 2014 as compared to \$11.2 million in 2013, primarily due to an increase in revenue from the Company's after-market sales of 3D glasses. 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 gross margin recognized from other revenue was \$0.1 million in 2014, which was consistent with the prior year.

Theater System Maintenance

Theater system maintenance revenue increased 6.5% to \$34.0 million in 2014 from \$32.0 million in 2013. Theater system maintenance gross margin increased to \$12.4 million in 2014 from \$12.1 million in 2013. The Company recorded a write-down of \$0.2 million for certain service parts inventories in 2014 and 2013, respectively. 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 increased 6.7% to \$68.4 million in 2014 from \$64.1 million in 2013. The Company ended the year with 451 theaters operating under joint revenue sharing arrangements, as compared to 382 theaters at the end of 2013, an increase of 18.1%. The increase in revenues from joint revenue sharing arrangements was largely due to the greater number of theaters under joint revenue sharing arrangements in operation as compared to the prior year. During 2014, the Company installed 67 full, new theaters under joint revenue sharing arrangements, as compared to 65 full new theaters during 2013.

The gross margin from joint revenue sharing arrangements was \$44.7 million in 2014 as compared to \$44.6 million in 2013. Included in the calculation of the 2014 gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$3.2 million, as compared to \$3.6 million for such expenses in 2013. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses from both periods, was \$47.9 million in 2014, compared to \$48.1 million in 2013. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable U.S. GAAP measure, to adjusted gross margin is presented in the table below:

<i>(In thousands of U.S. Dollars)</i>	2014	2013
Gross margin from joint revenue sharing arrangements	\$ 44,714	\$ 44,565
Add:		
Advertising, marketing and commission costs	3,154	3,582
Adjusted gross margin from joint revenue sharing arrangements	\$ 47,868	\$ 48,147

Film

Revenue from the Company's film segments was \$102.9 million in 2014 and \$100.5 million in 2013. Gross box-office generated by IMAX DMR films increased 3.2% to \$750.2 million in 2014 from \$726.6 million in 2013, primarily due to continued network growth. Film production and IMAX DMR revenues were consistent at \$83.2 million in 2014 and \$83.5 million in 2013. Gross box-office per screen for 2014 averaged \$1,020,600, in comparison to \$1,150,900 in 2013. In 2014, gross box-office was generated primarily from the exhibition of 50 films listed below (40 new and 10 carryovers), as compared to 44 (38 new and 6 carryover) films exhibited in 2013:

2014 Films Exhibited

Despicable Me 2: An IMAX 3D Experience

Gravity: An IMAX 3D Experience

Thor: The Dark World: An IMAX 3D Experience

Ender's Game: The IMAX Experience

The Hunger Games: Catching Fire: The IMAX Experience

2013 Films Exhibited

The Polar Express: An IMAX 3D Experience

Skyfall: The IMAX Experience

Life of Pi: An IMAX 3D Experience

CZ12: An IMAX 3D Experience

The Hobbit: An Unexpected Journey: An IMAX 3D Experience

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The Hobbit: The Desolation of Smaug: An IMAX 3D Experience

Dhoom 3: The IMAX Experience

Police Story: An IMAX 3D Experience

Jack Ryan: Shadow Recruit: The IMAX Experience

I, Frankenstein: An IMAX 3D Experience

The Monkey King: The IMAX Experience

Robocop: The IMAX Experience

Stalingrad: An IMAX 3D Experience

300: Rise of an Empire: An IMAX 3D Experience

Need for Speed: An IMAX 3D Experience

Divergent: The IMAX Experience

Noah: The IMAX Experience

Captain America: The Winter Soldier: An IMAX 3D Experience

Transcendence: The IMAX Experience

The Amazing Spider-Man 2: An IMAX 3D Experience

Godzilla: An IMAX 3D Experience

Coming Home: The IMAX Experience

Maleficent: An IMAX 3D Experience

Edge of Tomorrow: An IMAX 3D Experience

How to Train Your Dragon 2: An IMAX 3D Experience

Transformers: Age of Extinction: An IMAX 3D Experience

Hercules: An IMAX 3D Experience

Lucy: The IMAX Experience

The White Haired Witch of Lunar Kingdom: An IMAX 3D Experience

Guardians of the Galaxy: An IMAX 3D Experience

Teenage Mutant Ninja Turtles: An IMAX 3D Experience

The Expendables 3: The IMAX Experience

Forrest Gump: The IMAX Experience

The Maze Runner: The IMAX Experience

The Equalizer: The IMAX Experience

Breakup Buddies: The IMAX Experience

Bang Bang: The IMAX Experience

Dracula Untold: The IMAX Experience

John Wick: The IMAX 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

Les Misérables: The IMAX Experience

The Grandmaster: The IMAX Experience

Hansel & Gretel: Witch Hunters: An IMAX 3D Experience

Journey to the West: Conquering the Demons: An IMAX 3D Experience

Top Gun: An IMAX 3D Experience

A Good Day to Die Hard: The IMAX Experience

Jack the Giant Slayer: An IMAX 3D Experience

Oz: The Great and Powerful: An IMAX 3D Experience

G.I. Joe: Retaliation: An IMAX 3D Experience

Dragon Ball Z: Battle of the Gods: An IMAX 3D Experience

Jurassic Park: An IMAX 3D Experience

Oblivion: The IMAX Experience

Iron Man 3: An IMAX 3D Experience

Star Trek Into Darkness: An IMAX 3D Experience

Fast & Furious 6: The IMAX Experience

After Earth: The IMAX Experience

Man of Steel: An IMAX 3D Experience

World War Z: An IMAX 3D Experience

Despicable Me 2: An IMAX 3D Experience

White House Down: The IMAX Experience

Man of Tai Chi: The IMAX Experience

Lone Ranger: The IMAX Experience

Pacific Rim: An IMAX 3D Experience

Elysium: An IMAX 3D Experience

The Mortal Instruments: City of Bones: An IMAX 3D Experience

Riddick: An IMAX 3D Experience

The Wizard of Oz: An IMAX 3D Experience

Young Detective Dee: Rise of the Sea Dragon: An IMAX 3D Experience

Metallica Through the Never: An IMAX 3D Experience

Gravity: An IMAX 3D Experience

Stalingrad: An IMAX 3D Experience

Captain Phillips: The IMAX Experience

The Young and Prodigious T.S. Spivet: An IMAX 3D Experience

Thor: The Dark World: An IMAX 3D Experience

Ender's Game: The IMAX Experience

The Hunger Games: Catching Fire: The IMAX Experience

The Hobbit: The Desolation of Smaug: An IMAX 3D Experience

Dhoom 3: The IMAX Experience

Police Story: An IMAX 3D Experience

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The Crossing Part 1: An IMAX 3D Experience

Night at the Museum: Secret of the Tomb: An IMAX 3D Experience

The Polar Express: An IMAX 3D Experience

Other revenues attributable to the film segment increased 16.5% to \$19.8 million in 2014 from \$17.0 million in 2013. This increase was attributable to the wide release of two IMAX original productions, *Journey to the South Pacific* and *Island of Lemurs: Madagascar*, in 2014, whereas, in 2013, the Company only had a limited release of *Journey to the South Pacific* and an increase in post-production as compared to the prior year.

The Company's gross margin from its film segments increased 16.1% in 2014 to \$68.2 million from \$58.8 million in 2013. Film production and IMAX DMR gross margins increased to \$62.9 million from \$56.1 million primarily due to continued network growth and lower DMR production and print costs. Other gross margin attributable to the film segment was \$5.3 million in 2014 as compared to \$2.7 million in 2013, primarily due to the wide release of two IMAX original productions, as described above, and an increase in post-production business.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$93.3 million in 2014, as compared to \$84.9 million in 2013. The \$8.4 million increase experienced from the prior year comparative period was largely the result of the following:

a \$3.2 million increase in the Company's stock-based compensation;

a \$2.9 million increase in salaries and benefits and other staff costs;

a \$0.8 million increase due to a change in foreign exchange rates. During the year ended December 31, 2014, the Company recorded a foreign exchange loss of \$1.5 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 \$0.7 million recorded in 2013. See note 15(b) of the audited consolidated financial statements in Item 8 of the Company's 2014 Form 10-K for more information;

a \$0.7 million net increase in advertising and promotion related activities; and

a \$0.9 million net increase other general corporate expenditures.

Gain on Curtailment of Postretirement Benefit Plan

In 2013, the Company amended the Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this change, the Company recognized a pre-tax curtailment gain of \$2.2 million.

Research and Development

Research and development expenses increased to \$16.1 million in 2014 compared to \$14.8 million in 2013 and are primarily attributable to the development of the Company's new laser-based digital projection system. The Company developed its next-generation laser projector, which provides greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. As of December 31, 2014, the Company had 71 laser-based digital theater systems in its backlog, of which one is now operational.

The Company intends for additional research and development to continue throughout 2015 as the Company supports further development of the laser-based projection system. In addition, the Company plans to continue research and development activity in the future in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing and manufacturing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology, and using such technology to help expand the Company's home entertainment platform, developing IMAX theater systems' capabilities in both home and live entertainment, and further enhancing

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the IMAX theater and sound system design through the addition of more channels, improvements to the Company's proprietary tuning system and mastering processes.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.9 million in 2014, as compared to \$0.4 million in 2013.

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

The Company recorded an asset impairment charge of \$0.3 million in 2014 against property, plant and equipment after the Company assessed the carrying value of certain assets in light of their future expected cash flows. The Company did not recognize any asset impairment charges in the prior year comparative period.

In 2014, the Company recognized a \$3.2 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. No such charge was recognized in 2013.

In 2014 and 2013, the Company recorded a charge of \$0.5 million and \$0.4 million, respectively, reflecting assets that no longer meet capitalization requirements as the assets were no longer in use.

Interest Income and Expense

Interest income was \$0.4 million in 2014, as compared to \$0.1 million in 2013.

Interest expense was \$0.9 million in 2014, as compared to \$1.3 million in 2013. Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its consolidated statements of operations rather than income tax expense. In 2014 and 2013, the Company recovered \$0.2 million and less than \$0.1 million, respectively, in potential interest and penalties associated with its provision for uncertain tax positions. Also included in interest expense is the amortization of deferred finance costs in the amount of \$0.5 million in 2014 and 2013, 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.

The Company recorded an income tax provision of \$14.5 million for 2014, of which \$0.2 million is related to a decrease in its provision for uncertain tax positions. For 2013, the Company recorded an income tax provision of \$16.6 million, of which \$0.1 million was related to a decrease in its provision for uncertain tax positions.

The provision for income taxes in the year ended December 31, 2014 includes a net income tax recovery of \$0.4 million (2013 - \$0.3 million recovery) in continuing operations related to a decrease in the valuation allowance for the Company's deferred tax assets and other tax adjustments. In 2014, the Company reversed \$4.4 million in valuation allowance relating to current period deductible temporary differences and the utilization of loss carryforwards, of which \$0.4 million was included in the provision for income taxes and \$4.0 million, was included directly to shareholders' equity.

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During the year ended December 31, 2014, after considering all available evidence, both positive (including recent profits, projected future profitability, backlog, carryforward periods for, and utilization of net operating loss carryovers and tax credits, discretionary deductions and other factors) and negative (including cumulative losses in past years and other factors), it was concluded that the valuation allowance against the Company's deferred tax assets should be reversed by approximately \$4.4 million. The remaining \$0.3 million balance in the valuation allowance as at December 31, 2014 is primarily attributable to certain U.S. state net operating loss carryovers that may expire without being utilized.

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. At December 31, 2014, the equity method of accounting is being utilized for investments with a total carrying value of \$2.8 million (December 31, 2013 - \$0.4 million). In 2013, the Company contributed \$1.4 million, net of its share of costs, to a new business venture in the early-stage of start-up. In the first quarter of 2014, this new business venture was operational. For the year ended December 31, 2014, gross revenues, cost of revenue and net loss for these investments were \$3.1 million, \$5.9 million and \$4.9 million, respectively (2013 - \$6.6 million, \$26.0 million and \$26.3 million, respectively). In 2014, the Company recognized a gain of \$0.1 million resulting from the sale of its interest in an equity-accounted investment. The Company recorded its proportionate share of the net loss which amounted to \$1.1 million for 2014 compared to \$2.8 million in 2013.

Discontinued Operations

On January 30, 2014, the Company's lease with respect to its owned and operated Nyack IMAX theater ended and the Company decided not to renew the lease. In 2014, revenues for the Nyack IMAX theater were less than \$0.1 million (2013 - \$1.3 million) and the Company recognized income of \$0.4 million, net of a tax expense of \$0.2 million (2013 loss of \$0.3 million) from the operation of the theater. The transactions of the Company's owned and operated Nyack theater are reflected as discontinued operations.

Non-Controlling Interests

Beginning in the second quarter of 2014, the Company's consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the net proceeds are classified as redeemable non-controlling interest in temporary equity. In addition, in 2014, the Company recognized the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the year ended December 31, 2014, the net income attributable to non-controlling interests of the Company's subsidiaries was \$2.4 million.

Pension Plan

The Company has an unfunded defined benefit pension plan, the Supplemental Executive Retirement Plan (the SERP), covering Messrs. Gelfond and Bradley J. Wechsler, the Company's former Co-CEO and current Chairman of its Board of Directors. As at December 31, 2014, the Company had an unfunded and accrued projected benefit obligation of approximately \$19.4 million (December 31, 2013 - \$18.3 million) in respect of the SERP.

The net periodic benefit cost was \$0.3 million and \$0.6 million in 2014 and 2013, respectively. The components of net periodic benefit cost were as follows:

	Years ended December 31	
	2014	2013
Interest cost	\$ 264	\$ 196
Amortization of actuarial loss		444
Pension expense	\$ 264	\$ 640

The plan experienced an actuarial loss of \$0.9 million and an actuarial gain of \$2.3 million during 2014 and 2013, respectively, resulting primarily from the continuing change in the Pension Benefit Guaranty Corporation (PBGC) published annuity interest rates year-over-year used to determine the lump sum payment under the plan.

Under the terms of the SERP, if Mr. Gelfond's employment is terminated other than for cause (as defined in his employment agreement), he is entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are

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subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. Pursuant to an employment agreement dated January 1, 2014, the term of Mr. Gelfond's employment was extended through December 31, 2016, although Mr. Gelfond has not informed the Company that he intends to retire at that time. Under the terms of the arrangement, no compensation earned beginning in 2011 is to be included in calculating this entitlement under the SERP.

The Company has a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. As at December 31, 2014, the Company had an unfunded benefit obligation of \$2.1 million (December 31, 2013 \$2.2 million). In 2013, the Company amended the Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this change, the Company postretirement liability was reduced by \$2.6 million, resulting in a pre-tax curtailment gain of \$2.2 million. See note 21(d) to the audited consolidated financial statements in Item 8 of the Company's 2014 Form 10-K for additional information.

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler upon retirement. As at December 31, 2014, the Company had an unfunded benefit obligation recorded of \$0.8 million (December 31, 2013 \$0.4 million).

Stock-Based Compensation

The Company estimates the fair value of stock option and SAR awards on the date of grant using fair value measurement techniques. The fair value of RSU awards is equal to the closing price of the Company's common stock on the date of grant.

Stock-based compensation expense recognized under FASB ASC 718, Compensation - Stock Compensation (ASC 718) for 2014 and 2013 was \$15.1 million and \$11.9 million, respectively.

Table of Contents**Years Ended December 31, 2013 versus Years Ended December 31, 2012**

The Company reported net income attributable to common shareholders of \$44.1 million or \$0.66 per basic share and \$0.64 per diluted share for the year ended December 31, 2013 as compared to net income attributable to common shareholders of \$41.3 million or \$0.63 per basic share and \$0.61 per diluted share for the year ended December 31, 2012. Net income attributable to common shareholders for the year ended December 31, 2013 includes a \$11.9 million charge or \$0.17 per diluted share (2012 \$13.1 million or \$0.19 per diluted share) for stock-based compensation. 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 \$55.7 million or \$0.81 per diluted share for the year ended December 31, 2013 as compared to adjusted net income attributable to common shareholders of \$54.3 million or \$0.80 per diluted share for the year ended December 31, 2012. A reconciliation of net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

	Year Ended December 31,			
	2013		2012	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income attributable to common shareholders	\$ 44,115	\$ 0.64	\$ 41,337	\$ 0.61
Adjustments:				
Stock-based compensation	11,928	0.17	13,113	0.19
Tax impact on items listed above	(344)		(160)	
Adjusted net income attributable to common shareholders	\$ 55,699	\$ 0.81	\$ 54,290	\$ 0.80
Weighted average diluted shares outstanding		68,961		67,933

Revenues and Gross Margin

The Company's revenues for the year ended December 31, 2013 increased 1.8% to \$287.9 million from \$282.8 million in 2012, largely due to an increase in revenues from the Company's joint revenue sharing arrangements, production and DMR, and theater system maintenance segments, offset partially by a decrease in revenue from the IMAX systems segment. The gross margin across all segments in 2013 was \$164.6 million, or 57.2% of total revenue, compared to \$153.3 million, or 54.2% of total revenue in 2012.

IMAX Systems

IMAX systems revenue decreased 5.2% to \$91.4 million in 2013 as compared to \$96.4 million in 2012. Revenue from sales and sales-type leases decreased 5.8% to \$65.9 million in 2013 from \$70.0 million in 2012. The Company recognized revenue on 45 full, new theater systems which qualified as either sales or sales-type leases in 2013, with a total value of \$54.9 million, versus 47 full, new theater systems in 2012 with a total value of \$60.7 million. Additionally, the Company recognized revenue on the installation of 5 xenon-based digital upgrades in 2013, with a total value of \$3.2 million, as compared to 12 xenon-based digital upgrades and one 3D GT upgrade (from a 2D GT system) in 2012, with a total value of \$5.4 million. Digital upgrades typically have lower sales prices and gross

margin than full theater system installations. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital theater systems increase flexibility and profitability for the Company's existing exhibition customers. In 2013, the Company installed and recognized one used 3D GT theater system with a total value of \$1.2 million. There were no used theater systems installed in the year ended December 31, 2012.

Average revenue per full, new sales and sales-type lease systems was \$1.2 million in 2013, compared to \$1.3 million 2012. Average revenue per digital upgrade was \$0.6 million in 2013, as compared to \$0.4 million in 2012. 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.

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The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system configuration for 2013 and 2012 is outlined in the table below:

	2013	2012
New IMAX xenon-based digital theater systems - installed and recognized		
Sales and sales-types lease arrangements	46 ⁽¹⁾⁽²⁾	47
Short-term operating lease arrangement	1 ⁽³⁾	
Joint revenue sharing arrangements	65 ⁽³⁾	60
Total new theater systems	112	107
IMAX xenon-based digital theater system upgrades - installed and recognized		
Sales and sales-types lease arrangements	5	13 ⁽⁴⁾
Short-term operating lease arrangements	13 ⁽³⁾	
Joint revenue sharing arrangements	3 ⁽³⁾	2
Total upgraded theater systems	21	15
IMAX xenon-based digital theater system upgrades - installed and deferred		3
Total theater systems installed	133	125

(1) Includes one used IMAX 3D GT system resulting in an addition to the Company's institutional theater network.

(2) Includes one IMAX Private Theater, the first of its kind in the Company's theater network.

(3) Reflects xenon-based digital system configurations, which will be upgraded to a laser-based digital system configuration at a future date.

(4) Includes one upgrade under a sale arrangement from a 2D GT projection system to a 3D projection system. Revenues from sales and sales-type leases include settlement revenue of \$0.4 million in 2013 as compared to \$0.7 million in 2012.

IMAX theater system margin from full, new sales and sales-type lease systems, excluding the impact of settlements, was 63.3% in 2013, as compared to 62.4% in 2012. Gross margin from digital upgrades was \$1.3 million in 2013, as compared to \$1.4 million in 2012. In addition, in 2012, the Company incurred a charge of \$1.7 million for equipment to enable certain theaters to elect to exhibit certain films in either digital or analog format. Furthermore, in 2013, the Company recorded a write-down of certain film-based projector inventories of \$0.3 million, as compared to \$0.8 million in 2012.

In 2013, the Company recognized revenue for 10 theater systems under a digital upgrade sales arrangement which were previously installed, but for which revenue recognition was deferred. The arrangement provided the customer with standard digital upgrades, which were installed, and a number of as-of-yet undeveloped upgrades. The Company's policy is to defer revenue recognition until the upgrade right expires, if applicable, or a digital upgrade is delivered. In

2013, the upgrade right in the agreement expired resulting in the contract consideration becoming fixed. Therefore, the Company recognized revenue and gross margin of \$3.1 million and a loss of \$0.3 million, respectively, from these 10 theater systems which qualify as sales.

In 2013, one of the Company's customers acquired an IMAX theater from another existing customer that had been operating under a joint revenue sharing arrangement. This theater was purchased from the Company under a sale arrangement. As a result of this sale transaction, the Company recorded revenue and margin of \$0.9 million and \$0.6 million, respectively. The above-referenced theater was included in the Company's 2013 signings total. In 2012, one of the Company's customers acquired 3 IMAX theaters from another existing customer that had been operating under a joint revenue sharing arrangement. These theaters were purchased from IMAX under a sales arrangement. As a result of this sale transaction, the Company recorded revenue and margin of \$3.0 million and \$2.1 million, respectively. The above-referenced theaters were included in the Company's 2012 signings total. In addition, during the 2012 comparative period, the Company recognized the xenon-based digital upgrade of two theaters under a joint revenue sharing arrangement, which were previously operated under sales/sales-type lease arrangements.

Ongoing rent revenue and finance income increased to \$14.2 million in 2013 compared to \$13.4 million in 2012. Gross margin for ongoing rent and finance income increased to \$13.4 million in 2013 from \$13.3 million in 2012. Contingent fees included in this caption amounted to \$3.7 million and \$3.0 million in 2013 and 2012, respectively.

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Other revenue decreased to \$11.2 million in 2013 as compared to \$13.0 million in 2012, largely due to a decrease in revenue from the Company's after-market sales of 3D glasses. 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 gross margin on other revenue was \$1.0 million lower in 2013 as compared to 2012, primarily due to a lower level of aftermarket sales.

Theater System Maintenance

Theater system maintenance revenue increased 11.7% to \$32.0 million in 2013, as compared to \$28.6 million in 2012. Theater system maintenance gross margin increased to \$12.1 million in 2013 from \$11.0 million in 2012. In 2013, the Company recorded a write-down of \$0.2 million for certain service parts inventories as compared to \$0.1 million in 2012. Maintenance margins vary depending on the mix of theater system configurations in the theater network and the timing and the date(s) of installation and/or service.

Joint Revenue Sharing Arrangements

Revenues from joint revenue sharing arrangements increased 11.5% to \$64.1 million in 2013, as compared to \$57.5 million in 2012. The Company ended the year with 382 theaters operating under joint revenue sharing arrangements, as compared to 316 theaters at the end of 2012, an increase of 20.9%. The increase in revenues from joint revenue sharing arrangements was largely due to the greater number of theaters under joint revenue sharing arrangements in operation as compared to the prior year. During 2013, the Company installed 65 full, new theaters under joint revenue sharing arrangements, as compared to 60 full new theaters during 2012.

The gross margin from joint revenue sharing arrangements in 2013 increased 19.5% to \$44.6 million compared to \$37.3 million in 2012. Included in the calculation of the 2013 gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$3.6 million, as compared to \$3.4 million for such expenses in 2012. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses from both periods, was \$48.1 million in 2013, compared to \$40.7 million in 2012. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable U.S. GAAP measure, to adjusted gross margin is presented in the table below:

<i>(In thousands of U.S. Dollars)</i>	2013	2012
Gross margin from joint revenue sharing arrangements	\$ 44,565	\$ 37,308
Add:		
Advertising, marketing and commission costs	3,582	3,382
Adjusted gross margin from joint revenue sharing arrangements	\$ 48,147	\$ 40,690

Film

Revenue from the Company's film segments was \$100.5 million in 2013 and \$100.2 million in 2012. Gross box-office generated by IMAX DMR films increased 17.1% to \$726.6 million in 2013 from \$620.6 million in 2012, largely driven by continued network growth. Film production and IMAX DMR revenues increased 7.0% to \$83.5 million in 2013 from \$78.1 million in 2012. Gross box-office per screen for 2013 averaged \$1,150,900, in comparison to

\$1,153,200 in 2012. In 2013, gross box-office was generated primarily from the exhibition of 44 films listed below (38 new and 6 carryovers), as compared to 39 (35 new and 4 carryover) films exhibited in 2012:

2013 Films Exhibited

The Polar Express: An IMAX 3D Experience

Skyfall: The IMAX Experience

Life of Pi: An IMAX 3D Experience

CZ12: An IMAX 3D Experience

The Hobbit: An Unexpected Journey: An IMAX 3D Experience

Les Misérables: The IMAX Experience

The Grandmaster: The IMAX Experience

Hansel & Gretel: Witch Hunters: An IMAX 3D Experience

2012 Films Exhibited

Happy Feet Two: An IMAX 3D Experience

Mission: Impossible – Ghost Protocol: The IMAX Experience

The Adventures of Tintin: The Secret of the Unicorn: An IMAX 3D Experience

Flying Swords of Dragon Gate: An IMAX 3D Experience

Underworld: Awakening: An IMAX 3D Experience

Journey 2: The Mysterious Island: An IMAX 3D Experience

The Lorax: An IMAX 3D Experience

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Journey to the West: Conquering the Demons: An IMAX 3D Experience

Top Gun: An IMAX 3D Experience

A Good Day to Die Hard: The IMAX Experience

Jack the Giant Slayer: An IMAX 3D Experience

Oz: The Great and Powerful: An IMAX 3D Experience

G.I. Joe: Retaliation: An IMAX 3D Experience

Dragon Ball Z: Battle of the Gods: An IMAX 3D Experience

Jurassic Park: An IMAX 3D Experience

Oblivion: The IMAX Experience

Iron Man 3: An IMAX 3D Experience

Star Trek Into Darkness: An IMAX 3D Experience

Fast & Furious 6: The IMAX Experience

After Earth: The IMAX Experience

Man of Steel: An IMAX 3D Experience

World War Z: An IMAX 3D Experience

Despicable Me 2: An IMAX 3D Experience

White House Down: The IMAX Experience

Man of Tai Chi: The IMAX Experience

Lone Ranger: The IMAX Experience

Pacific Rim: An IMAX 3D Experience

Elysium: An IMAX 3D Experience

The Mortal Instruments: City of Bones: An IMAX 3D Experience

Riddick: An IMAX 3D Experience

The Wizard of Oz: An IMAX 3D Experience

Young Detective Dee: Rise of the Sea Dragon: An IMAX 3D Experience

Metallica Through the Never: An IMAX 3D Experience

Gravity: An IMAX 3D Experience

Stalingrad: An IMAX 3D Experience

Captain Phillips: The IMAX Experience

The Young and Prodigious T.S. Spivet: An IMAX 3D Experience

Thor: The Dark World: An IMAX 3D Experience

Ender's Game: The IMAX Experience

The Hunger Games: Catching Fire: The IMAX Experience

The Hobbit: The Desolation of Smaug: An IMAX 3D Experience

Dhoom 3: The IMAX Experience

Police Story: An IMAX 3D Experience

John Carter: An IMAX 3D Experience

The Hunger Games: An IMAX 3D Experience

Wrath of the Titans: An IMAX 3D Experience

Titanic: An IMAX 3D Experience

Houba! On the Trail of the Marsupilami: The IMAX Experience

Battleship: The IMAX Experience

The Avengers: An IMAX 3D Experience

Dark Shadows: The IMAX Experience

Men In Black III: An IMAX 3D Experience

Prometheus: An IMAX 3D Experience

Madagascar 3: Europe's Most Wanted: An IMAX 3D Experience

Rock of Ages: The IMAX Experience

The Amazing Spiderman: An IMAX 3D Experience

The Dark Knight Rises: The IMAX Experience

Total Recall: The IMAX Experience

The Bourne Legacy: The IMAX Experience

Indiana Jones and the Raiders of the Lost Ark: The IMAX Experience

Resident Evil: Retribution: An IMAX 3D Experience

Tai Chi 0: An IMAX 3D Experience

Frankenweenie: An IMAX 3D Experience

Paranormal Activity 4: The IMAX Experience

Tai Chi Hero: An IMAX 3D Experience

Cloud Atlas: The IMAX Experience

Skyfall: The IMAX Experience

Cirque du Soleil: Worlds Away: An IMAX 3D Experience

The Twilight Saga: Breaking Dawn Part 2: The IMAX Experience

Back to 1942: The IMAX Experience

Rise of the Guardians: An IMAX 3D Experience

Life of Pi: An IMAX 3D Experience

CZ12: An IMAX 3D Experience

The Hobbit: An Unexpected Journey: An IMAX 3D Experience

Les Misérables: The IMAX Experience

Other revenues attributable to the film segment decreased 23.3% to \$17.0 million in 2013 from \$22.1 million in 2012. This decrease was largely due to the result of the limited release of one IMAX original film in 2013. In November 2013, in conjunction with MFF, the Company did a limited release of an IMAX original production, *Journey to the South Pacific*, whereas in 2012, the Company released the original film *To the Arctic 3D*.

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The Company's gross margin from its film segments increased 9.6% in 2013 to \$58.8 million from \$53.7 million in 2012. Film production and IMAX DMR gross margins increased to \$56.1 million from \$49.4 million. Other gross margin attributable to the film segment was \$2.7 million in 2013 as compared to \$4.3 million in 2012.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$84.9 million in 2013, as compared to \$81.6 million in 2012. The \$3.3 million increase experienced from the prior year comparative period was largely the result of the following:

a \$2.4 million increase in salaries and benefits and other staff costs, net of lower travel and entertainment costs of \$0.7 million;

a \$1.9 million increase due to a change in foreign exchange rates. During the year ended December 31, 2013, the Company recorded a foreign exchange loss of \$0.7 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities and foreign currency forward contracts as compared to a gain of \$1.2 million recorded in 2012; and

a \$0.2 million net increase in other general corporate expenditures.

These increases were partially offset by a \$1.2 million decrease in the Company's stock-based compensation charges.

Gain on Curtailment of Postretirement Benefit Plan

In 2013, the Company amended the Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this change, the Company recognized a pre-tax curtailment gain of \$2.2 million.

Research and Development

Research and development expenses increased to \$14.8 million in 2013 compared to \$11.4 million in 2012 and are primarily attributable to the development of the Company's new laser-based digital projection system. The Company has been developing its next-generation laser projector, which provides greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. As of December 31, 2013, the Company had 62 laser-based digital theater systems in its backlog.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.4 million in 2013, as compared to \$0.5 million in 2012.

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

The Company did not record any asset impairment charge in 2013 and 2012, against property, plant and equipment after the Company assessed the carrying value of certain assets in its theater operations segment in light of their future expected cash flows. The Company recognized that the carrying values for the assets did not exceed the expected undiscounted future cash flows.

In 2012, the Company recognized a \$0.2 million other-than-temporary impairment of its available-for-sale investment 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. No such charge was recognized in 2013.

In 2013 and 2012, the Company recorded a charge of \$0.4 million and less than \$0.1 million, respectively, reflecting assets that no longer meet capitalization requirements as the assets were no longer in use.

Table of Contents***Interest Income and Expense***

Interest income was \$0.1 million in 2013, as compared to \$0.1 million in 2012.

Interest expense was \$1.3 million in 2013, as compared to \$0.7 million in 2012. Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its consolidated statements of operations rather than income tax expense. In 2013 and 2012, the Company recovered less than \$0.1 million and \$0.8 million, respectively, in potential interest and penalties associated with its provision for uncertain tax positions. Also included in interest expense is the amortization of deferred finance costs in the amount of \$0.5 million and \$0.2 million in 2013 and 2012, 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.

In 2013, there was a \$1.4 million increase 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 compared to a \$0.1 million increase in the valuation allowance in the prior year comparative period. The Company recorded an income tax provision of \$16.6 million for 2013, of which \$0.1 million is related to a decrease in its provision for uncertain tax positions. For 2012, the Company recorded an income tax provision of \$15.1 million, of which \$0.8 million was related to a decrease in its provision for uncertain tax positions.

During the year ended December 31, 2013, after considering all available evidence, both positive (including recent profits, projected future profitability, backlog, carryforward periods for utilization of net operating loss carryovers and tax credits, discretionary deductions and other factors) and negative (including cumulative losses in past years and other factors), it was concluded that the valuation allowance against the Company's deferred tax assets should be decreased by approximately \$1.4 million. The remaining \$4.8 million balance in the valuation allowance as at December 31, 2013 is primarily attributable to certain U.S. federal and state net operating loss carryovers and federal tax credits that may expire without being utilized.

The Company anticipates utilizing the majority of its currently-available tax attributes over the next year. If utilized the related valuation allowance release would be recorded against other equity.

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. December 31, 2013, the equity method of accounting is being utilized for investments with a total carrying value of \$0.4 million (December 31, 2012 - \$3.0 million). For the year ended December 31, 2013, gross revenues, cost of revenue and net loss for these investments were \$6.6 million, \$26.0 million and \$26.3 million, respectively (2012 \$9.0 million, \$12.7 million and \$13.4 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$2.8 million for 2013 compared to \$1.4 million in 2012.

Discontinued Operations

On January 30, 2014, the Company's lease with respect to its owned and operated Nyack IMAX theater ended and the Company has decided not to renew the lease. In 2013, revenues for the Nyack IMAX theater were \$1.3 million (2012 \$1.5 million) and the Company recognized a loss of \$0.3 million, net of a tax recovery of \$0.2 million (2012 loss of \$0.5 million) from the operation of the theater. The transactions of the Company's owned and operated Nyack theater are reflected as discontinued operations.

Pension Plan

The Company has an unfunded defined benefit pension plan, the Supplemental Executive Retirement Plan (the SERP), covering Messrs. Gelfond and Bradley J. Wechsler, the Company's former Co-CEO and current Chairman of its Board of Directors. As at December 31, 2013, the Company had an unfunded and accrued projected benefit obligation of approximately \$18.3 million (December 31, 2012 \$20.4 million) in respect of the SERP.

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The net periodic benefit cost was \$0.6 million and \$0.6 million in 2013 and 2012, respectively. The components of net periodic benefit cost were as follows:

	Years ended December 31	
	2013	2012
Interest cost	\$ 196	\$ 272
Amortization of actuarial loss	444	365
Pension expense	\$ 640	\$ 637

The plan experienced an actuarial gain of \$2.3 million and a loss of \$1.1 million during 2013 and 2012, respectively, resulting primarily from the continuing change in the Pension Benefit Guaranty Corporation (PBGC) published annuity interest rates year-over-year used to determine the lump sum payment under the plan.

Under the terms of the SERP, if Mr. Gelfond's employment is terminated other than for cause (as defined in his employment agreement), he is entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. Pursuant to an employment agreement dated January 1, 2014, the term of Mr. Gelfond's current employment agreement was extended through December 31, 2016, although Mr. Gelfond has not informed the Company that he intends to retire at that time. Under the terms of the arrangement, no compensation earned beginning in 2011 is to be included in calculating this entitlement under the SERP.

The Company has a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. As at December 31, 2013, the Company had an unfunded benefit obligation of \$2.2 million (December 31, 2012 \$4.6 million). In 2013, the Company amended the Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this change, the Company postretirement liability was reduced by \$2.6 million, resulting in a pre-tax curtailment gain of \$2.2 million. See note 21(d) to the audited consolidated financial statements in Item 8 of the Company's 2013 Form 10-K for additional information.

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler upon retirement. As at December 31, 2013, the Company had an unfunded benefit obligation recorded of \$0.4 million (December 31, 2012 \$0.5 million).

Stock-Based Compensation

The Company estimates the fair value of stock option and SAR awards on the date of grant using fair value measurement techniques. The fair value of RSU awards is equal to the closing price of the Company's common stock on the date of grant.

Stock-based compensation expense recognized under FASB ASC 718, Compensation - Stock Compensation (ASC 718) for 2013 and 2012 was \$11.9 million and \$13.1 million, respectively.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES****Credit Facility**

On February 7, 2013, the Company amended and restated the terms of its existing senior secured credit facility (the Prior Credit Facility). The amended and restated facility (the Credit Facility), with a scheduled maturity of February 7, 2018, has a maximum borrowing capacity of \$200.0 million. The Prior Credit Facility had a maximum borrowing capacity of \$110.0 million. 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. In 2014, the Company amended the terms of the Credit Facility to obtain consents from the lenders named therein to allow it to enter into certain corporate transactions, including the sale of a 20.0% interest in IMAX China and the Playa Vista Loan described below.

Total amounts drawn and available under the Credit Facility at December 31, 2014 were \$nil and \$200.0 million, respectively (December 31, 2013 \$nil and \$200.0 million, respectively).

Under the Credit Facility, the effective interest rate for the year ended December 31, 2014 for the revolving loan portion was \$nil, as no amounts were outstanding during the period (2013 2.41%).

The terms of the Credit Facility are set forth in the Third Amended and Restated Credit Agreement (the Credit Agreement), dated February 7, 2013, 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.

The Credit Facility permits the Company to undertake up to \$150.0 million in stock buybacks and dividends, provided certain covenants in the Credit Agreement are maintained. In the event that the Company undertakes stock buybacks or makes dividend payments, any amounts outstanding under the revolving portion of the Credit Facility up to the first \$75.0 million of any such stock buybacks and dividend payments will be converted to a term loan.

The amounts outstanding under the Credit Facility bear interest, at the Company s option, at (i) LIBOR plus a margin of (a) 1.50%, 1.75% or 2.00% depending on the Company s Total Leverage Ratio (as defined in the Credit Agreement) per annum, or (ii) Wells Fargo s prime rate plus a margin of 0.50% per annum. In addition, the Company is obligated to pay a Commitment Fee (as defined in the Credit Agreement) per annum of between 0.25% and 0.50% of the unused portion of the Credit Facility, depending on the Company s Total Leverage Ratio. Term loans, if any, under the Credit Facility must be repaid under a 5-year straight line amortization, with a balloon payment due at maturity. The Company is required to provide an interest rate hedge for 50% of any term loans outstanding after January 1, 2015. Under the Credit Facility, the effective interest rate for the year ended December 31, 2014 for the revolving term loan portion was n/a (2013 2.41%).

The Credit Facility provides that the Company will be required to maintain a Fixed Charge Coverage Ratio (as defined in the credit agreement) of not less than 1.1:1. The Company will also be required to maintain minimum EBITDA (as defined in the credit agreement) of \$90.0 million on December 31, 2014, which requirement increases to \$100.0 million on December 31, 2015. The Company must also maintain a Maximum Total Leverage Ratio (as defined in the credit agreement) of 2.00:1 on December 31, 2014, which requirement decreases to 1.75:1 on December 31, 2015. The Company was in compliance with all of these requirements at December 31, 2014. The ratio

of total debt to EBITDA was 0.04:1 as at December 31, 2014, 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 \$4.7 million. EBITDA is calculated as follows:

Table of Contents**EBITDA per Credit Facility:***(In thousands of U.S. Dollars)*

Net income	\$ 42,169
Add (subtract):	
Loss from equity accounted investments	1,071
Provision for income taxes ⁽¹⁾	14,683
Interest expense, net of interest income	519
Depreciation and amortization, including film asset amortization ⁽²⁾	33,230
Write-downs, net of recoveries including asset impairments and receivable provisions ⁽²⁾	5,294
Stock and other non-cash compensation	15,467
EBITDA attributable to non-controlling interests ⁽³⁾	(3,937)
	\$ 108,496

(1) Includes a tax expense in discontinued operations of \$0.2 million.

(2) See note 18 to the audited consolidated financial statements in Item 8 of the Company's 2014 Form 10-K.

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

Playa Vista Construction Financing

On October 6, 2014, IMAX PV Development Inc., a Delaware corporation (PV Borrower) and direct wholly-owned subsidiary of IMAX U.S.A. Inc., a Delaware corporation and direct wholly-owned subsidiary of the Company, entered into a construction loan agreement with Wells Fargo. The construction loan is being used to fund up to \$25.7 million (the Playa Vista Loan) of the costs of development and construction of the previously announced new West Coast headquarters of the Company, located in a new office facility in the Playa Vista neighborhood of Los Angeles, California (the Playa Vista Project).

The total cost of development of the Playa Vista Project is expected to be approximately \$50.0 million, with all costs in excess of the Playa Vista Loan being provided through funding by the Company.

The Playa Vista Loan is secured by a deed of trust from PV Borrower in favor of Wells Fargo, granting a first lien on and security interest in the Playa Vista property and the Playa Vista Project, including all improvements to be constructed thereon, and other documents evidencing and securing the loan (the Loan Documents). The Loan Documents include absolute and unconditional payment and completion guarantees provided by the Company to Wells Fargo for the performance by PV Borrower of all the terms and provisions of the Playa Vista Loan and the construction and completion of the Playa Vista Project, and an environmental indemnity also provided by the Company.

Unless converted from a construction to permanent loan as described below, the Playa Vista Loan will be fully due and payable on April 6, 2016 (the Maturity Date).

Absent a default, the Playa Vista Loan bears interest at a variable interest rate per annum equal to 2.25% above the 30-day LIBOR rate. The interest rate is subject to adjustment monthly based on the latest 30-day LIBOR rate. Prior to

the Maturity Date, PV Borrower is required to make monthly payments of interest only. The Playa Vista Loan may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Loan Documents require the completion of construction no later than 90 days prior to the Maturity Date, subject to delays for certain unforeseeable events. The Loan Documents contain affirmative, negative and financial covenants (including compliance with the financial covenants of the Company's outstanding revolving and term senior secured facility with Wells Fargo), agreements, representations, warranties, borrowing conditions, and events of default customary for development projects such as the Playa Vista Project.

PV Borrower has the right to convert the Playa Vista Loan from a construction to a permanent loan with a term of 120 months (from the date of conversion), subject to the satisfaction of certain conditions including, completion of the Playa Vista Project. If PV Borrower converts the Playa Vista Loan to a permanent loan, PV Borrower will have the right, subject to certain conditions, to increase the principal balance of the loan up to but not in excess of \$30.0 million. Upon conversion, the interest rate under the

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permanent loan will decrease from 2.25% to 2.0% above the 30-day LIBOR rate and PV Borrower will be required to make monthly payments of combined principal and interest sufficient to fully amortize the loan based on a 15-year straight line amortization.

Total amount drawn under the construction loan as at December 31, 2014 was \$4.7 million (December 31, 2013 \$nil) at an effective interest rate of 2.42%.

Letters of Credit and Other Commitments

As at December 31, 2014, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2013 \$nil), under the Credit Facility.

The Company also has a \$10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by EDC (the Bank of Montreal Facility). The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews. As at December 31, 2014, the Company had letters of credit and advance payment guarantees outstanding of \$0.3 million under the Bank of Montreal Facility as compared to \$0.3 million as at December 31, 2013.

Cash and Cash Equivalents

As at December 31, 2014, the Company's principal sources of liquidity included cash and cash equivalents of \$106.5 million, the Credit Facility, anticipated collection from trade accounts receivable of \$76.1 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 \$17.9 million and payments expected in the next 12 months on existing backlog deals. As at December 31, 2014, the Company did not have any amount drawn on the Credit Facility (remaining availability of \$200.0 million). As at December 31, 2014, the Company had \$4.7 million drawn on the Playa Vista construction loan (remaining availability of \$21.0 million). There were \$nil letters of credit and advance payment guarantees outstanding under the Credit Facility and \$0.3 million under the Bank of Montreal Facility. Cash held outside of Canada as at December 31, 2014 was \$61.0 million (2013 \$14.3 million).

During the year ended December 31, 2014, the Company's operations provided cash of \$86.6 million and the Company used cash of \$59.9 million to fund capital expenditures, principally 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 2015, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements, to fund DMR agreements with studios, and to invest in the construction of the Playa Vista Project. 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 67 new theater systems under joint revenue sharing arrangements in 2014.

On April 8, 2014, the Company announced the sale and issuance of 20.0% of the shares in IMAX China to entities owned and controlled by investors CMC and FountainVest. The sale price for the interest was \$80.0 million to be paid by the investors in two equal installments, the first of which was received on April 8, 2014 and the second of which was received on February 10, 2015. Approximately half of the net proceeds of the transaction will remain in IMAX China, to be used toward the continued build-out of the Company's business in China, including additional joint revenue sharing locations and other growth initiatives. The remaining funds will be available for general corporate purposes.

On May 21, 2014, the Company announced the creation of the Film Fund to co-finance a portfolio of 10 original large format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company, which will contribute \$9.0 million to the Film Fund over five years, anticipates the Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous, steady flow of high-quality documentary content.

On June 16, 2014, the Company's Board of Directors approved a new \$150.0 million share repurchase program for shares of the Company's common stock. Purchases under the program commenced during the third quarter of 2014. The share repurchase program expires June 30, 2017. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares, and the share repurchase program may be suspended or discontinued by the Company at any time.

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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 2014 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 \$86.6 million in 2014. Changes in other non-cash operating assets as compared to 2013 include: an increase of \$4.3 million in accounts receivable; an increase of less than \$0.1 million in financing receivables; an increase of \$7.6 million in inventories; an increase of \$1.3 million in prepaid expenses; and a decrease of \$6.7 million in other assets which includes a \$11.0 million decrease in insurance recoveries receivable offset by an increase of \$3.0 million related to prepaid tax, an increase of \$0.8 million in commissions and other deferred selling expenses and an increase of \$0.5 million in other assets. Changes in other operating liabilities as compared to December 31, 2013 include: an increase in deferred revenue of \$12.1 million related to backlog payments received in the current year, offset partially by amounts relieved from deferred revenue related to theater system installations; a decrease in accounts payable of \$5.2 million; and an increase of \$5.7 million in accrued liabilities.

Investing Activities

Net cash used in investing activities amounted to \$61.9 million in 2014, which includes purchases of \$40.1 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$16.8 million, net investment in new business ventures of \$2.0 million and an increase in other intangible assets of \$2.9 million. Included in the Company's purchase of property, plant and equipment for 2014 is \$26.5 million for the purchase of land for and the commencement of the construction of the Playa Vista Project. Net cash used in investment activities amounted to \$42.3 million in 2013.

Financing Activities

Net cash provided by financing activities in 2014, amounted to \$52.3 million as compared to cash used in financing activities of \$4.4 million in 2013. In 2014, the Company received cash proceeds for the issuance of common shares net of related issuance costs of \$37.2 million related to the IMAX China Investment by CMC and FountainVest, which represents a non-controlling interest in the Company's subsidiary. The Company also received \$10.8 million from the issuance of common shares resulting from stock option exercises offset by \$3.6 million paid for the

repurchase of common shares under the Company's share repurchase program. The Company also borrowed \$4.7 million under the Playa Vista Loan.

Capital Expenditures

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, net of sales proceeds, other intangible assets and investments in film assets were \$79.1 million in 2014 as compared to \$59.2 million in 2013. In 2015 the Company anticipates a similar level of capital expenditures due in large part to the roll-out of theaters pursuant to joint revenue sharing arrangements and the Playa Vista Project. As discussed above, a significant portion of the Playa Vista project is financed through the Playa Vista Loan, which will offset the cash outlay associated with the project. See "Properties" in Item 2 in the Company's 2014 Form 10-K.

Table of Contents*Prior Year Cash Flow Activities*

Net cash provided by operating activities amounted to \$55.0 million in the year ended December 31, 2013. Changes in other non-cash operating assets as compared to 2012 include: an increase of \$31.0 million in accounts receivable; an increase of \$13.4 million in financing receivables; a decrease of \$1.9 million in inventories; a decrease of \$0.2 million in prepaid expenses; and a \$0.4 million decrease in insurance recoveries receivable and a \$0.1 million decrease in commissions and other deferred selling expenses offset by a \$0.3 million increase in other assets. Changes in other operating liabilities as compared to December 31, 2012 include: an increase in deferred revenue of \$2.5 million related to backlog payments received in the current year, offset partially by amounts relieved from deferred revenue related to theater system installations; an increase in accounts payable of \$7.2 million; and a decrease of \$1.3 million in accrued liabilities which is net of \$2.4 million for stock-based compensation payments in the year.

Net cash used in investing activities amounted to \$42.3 million in 2013, which includes an investment in joint revenue sharing equipment of \$22.8 million, purchases of \$13.0 million in property, plant and equipment, an investment in new business ventures of \$4.0 million and an increase in other intangible assets of \$2.5 million. Net cash used in investment activities amounted to \$35.5 million in 2012.

Net cash used in financing activities in 2013, amounted to \$4.4 million as compared to \$34.8 million in 2012, which includes net bank indebtedness repayments of \$11.0 million, fees paid of \$2.2 million relating to the Credit Facility amendment and \$0.2 million in share issuance expenses. These payments were offset by proceeds from the issuance of common shares resulting from stock option exercises of \$9.0 million.

Capital expenditures including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment net of sales proceeds and investments in film assets were \$59.2 million in the year ended December 31, 2013.

CONTRACTUAL OBLIGATIONS

Payments to be made by the Company under contractual obligations as of December 31 2014 are as follows:

<i>(In thousands of U.S. Dollars)</i>	Total Obligations	Payments Due by Period					
		2015	2016	2017	2018	2019	Thereafter
Purchase obligations ⁽¹⁾	\$ 35,329	\$ 35,202	\$ 127	\$	\$	\$	\$
Pension obligations ⁽²⁾	20,042			20,042			
Operating lease obligations ⁽³⁾	12,953	5,364	2,493	1,908	1,851	1,288	49
Playa Vista construction loan	4,710		4,710				
Postretirement benefits obligations	2,969	127	150	188	205	212	2,087
	\$ 76,003	\$ 40,693	\$ 7,480	\$ 22,138	\$ 2,056	\$ 1,500	\$ 2,136

(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. Includes the Company's budgeted investment for the construction of the Playa Vista Project.

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

Pension and Postretirement Obligations

The Company has an unfunded defined benefit pension plan, the SERP, covering Messrs. Gelfond and Wechsler. As at December 31, 2014, the Company had an unfunded and accrued projected benefit obligation of approximately \$19.4 million (December 31, 2013 \$18.3 million) in respect of the SERP.

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Pursuant to an employment agreement dated January 1, 2014, the term of Mr. Gelfond's employment was extended through December 31, 2016, although Mr. Gelfond has not informed the Company that he intends to retire at that time. Under the terms of the arrangement, no compensation earned beginning in 2011 is to be included in calculating his entitlement under the SERP.

The Company has a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. As at December 31, 2014, the Company had an unfunded benefit obligation of \$2.1 million (December 31, 2013 \$2.2 million). In 2013, the Company amended the Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this change, the Company's postretirement liability was reduced by \$2.6 million, resulting in a pre-tax curtailment gain of \$2.2 million. See note 21(d) in Item 8 of the audited consolidated financial statements in the Company's 2014 Form 10-K for additional details.

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler upon retirement. As at December 31, 2014, the Company had an unfunded benefit obligation of \$0.8 million (December 31, 2013 \$0.4 million).

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 7A. *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. The Company has incoming cash flows from its revenue generating theaters and ongoing operating expenses in China through its wholly-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 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 year ended December 31, 2014, the Company recorded a foreign exchange net loss of \$1.5 million as compared to a foreign exchange net loss of \$0.7 million in 2013, 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. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. All foreign currency forward contracts held by the Company as at December 31, 2014, 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 consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations. The notional value of foreign currency hedging instruments at December 31, 2014 was \$36.8 million (December 31, 2013 \$23.6 million). A loss of \$2.5 million was recorded to Other Comprehensive Income with respect to the depreciation/appreciation in the value of these contracts

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in 2014 (2013 loss of \$1.0 million). A loss of \$1.2 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses in 2014 (2013 loss of \$0.3 million). 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 December 31, 2014, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros was \$29.4 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2014, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$2.9 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 December 31, 2014, 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.

Interest Rate Risk Management

The Company's earnings are also affected by changes in interest rates due to the impact those changes have on its interest income from cash, and its interest expense from variable-rate borrowings under the Credit Facility.

As at December 31, 2014, the Company had not drawn down on its Credit Facility (December 31, 2013 \$nil).

As at December 31, 2014, the Company had drawn down \$4.7 million on its Playa Vista construction loan (December 31, 2013 \$nil).

The Company's largest exposure with respect to variable rate debt comes from changes in the LIBOR. The Company had variable rate debt instruments representing 2.4% and nil of its total liabilities at December 31, 2014 and 2013, respectively. If the interest rates available to the Company increased by 10%, the Company's interest expense would increase by less than \$0.1 million and interest income from cash would increase by approximately less than \$0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable rate debt and cash balances at December 31, 2014.

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Item 8. *Financial Statements and Supplementary Data*

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Report of Independent Registered Public Accounting Firm

To the Shareholders of IMAX Corporation

We have audited the accompanying consolidated balance sheets of IMAX Corporation and its subsidiaries as of December 31, 2014 and December 31, 2013 and the related consolidated statements of operations, comprehensive income, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2014. In addition, we have audited the financial statements schedule listed in the index appearing under item 15 (a) (2). We also have audited IMAX Corporation's and its subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements, the financial statements schedule and the company's internal control over financial reporting based on our integrated audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements and the financial statement schedule are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IMAX Corporation and its subsidiaries as of December 31, 2014 and December 31, 2013 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our

opinion, the financial statements schedule listed in the index appearing under item 15 (a) (2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also, in our opinion, IMAX Corporation and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

February 19, 2015

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IMAX CORPORATION
CONSOLIDATED BALANCE SHEETS

In accordance with United States Generally Accepted Accounting Principles

(In thousands of U.S. dollars)

	As at December 31,	
	2014	2013
Assets		
Cash and cash equivalents	\$ 106,503	\$ 29,546
Accounts receivable, net of allowance for doubtful accounts of \$947 (December 31, 2013 \$887)	76,051	73,074
Financing receivables (notes 4 and 20(c))	105,700	107,110
Inventories (note 5)	17,063	9,825
Prepaid expenses	4,946	3,602
Film assets (note 6)	15,163	7,076
Property, plant and equipment (note 7)	183,424	132,847
Other assets (notes 8 and 20(e))	23,047	27,034
Deferred income taxes (note 9)	23,058	24,259
Other intangible assets (note 10)	27,551	27,745
Goodwill	39,027	39,027
Total assets	\$ 621,533	\$ 481,145
Liabilities		
Bank indebtedness (note 11)	\$ 4,710	\$
Accounts payable	26,145	19,396
Accrued and other liabilities (notes 6, 12(a), 12(c), 13, 14(c), 20(b), 20(d), 21 and 24)	75,425	65,232
Deferred revenue	88,566	76,932
Total liabilities	194,846	161,560
Commitments and contingencies (notes 12 and 13)		
Non-controlling interests (note 22)	43,912	
Shareholders equity		
Capital stock (note 14) common shares no par value. Authorized unlimited number.		
Issued and outstanding 68,988,050 (December 31, 2013 67,841,233)	344,862	327,313
Other equity	47,319	36,452
Accumulated deficit	(6,259)	(43,051)
Accumulated other comprehensive loss	(3,147)	(1,129)
Total shareholders equity	382,775	319,585

Total liabilities and shareholders equity	\$ 621,533	\$ 481,145
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(the accompanying notes are an integral part of these consolidated financial statements)

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IMAX CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

In accordance with United States Generally Accepted Accounting Principles

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

	Years Ended December 31,		
	2014	2013	2012
		(note 25)	
Revenues			
Equipment and product sales	\$ 78,705	\$ 78,663	\$ 78,161
Services (note 15(c))	142,607	139,464	135,071
Rentals (note 15(c))	60,705	61,293	61,268
Finance income	8,524	8,142	7,523
Other (note 15(a))		375	732
	290,541	287,937	282,755
Costs and expenses applicable to revenues (note 2(m))			
Equipment and product sales	36,997	37,517	37,538
Services (note 15(c))	62,228	68,844	70,570
Rentals	17,928	16,973	21,402
	117,153	123,334	129,510
Gross margin	173,388	164,603	153,245
Selling, general and administrative expenses (note 15(b)) (including share-based compensation expense of \$15.1 million, \$11.9 million and \$13.1 million for 2014, 2013, 2012, respectively)	93,260	84,854	81,560
Gain on curtailment of postretirement benefit plan (note 21(d))		(2,185)	
Research and development	16,096	14,771	11,411
Amortization of intangibles	1,724	1,618	706
Receivable provisions, net of recoveries (note 16)	918	445	524
Asset impairments (note 17)	314		
Impairment of investments (notes 20(b) and 20(e))	3,206		150
Income from operations	57,870	65,100	58,894
Interest income	405	55	85
Interest expense (note 9(g))	(924)	(1,345)	(689)
Income from operations before income taxes	57,351	63,810	58,290
Provision for income taxes	(14,466)	(16,629)	(15,079)
Loss from equity-accounted investments, net of tax	(1,071)	(2,757)	(1,362)

Income from continuing operations	41,814	44,424	41,849
Income (loss) from discontinued operations, net of tax (note 23)	355	(309)	(512)
Net income	42,169	44,115	41,337
Less: net income attributable to non-controlling interests (note 22)	(2,433)		
Net income attributable to common shareholders	\$ 39,736	\$ 44,115	\$ 41,337
Net income per share attributable to common shareholders - basic and diluted: (note 14(d))			
Net income per share - basic:			
Net income per share from continuing operations	\$ 0.57	\$ 0.66	\$ 0.64
Net income (loss) per share from discontinued operations	0.01		(0.01)
	\$ 0.58	\$ 0.66	\$ 0.63
Net income per share - diluted:			
Net income per share from continuing operations	\$ 0.56	\$ 0.64	\$ 0.62
Net income (loss) per share from discontinued operations			(0.01)
	\$ 0.56	\$ 0.64	\$ 0.61

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

Table of Contents**IMAX CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****In accordance with United States Generally Accepted Accounting Principles***(In thousands of U.S. dollars)*

	Years Ended December 31,		
	2014	2013	2012
Net income	\$ 42,169	\$ 44,115	\$ 41,337
Unrealized defined benefit plan actuarial (loss) gain (note 21(a))	(857)	2,277	(1,104)
Amortization of defined benefit plan actuarial loss (note 21(a))		444	365
Unrealized postretirement benefit plans actuarial loss (notes 21(c) and 21(d))	(574)	(169)	(129)
Amortization of postretirement benefit plan actuarial gain (note 21(c))	(32)		
Gain on curtailment of postretirement benefit plan (note 21(d))		398	
Unrealized net (loss) gain from cash flow hedging instruments (note 20(d))	(2,524)	(1,031)	716
Realization of cash flow hedging net loss (gain) upon settlement (note 20(d))	1,186	312	(236)
Foreign currency translation adjustments (note 2)	(259)	(115)	
Change in market value of available-for-sale investment (note 20(b))		(350)	338
Other-than-temporary impairment of available-for-sale investment (note 20(b))	350		150
Other comprehensive (loss) income, before tax	(2,710)	1,766	100
Income tax benefit (expense) related to other comprehensive (loss) income (note 9(h))	750	(504)	43
Other comprehensive (loss) income, net of tax	(1,960)	1,262	143
Comprehensive income	40,209	45,377	41,480
Less: Comprehensive income attributable to non-controlling interests, net of tax	(2,491)		
Comprehensive income attributable to common shareholders	\$ 37,718	\$ 45,377	\$ 41,480

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

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IMAX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

In accordance with United States Generally Accepted Accounting Principles

(In thousands of U.S. dollars)

	Years Ended December 31,		
	2014	2013	2012
Cash provided by (used in):			
Operating Activities			
Net income	\$ 42,169	\$ 44,115	\$ 41,337
(Income) loss from discontinued operations, net of tax (note 23)	(355)	309	512
Adjustments to reconcile net income to cash from operations:			
Depreciation and amortization (notes 18(c) and 19(a))	33,756	37,172	32,788
Write-downs, net of recoveries (notes 18(d) and 19(a))	5,294	1,336	1,607
Change in deferred income taxes	627	12,899	14,724
Stock and other non-cash compensation	15,467	12,685	14,220
Unrealized foreign currency exchange loss (gain)	1,180	1,183	(329)
Gain on curtailment of postretirement benefit plan (note 21(d))		(2,185)	
Loss from equity-accounted investments	1,774	2,757	1,362
Gain on non-cash contribution to equity-accounted investees	(703)		
Investment in film assets	(19,233)	(20,935)	(16,817)
Changes in other non-cash operating assets and liabilities (note 18(a))	6,057	(33,755)	(15,262)
Net cash provided by (used in) operating activities from discontinued operations	572	(548)	(512)
Net cash provided by operating activities	86,605	55,033	73,630
Investing Activities			
Purchase of property, plant and equipment	(40,104)	(13,016)	(6,055)
Investment in joint revenue sharing equipment	(16,838)	(22,775)	(23,257)
Investment in new business ventures	(2,500)	(4,000)	(381)
Proceeds from sale of business venture	507		
Acquisition of other intangible assets	(2,918)	(2,486)	(5,826)
Net cash used in investing activities	(61,853)	(42,277)	(35,519)
Financing Activities			
Increase in bank indebtedness (note 11)	4,710	12,000	9,917
Repayment of bank indebtedness (note 11)		(23,000)	(54,000)
Issuance of subsidiary shares to non-controlling interests	44,551		
Share issuance costs from the issuance of subsidiary shares to non-controlling interests	(3,556)		
Repurchase of common shares	(3,063)		

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Common shares issued - stock options exercised (note 14(b))	10,834	8,970	8,920
Settlement of restricted share units	(790)		
Proceeds from disgorgement of stock sale profits			314
Credit facility amendment fees paid	(427)	(2,151)	
Share issuance expenses		(202)	
Net cash provided by (used in) financing activities	52,259	(4,383)	(34,849)
Effects of exchange rate changes on cash	(54)	(163)	(64)
Increase in cash and cash equivalents during year	76,957	8,210	3,198
Cash and cash equivalents, beginning of year	29,546	21,336	18,138
Cash and cash equivalents, end of year	\$ 106,503	\$ 29,546	\$ 21,336

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

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IMAX CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

In accordance with United States Generally Accepted Accounting Principles

(In thousands of U.S. dollars)

	Common Shares Issued and Outstanding	Capital Stock	Other Equity	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance as at December 31, 2011	65,052,740	\$ 303,395	\$ 17,510	\$ (128,503)	\$ (2,534)	\$ 189,868
Net income				41,337		41,337
Other comprehensive income, net of tax					143	143
Paid-in capital for non-employee stock options granted (note 14(c))			115			115
Employee stock options exercised	1,414,685	9,946	(1,279)			8,667
Non-employee stock options exercised (note 14(c))	15,000	403	(150)			253
Paid-in capital for employee stock options granted (note 14(c))			12,359			12,359
Disgorgement of profit			314			314
Utilization of windfall tax benefits from employee stock options (note 9(f))			23			23
Balance as at December 31, 2012	66,482,425	\$ 313,744	\$ 28,892	\$ (87,166)	\$ (2,391)	\$ 253,079
Net income				44,115		44,115
Other comprehensive income, net of tax					1,262	1,262
Paid-in capital for non-employee stock options granted (note 14(c))			174			174
Employee stock options exercised	1,291,347	12,044	(3,455)			8,589
Non-employee stock options exercised	25,000	613	(232)			381
Paid-in capital for employee stock options granted (note			9,150			9,150

14(c))						
Paid-in capital for restricted share units granted (note 14(c))			2,120			2,120
Restricted share units vested (net of shares withheld for tax) (note 14(c))	42,461	1,114	(1,215)			(101)
Share issuance expenses		(202)				(202)
Utilization of windfall tax benefits from employee stock options (note 9(f))			1,018			1,018
Balance as at December 31, 2013	67,841,233	\$ 327,313	\$ 36,452	\$ (43,051)	\$ (1,129)	\$ 319,585
Net income				42,169		42,169
Other comprehensive loss, net of tax					(1,960)	(1,960)
Other comprehensive loss attributable to a non-controlling interest, net (note 22(a))					(58)	(58)
Net income attributable to non-controlling interests				(2,433)		(2,433)
Paid-in capital for non-employee stock options granted (note 14(c))			149			149
Employee stock options exercised	1,116,586	14,810	(4,260)			10,550
Non-employee stock options exercised	33,001	448	(165)			283
Paid-in capital for employee stock options granted (note 14(c))			9,275			9,275
Paid-in capital for restricted share units granted (note 14(c))			5,780			5,780
Restricted share units vested (net of shares withheld for tax) (note 14(c))	109,264	2,836	(3,148)			(312)
Restricted share units vested and issued to employees			(790)			(790)
Repurchase of common shares	(112,034)	(545)		(2,518)		(3,063)
Accretion charges associated with redeemable common stock				(426)		(426)
Utilization of windfall tax benefits from employee stock options (note 9(f))			4,015			4,015
Utilization of windfall tax benefits from vested restricted share units (note 9(f))			11			11

Balance as at December 31, 2014	68,988,050	\$ 344,862	\$ 47,319	\$ (6,259)	\$ (3,147)	\$ 382,775
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(The accompanying notes are an integral part of these consolidated financial statements)

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IMAX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In accordance with United States Generally Accepted Accounting Principles

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

1. Description of the Business

IMAX Corporation, together with its consolidated wholly-owned subsidiaries (the Company), is an entertainment technology company specializing in digital and film-based motion picture technologies, whose principal activities are the:

design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 62 countries as at December 31, 2014;

production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;

provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems;

operation of certain theaters primarily in the United States; and

other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

The Company refers to all theaters using the IMAX theater system as IMAX theaters.

The Company's revenues from equipment and product sales include the sale and sales-type leasing of its theater systems and sales of their associated parts and accessories, contingent rentals on sales-type leases and contingent additional payments on sales transactions.

The Company's revenues from services include the provision of maintenance and extended warranty services, digital re-mastering services, film production and film post-production services, film distribution, and the operation of certain theaters.

The Company's rentals include revenues from the leasing of its theater systems that are operating leases, contingent rentals on operating leases, joint revenue sharing arrangements and the rental of the Company's cameras and camera equipment.

The Company's finance income represents interest income arising from the sales-type leases and financed sales of the Company's theater systems.

The Company's other revenues include the settlement of contractual obligations with customers.

2. Summary of Significant Accounting Policies

Significant accounting policies are summarized as follows:

The Company prepares its consolidated financial statements in accordance with U.S. GAAP.

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company together with its wholly-owned subsidiaries, except for subsidiaries which the Company has identified as variable interest entities (VIEs) where the Company is not the primary beneficiary.

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

The Company has 10 film production companies that are VIEs. For 4 of the Company's film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the respective

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VIE that most significantly impact the respective VIE's economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. These consolidated production companies have total assets of \$7.7 million (December 31, 2013 \$nil) and total liabilities of \$0.3 million as at December 31, 2014 (December 31, 2013 \$nil). The majority of these consolidated assets are held by the IMAX Original Film Fund (the Film Fund) as described in note 22(b). For the other 6 film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at December 31, 2014, these 6 VIEs have total assets and total liabilities of \$0.4 million (December 31, 2013 \$5.2 million). Earnings of the investees included in the Company's consolidated statement of operations amounted to \$nil in 2014 (2013 \$nil). The carrying value of these investments in VIEs that are not consolidated is \$nil at December 31, 2014 (December 31, 2013 \$nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the consolidated statement of operations. The Company's exposure, which is determined based on the level of funding contributed by the Company and the development stage of the respective film, is \$nil at December 31, 2014 (2013 \$1.5 million).

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

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

In 2013, the Company determined that the functional currency of one of its wholly-owned subsidiaries had changed from the Company's reporting currency to the currency of the nation in which it is domiciled. As a result, in accordance with the FASB ASC 830 Foreign Currency Matters, the adjustment attributable to the current-rate translation of non-monetary assets as of the date of the change was reported in other comprehensive income.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could be materially different from these estimates. Significant estimates made by management include, but are not limited to: selling prices associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; provisions for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value of stock-based payment awards.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments convertible to a known amount of cash and with an original maturity to the Company of three months or less to be cash equivalents.

(d) Accounts Receivable and Financing Receivables

Allowances for doubtful accounts receivable are based on the Company's assessment of the collectibility of specific customer balances, which is based upon a review of the customer's credit worthiness, past collection history and the underlying asset value of the equipment, where applicable. Interest on overdue accounts receivable is recognized as income as the amounts are collected.

For trade accounts receivable that have characteristics of both a contractual maturity of one year or less, and arose from the sale of other goods or services, the Company charges off the balance against the allowance for doubtful accounts when it is known that a provided amount will not be collected.

The Company monitors the performance of the theaters to which it has leased or sold theater systems which are subject to ongoing payments. When facts and circumstances indicate that there is a potential impairment in the net investment in lease or a financing receivable, the Company will evaluate the potential outcome of either renegotiations involving changes in the terms of the receivable or defaults on the existing lease or financed sale agreements. The Company will record a provision if it is considered probable that the

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Company will be unable to collect all amounts due under the contractual terms of the arrangement or a renegotiated lease amount will cause a reclassification of the sales-type lease to an operating lease.

When the net investment in lease or the financing receivable is impaired, the Company will recognize a provision for the difference between the carrying value in the investment and the present value of expected future cash flows discounted using the effective interest rate for the net investment in the lease or the financing receivable. If the Company expects to recover the theater system, the provision is equal to the excess of the carrying value of the investment over the fair value of the equipment.

When the minimum lease payments are renegotiated and the lease continues to be classified as a sales-type lease, the reduction in payments is applied to reduce unearned finance income.

These provisions are adjusted when there is a significant change in the amount or timing of the expected future cash flows or when actual cash flows differ from cash flow previously expected.

Once a net investment in lease or financing receivable is considered impaired, the Company does not recognize interest income until the collectability issues are resolved. When finance income is not recognized, any payments received are applied against outstanding gross minimum lease amounts receivable or gross receivables from financed sales. Once the collectability issues are resolved, the Company will once again commence the recognition of interest income.

(e) Inventories

Inventories are carried at the lower of cost, determined on an average cost basis, and net realizable value except for raw materials, which are carried at the lower of cost and replacement cost. Finished goods and work-in-process include the cost of raw materials, direct labor, theater design costs, and an applicable share of manufacturing overhead costs.

The costs related to theater systems under sales and sales-type lease arrangements are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met. The costs related to theater systems under operating lease arrangements and joint revenue sharing arrangements are transferred from inventory to assets under construction in property, plant and equipment when allocated to a signed joint revenue sharing arrangement or when the arrangement is first classified as an operating lease.

The Company records provisions for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, technological developments, signings in negotiation, growth prospects within the customers' ultimate marketplace and anticipated market acceptance of the Company's current and pending theater systems.

Finished goods inventories can contain theater systems for which title has passed to the Company's customer (as the theater system has been delivered to the customer) but the revenue recognition criteria as discussed in note 2(m) have not been met.

(f) Film Assets

Costs of producing films, including labor, allocated overhead, capitalized interest, and costs of acquiring film rights are recorded as film assets and accounted for in accordance with Entertainment-Films Topic of the FASB ASC. Production financing provided by third parties that acquire substantive rights in the film is recorded as a reduction of

the cost of the production. Film assets are amortized and participation costs are accrued using the individual-film-forecast method in the same ratio that current gross revenues bear to current and anticipated future ultimate revenues. Estimates of ultimate revenues are prepared on a title-by-title basis and reviewed regularly by management and revised where necessary to reflect the most current information. Ultimate revenues for films include estimates of revenue over a period not to exceed ten years following the date of initial release.

Film exploitation costs, including advertising costs, are expensed as incurred.

Costs, including labor and allocated overhead, of digitally re-mastering films where the copyright is owned by a third party and the Company shares in the revenue of the third party are included in film assets. These costs are amortized using the individual-film-forecast method in the same ratio that current gross revenues bear to current and anticipated future ultimate revenues from the re-mastered film.

The recoverability of film assets is dependent upon commercial acceptance of the films. If events or circumstances indicate that the recoverable amount of a film asset is less than the unamortized film costs, the film asset is written down to its fair value. The Company determines the fair value of its film assets using a discounted cash flow model.

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Property, plant and equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

Theater system components ⁽¹⁾	over the equipment's anticipated useful life (7 to 20 years)
Camera equipment	5 to 10 years
Buildings	20 to 25 years
Office and production equipment	3 to 5 years
Leasehold improvements	over the shorter of the initial term of the underlying leases plus any reasonably assured renewal terms, and the useful life of the asset

(1) includes equipment under joint revenue sharing arrangements.

Equipment and components allocated to be used in future operating leases and joint revenue sharing arrangements, as well as direct labor costs and an allocation of direct production costs, are included in assets under construction until such equipment is installed and in working condition, at which time the equipment is depreciated on a straight-line basis over the lesser of the term of the joint revenue sharing arrangement and the equipment's anticipated useful life.

The Company reviews the carrying values of its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group might not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent when testing for, and measuring for, impairment. In performing its review of recoverability, the Company estimates the future cash flows expected to result from the use of the asset or asset group and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is recognized in the consolidated statements of operations. Measurement of the impairment loss is based on the excess of the carrying amount of the asset or asset group over the fair value calculated using discounted expected future cash flows.

A liability for the fair value of an asset retirement obligation associated with the retirement of tangible long-lived assets and the associated asset retirement costs are recognized in the period in which the liability and costs are incurred if a reasonable estimate of fair value can be made using a discounted cash flow model. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently amortized over the asset's useful life. The liability is accreted over the period to expected cash outflows.

(h) Other Assets

Other assets include insurance recoverable, deferred charges on debt financing, deferred selling costs that are direct and incremental to the acquisition of sales contracts, foreign currency derivatives, lease incentives and investments in new business ventures.

Costs of debt financing are deferred and amortized over the term of the debt using the effective interest method.

Selling costs related to an arrangement incurred prior to recognition of the related revenue are deferred and expensed to costs and expenses applicable to revenues upon: (i) recognition of the contract's theater system revenue; or (ii) abandonment of the sale arrangement.

Foreign currency derivatives are accounted for at fair value using quoted prices in closed exchanges (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy).

The Company may provide lease incentives to certain exhibitors which are essential to entering into the respective lease arrangement. Lease incentives include payments made to or on behalf of the exhibitor. These lease incentives are recognized as a reduction in rental revenue on a straight-line basis over the term of the lease.

Investments in new business ventures are accounted for using ASC 323 as described in note 2(a). The Company currently accounts for its 10.1% investment in 3net, a 3D television channel operated by a limited liability corporation owned by the Company and its joint venture investment with TCL Multimedia Technology Holdings Limited, using the equity method of accounting. The Company

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accounts for in-kind contributions to its equity investment in accordance with ASC 845 Non-Monetary Transactions (ASC 845) whereby if the fair value of the asset or assets contributed is greater than the carrying value a partial gain shall be recognized.

The Company's investment in debt securities is classified as an available-for-sale investment in accordance with ASC 320. Unrealized holding gains and losses for this investment is excluded from earnings and reported in other comprehensive income until realized. Realization occurs upon sale of a portion of or the entire investment. The investment is impaired if the fair value is less than cost, which is assessed in each reporting period. When the Company intends to sell a specifically identified beneficial interest, a write-down for other-than-temporary impairment shall be recognized in earnings.

The Company's investment in preferred shares, which meets the criteria for classification as an equity security in accordance with ASC 325, is accounted for at cost. The Company records the related warrants at fair value upon recognition date. Warrants are recognized over the term of the agreement.

(i) Goodwill

Goodwill represents the excess of purchase price over the fair value of net identifiable assets acquired in a purchase business combination. Goodwill is not subject to amortization and is tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. The Company performs a qualitative assessment of its reporting units and certain select quantitative calculations against its current long range plan to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. The Company first assesses certain qualitative factors to determine whether the existence of events or circumstances leads to determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carry amount, then performing the two-step impairment test is unnecessary. When necessary, impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting unit is estimated using a discounted cash flow approach. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to measure the amount of impairment loss, if any, by comparing the fair value of each identifiable asset and liability in the reporting unit to the total fair value of the reporting unit. Any impairment loss is expensed in the consolidated statement of operations and is not reversed if the fair value subsequently increases.

(j) Other Intangible Assets

Patents, trademarks and other intangibles are recorded at cost and are amortized on a straight-line basis over estimated useful lives ranging from 4 to 10 years except, for intangible assets that have an identifiable pattern of consumption of the economic benefit of the asset, which are amortized over the consumption pattern.

The Company reviews the carrying values of its other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group might not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent when testing for, and measuring for, impairment. In performing its review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset or asset group and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is recognized in the consolidated statement of operations. Measurement of the impairment loss is based on the excess of the carrying amount of the asset or asset group over the fair value calculated using discounted expected future cash flows.

(k) Deferred Revenue

Deferred revenue represents cash received prior to revenue recognition criteria being met for theater system sales or leases, film contracts, maintenance and extended warranty services, film related services and film distribution.

(l) Income Taxes

Income taxes are accounted for under the liability method whereby deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the accounting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in

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tax rates or laws is recognized in the consolidated statement of operations in the period in which the change is enacted. Investment tax credits are recognized as a reduction of income tax expense.

The Company assesses realization of deferred income tax assets and, based on all available evidence, concludes whether it is more likely than not that the net deferred income tax assets will be realized. A valuation allowance is provided for the amount of deferred income tax assets not considered to be realizable.

The Company is subject to ongoing tax exposures, examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts tax expense to reflect the Company's ongoing assessments of such matters which require judgment and can materially increase or decrease its effective rate as well as impact operating results. The Company provides for such exposures in accordance with the Income Taxes Topic of the FASB ASC.

(m) Revenue Recognition***Multiple Element Arrangements***

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

Theater Systems

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

The Company's System Deliverable arrangements involve either a lease or a sale of the theater system. Consideration for the System Deliverable, other than for those delivered pursuant to joint revenue sharing arrangements, consist of upfront or initial payments made before and after the final installation of the theater system equipment and ongoing payments throughout the term of the lease or over a period of time, as specified in the arrangement. The ongoing payments are the greater of an annual fixed minimum amount or a certain percentage of the theater box-office. Amounts received in excess of the annual fixed minimum amounts are considered contingent payments. The Company's arrangements are non-cancellable, unless the Company fails to perform its obligations. In the absence of a material default by the Company, there is no right to any remedy for the customer under the Company's arrangements.

If a material default by the Company exists, the customer has the right to terminate the arrangement and seek a refund only if the customer provides notice to the Company of a material default and only if the Company does not cure the default within a specified period.

For arrangements entered into or materially modified after January 1, 2011, consideration is allocated to each unit of accounting based on the unit's relative selling prices. The Company uses vendor-specific objective evidence of selling price (VSOE) when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. VSOE is established for the Company's System Deliverable, maintenance and extended warranty services and film license arrangements. The Company uses a best estimate of selling price (BESP) for units of accounting that do not have VSOE or third party evidence of selling price. The Company determines BESP for a deliverable by considering multiple factors including the Company's historical pricing practices, product class, market competition and geography.

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Sales Arrangements

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

The initial revenue recognized consists of the initial payments received and the present value of any future initial payments and fixed minimum ongoing payments that have been attributed to this unit of accounting. Contingent payments in excess of the fixed minimum ongoing payments are recognized when reported by theater operators, provided collectibility is reasonably assured.

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

Lease Arrangements

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

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

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

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

For operating leases, initial payments and fixed minimum ongoing payments are recognized as revenue on a straight-line basis over the lease term. For operating leases, the lease term is considered to commence when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and in full

working condition; (ii) the 3D glasses cleaning machine, if applicable, has been delivered; (iii) projectionist training has been completed; and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater. Contingent payments in excess of fixed minimum ongoing payments are recognized as revenue when reported by theater operators, provided collectibility is reasonably assured.

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

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

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

Improvements and Modifications

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

Cost of Equipment and Product Sales

Theater systems and other equipment subject to sales-type leases and sales arrangements includes the cost of the equipment and costs related to project management, design, delivery and installation supervision services as applicable. The costs related to theater systems under sales and sales-type lease arrangements are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met. In addition, the Company defers direct selling costs such as sales commissions and other amounts related to these contracts until the related revenue is recognized. These costs included in costs and expenses applicable to revenues-equipment and product sales, totaled \$2.5 million in 2014 (2013 \$2.5 million, 2012 \$2.7 million). The cost of equipment and product sales prior to direct selling costs was \$34.5 million in 2014 (2013 \$35.0 million, 2012 \$34.8 million). The Company may have warranty obligations at or after the time revenue is recognized which require replacement of certain parts that do not affect the functionality of the theater system or services. The costs for warranty obligations for known issues are accrued as charges to costs and expenses applicable to revenues-equipment and product sales at the time revenue is recognized based on the Company's past historical experience and cost estimates.

Cost of Rentals

For theater systems and other equipment subject to an operating lease or placed in a theater operators' venue under a joint revenue sharing arrangement, the cost of equipment and those costs that result directly from and are essential to the arrangement, is included within property, plant and equipment. Depreciation and impairment losses, if any, are included in cost of rentals based on the accounting policy set out in note 2(g). Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned, which is typically the month of installation. These costs totaled \$1.1 million in 2014 (2013 \$1.9 million, 2012 \$1.5 million). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled \$1.5 million in 2014 (2013 \$1.7 million, 2012 \$1.9 million).

Terminations, Consensual Buyouts and Concessions

The Company enters into theater system arrangements with customers that contain customer payment obligations prior to the scheduled installation of the theater system. During the period of time between signing and the installation

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

In addition, the Company could agree with customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX digital theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new arrangement for the IMAX digital theater system. For all arrangements entered into or modified prior to the date of adoption of the amended FASB ASC 605-25, the Company continues to

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defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the selling price of the IMAX digital theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed. Under the amended FASB ASC 605-25, for all arrangements entered into or materially modified after the date of adoption, the total arrangement consideration to be received is allocated on a relative selling price basis to the digital upgrade and the termination of the previous theater system. The arrangement consideration allocated to the termination of the existing arrangement is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed.

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

Maintenance and Extended Warranty Services

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

Film Production and IMAX DMR Services

In certain film arrangements, the Company produces a film financed by third parties whereby the third party retains the copyright and the Company obtains exclusive distribution rights. Under these arrangements, the Company is entitled to receive a fixed fee or to retain as a fee the excess of funding over cost of production (the production fee). The third parties receive a portion of the revenues received by the Company from distributing the film, which is charged to costs and expenses applicable to revenues-services. The production fees are deferred, and recognized as a reduction in the cost of the film based on the ratio of the Company's distribution revenues recognized in the current period to the ultimate distribution revenues expected from the film. Film exploitation costs, including advertising and marketing totaled \$7.1 million in 2014 (2013 \$4.2 million, 2012 \$3.3 million) and are recorded in costs and expenses applicable to revenues-services as incurred.

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

Revenues from digitally re-mastering (IMAX DMR) films where third parties own or hold the copyrights and the rights to distribute the film are derived in the form of processing fees and recoupments calculated as a percentage of box-office receipts generated from the re-mastered films. Processing fees are recognized as Services revenues when

the performance of the related re-mastering service is completed provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is reasonably assured. Recoupments, calculated as a percentage of box-office receipts, are recognized as Services revenue when box-office receipts are reported by the third party that owns or holds the related film rights, provided collectibility is reasonably assured.

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

Film Distribution

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Revenue from the licensing of films is recognized in Services revenues when persuasive evidence of a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed or determinable and collectibility is reasonably assured. When license fees are based on a percentage of box-office receipts, revenue is recognized when box-office receipts are reported by exhibitors, provided collectibility is reasonably assured. Film exploitation costs, including advertising and marketing, totaled \$0.6 million in 2014 (2013 \$0.4 million, 2012 \$1.5 million) and are recorded in costs and expenses applicable to revenues-services as incurred.

Film Post-Production Services

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

Other

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