

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **March 31, 2023**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
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)*

**2525 Speakman Drive,
Mississauga, Ontario, Canada L5K 1B1
(905) 403-6500**

98-0140269

*(I.R.S. Employer
Identification Number)*

**902 Broadway, Floor 20
New York, New York, USA 10010
(212) 821-0100**

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

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

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|-----------------------------|--------------------------|--|
| Common Shares, no par value | IMAX | The New York Stock Exchange |

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

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

| <u>Class</u> | <u>Outstanding as of March 31, 2023</u> |
|-----------------------------|---|
| Common Shares, no par value | 54,589,933 |

IMAX CORPORATION

Table of Contents

| | <u>Page</u> |
|---|-------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| Item 1. Financial Statements | 3 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 40 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 64 |
| Item 4. Controls and Procedures | 66 |
| <u>PART II. OTHER INFORMATION</u> | |
| Item 1. Legal Proceedings | 67 |
| Item 1A. Risk Factors | 67 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 67 |
| Item 6. Exhibits | 68 |
| Signatures | 69 |

IMAX CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

The following unaudited Condensed Consolidated Financial Statements are filed as part of this Report:

| | <u>Page</u> |
|---|-------------|
| Condensed Consolidated Balance Sheets as of March 31, 2023 and December 31, 2022 | 4 |
| Condensed Consolidated Statements of Operations for the three months ended March 31, 2023 and 2022 | 5 |
| Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2023 and 2022 | 6 |
| Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2023 and 2022 | 7 |
| Condensed Consolidated Statements of Shareholders' Equity for the three months ended March 31, 2023 and 2022 | 8 |
| Notes to Condensed Consolidated Financial Statements | 9 |

IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. Dollars, except share amounts)
(Unaudited)

| | March 31, 2023 | December 31, 2022 |
|--|-------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 99,246 | \$ 97,401 |
| Accounts receivable, net of allowance for credit losses | 123,382 | 136,142 |
| Financing receivables, net of allowance for credit losses | 131,187 | 129,384 |
| Variable consideration receivables, net of allowance for credit losses | 47,380 | 44,024 |
| Inventories | 37,492 | 31,534 |
| Prepaid expenses | 14,296 | 12,343 |
| Film assets, net of accumulated amortization | 6,347 | 5,277 |
| Property, plant and equipment, net of accumulated depreciation | 248,279 | 252,896 |
| Investment in equity securities | 1,050 | 1,035 |
| Other assets | 15,480 | 15,665 |
| Deferred income tax assets, net of valuation allowance | 11,218 | 9,900 |
| Goodwill | 52,815 | 52,815 |
| Other intangible assets, net of accumulated amortization | 33,349 | 32,738 |
| Total assets | \$ 821,521 | \$ 821,154 |
| Liabilities | | |
| Accounts payable | \$ 25,783 | \$ 25,237 |
| Accrued and other liabilities | 113,729 | 117,286 |
| Deferred revenue | 73,550 | 70,940 |
| Revolving credit facility borrowings, net of unamortized debt issuance costs | 31,025 | 36,111 |
| Convertible notes and other borrowings, net of unamortized discounts and debt issuance costs | 227,549 | 226,912 |
| Deferred income tax liabilities | 16,046 | 14,900 |
| Total liabilities | 487,682 | 491,386 |
| Commitments, contingencies and guarantees (see Note 7) | | |
| Non-controlling interests | 731 | 722 |
| Shareholders' equity | | |
| Capital stock common shares — no par value. Authorized — unlimited number. | | |
| 54,589,933 issued and outstanding (December 31, 2022 — 54,148,614 issued and outstanding) | 389,500 | 376,715 |
| Other equity | 170,871 | 185,678 |
| Statutory surplus reserve | 3,932 | 3,932 |
| Accumulated deficit | (292,409) | (293,124) |
| Accumulated other comprehensive loss | (7,876) | (9,846) |
| Total shareholders' equity attributable to common shareholders | 264,018 | 263,355 |
| Non-controlling interests | 69,090 | 65,691 |
| Total shareholders' equity | 333,108 | 329,046 |
| Total liabilities and shareholders' equity | \$ 821,521 | \$ 821,154 |

(See the accompanying notes, which are an integral part of these Condensed Consolidated Financial Statements.)

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

| | Three Months Ended | |
|---|--------------------|--------------------|
| | March 31, | |
| | 2023 | 2022 |
| Revenues | | |
| Technology sales | \$ 17,822 | \$ 8,976 |
| Image enhancement and maintenance services | 47,127 | 36,094 |
| Technology rentals | 20,058 | 12,661 |
| Finance income | 1,939 | 2,305 |
| | 86,946 | 60,036 |
| Costs and expenses applicable to revenues | | |
| Technology sales | 7,232 | 5,985 |
| Image enhancement and maintenance services | 23,085 | 15,743 |
| Technology rentals | 6,578 | 6,537 |
| | 36,895 | 28,265 |
| Gross margin | 50,051 | 31,771 |
| Selling, general and administrative expenses | 34,148 | 30,181 |
| Research and development | 1,855 | 1,197 |
| Amortization of intangible assets | 1,074 | 1,196 |
| Credit loss expense, net | 220 | 7,229 |
| Executive transition costs | 1,353 | — |
| Income (loss) from operations | 11,401 | (8,032) |
| Realized and unrealized investment gains | 44 | 34 |
| Retirement benefits non-service expense | (77) | (139) |
| Interest income | 407 | 502 |
| Interest expense | (1,767) | (1,705) |
| Income (loss) before taxes | 10,008 | (9,340) |
| Income tax expense | (4,885) | (2,610) |
| Net income (loss) | 5,123 | (11,950) |
| Less: net income attributable to non-controlling interests | (2,669) | (1,659) |
| Net income (loss) attributable to common shareholders | \$ 2,454 | \$ (13,609) |
| Net income (loss) per share attributable to common shareholders - basic and diluted: | | |
| Net income (loss) per share attributable to common shareholders — basic | \$ 0.05 | \$ (0.23) |
| Net income (loss) per share attributable to common shareholders — diluted | \$ 0.04 | \$ (0.23) |
| Weighted average shares outstanding — basic (in thousands) | 54,064 | 58,574 |
| Weighted average shares outstanding — diluted (in thousands) | 54,991 | 58,574 |

(See the accompanying notes, which are an integral part of these Condensed Consolidated Financial Statements.)

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands of U.S. Dollars)
(Unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|--------------------|
| | 2023 | 2022 |
| Net income (loss) | \$ 5,123 | \$ (11,950) |
| Other comprehensive income, before tax | | |
| Unrealized net gain from cash flow hedging instruments | 134 | 315 |
| Realized net loss from cash flow hedging instruments | 339 | 29 |
| Foreign currency translation adjustments | 2,440 | 580 |
| Defined benefit and postretirement benefit plans | (176) | 46 |
| Total other comprehensive income, before tax | 2,737 | 970 |
| Income tax expense related to other comprehensive income | (78) | (102) |
| Other comprehensive income, net of tax | 2,659 | 868 |
| Comprehensive income (loss) | 7,782 | (11,082) |
| Comprehensive income attributable to non-controlling interests | (3,358) | (1,826) |
| Comprehensive income (loss) attributable to common shareholders | \$ 4,424 | \$ (12,908) |

(See the accompanying notes, which are an integral part of these Condensed Consolidated Financial Statements.)

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

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, | |
| | 2023 | 2022 |
| Operating Activities | | |
| Net income (loss) | \$ 5,123 | \$ (11,950) |
| Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 13,320 | 12,741 |
| Amortization of deferred financing costs | 625 | 1,023 |
| Credit loss expense, net | 220 | 7,229 |
| Write-downs | 304 | 381 |
| Deferred income tax benefit | (193) | (109) |
| Share-based and other non-cash compensation | 5,135 | 6,189 |
| Unrealized foreign currency exchange (gain) loss | (78) | 58 |
| Realized and unrealized investment gains | (44) | (34) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 12,374 | (2,654) |
| Inventories | (5,946) | (534) |
| Film assets | (3,884) | (5,107) |
| Deferred revenue | 2,606 | (830) |
| Changes in other operating assets and liabilities | (8,344) | (10,186) |
| Net cash provided by (used in) operating activities | 21,218 | (3,783) |
| Investing Activities | | |
| Purchase of property, plant and equipment | (364) | (728) |
| Investment in equipment for joint revenue sharing arrangements | (2,157) | (4,587) |
| Interest in film classified as a financial instrument | — | (4,731) |
| Acquisition of other intangible assets | (1,760) | (551) |
| Net cash used in investing activities | (4,281) | (10,597) |
| Financing Activities | | |
| Revolving credit facility borrowings | 25,717 | — |
| Repayments of revolving credit facility borrowings | (31,180) | — |
| Credit facility amendment fees paid | — | (1,783) |
| Other borrowings | 315 | — |
| Repurchase of common shares | (3,656) | (6,272) |
| Repurchase of common shares, IMAX China | — | (1,844) |
| Taxes withheld and paid on employee stock awards vested | (6,233) | (3,136) |
| Net cash used in financing activities | (15,037) | (13,035) |
| Effects of exchange rate changes on cash | (55) | 4 |
| Increase (decrease) in cash and cash equivalents during period | 1,845 | (27,411) |
| Cash and cash equivalents, beginning of period | 97,401 | 189,711 |
| Cash and cash equivalents, end of period | \$ 99,246 | \$ 162,300 |

(See the accompanying notes, which are an integral part of these Condensed Consolidated Financial Statements.)

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of U.S. Dollars)
(Unaudited)

| | Three Months Ended | |
|--|--------------------------|--------------------------|
| | March 31, | |
| | 2023 | 2022 |
| Adjustments to capital stock: | | |
| Balance, beginning of period | \$ 376,715 | \$ 409,979 |
| Average carrying value of repurchased and retired common shares | 109 | (3,662) |
| Restricted share units vested, net of shares withheld for employee tax obligations | 12,676 | 9,045 |
| Balance, end of period | <u>389,500</u> | <u>415,362</u> |
| Adjustments to other equity: | | |
| Balance, beginning of period | 185,678 | 174,620 |
| Amortization of share-based payment expense - stock options | 91 | 231 |
| Amortization of share-based payment expense - restricted share units | 3,314 | 4,350 |
| Amortization of share-based payment expense - performance stock units | 1,021 | 1,854 |
| Restricted share units vested | (19,233) | (12,600) |
| Change in ownership interest related to IMAX China common share repurchases | — | (543) |
| Balance, end of period | <u>170,871</u> | <u>167,912</u> |
| Adjustments to statutory surplus reserve: | | |
| Balance, beginning of period | 3,932 | 3,932 |
| Balance, end of period | <u>3,932</u> | <u>3,932</u> |
| Adjustments to accumulated deficit: | | |
| Balance, beginning of period | (293,124) | (234,975) |
| Net income (loss) attributable to common shareholders | 2,454 | (13,609) |
| Common shares repurchased and retired | (1,739) | (2,610) |
| Balance, end of period | <u>(292,409)</u> | <u>(251,194)</u> |
| Adjustments to accumulated other comprehensive (loss) income: | | |
| Balance, beginning of period | (9,846) | 2,527 |
| Other comprehensive income, net of tax | 1,970 | 701 |
| Balance, end of period | <u>(7,876)</u> | <u>3,228</u> |
| Adjustments to non-controlling interests: | | |
| Balance, beginning of period | 65,691 | 73,531 |
| Net income attributable to non-controlling interests | 2,660 | 1,656 |
| Other comprehensive income, net of tax | 689 | 167 |
| Share-based compensation attributable to non-controlling interests | 50 | 28 |
| Change in ownership interest related to IMAX China common share repurchases | — | (1,301) |
| Balance, end of period | <u>69,090</u> | <u>74,081</u> |
| Total Shareholders' Equity | <u>\$ 333,108</u> | <u>\$ 413,321</u> |

(See the accompanying notes, which are an integral part of these Condensed Consolidated Financial Statements.)

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

1. Basis of Presentation

Accounting Principles

IMAX Corporation, together with its consolidated subsidiaries (the “Company” or “IMAX”), prepares its financial statements in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from this report, as is permitted by such rules and regulations. In the Company’s opinion, the unaudited Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature that are necessary for a fair statement of the results for the interim periods presented. The Condensed Consolidated Balance Sheet at December 31, 2022 was derived from the Company’s audited annual Consolidated Financial Statements, but does not contain all of the footnote disclosures included in the annual financial statements. The interim results presented in the Company’s Condensed Consolidated Statements of Operations are not necessarily indicative of results for a full year.

These Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements included in the Company’s 2022 Annual Report on Form 10-K (the “2022 Form 10-K”), which should be consulted for a summary of the significant accounting policies utilized by the Company. The Condensed Consolidated Financial Statements are prepared following the same accounting policies disclosed in the 2022 Form 10-K.

As disclosed in Note 13 to the Condensed Consolidated Financial Statements, in the first quarter of 2023, the Company revised its reportable segments.

Principles of Consolidation

These Condensed Consolidated Financial Statements include the accounts of the Company together with its consolidated subsidiaries, except for subsidiaries which have been identified as variable interest entities (“VIEs”) where the Company is not the primary beneficiary. All intercompany accounts and transactions have been eliminated. The Company has evaluated its various variable interests to determine whether they are VIEs as required by U.S. GAAP.

The Company has interests in ten film production companies, which have been identified as VIEs. The Company is the primary beneficiary of and consolidates five of these entities as it has the power to direct the activities that most significantly impact the economic performance of the VIE, and it has the obligation to absorb losses or the right to receive benefits from the respective VIE that could potentially be significant. The majority of the assets relating to these production companies are held by the IMAX Original Film Fund (the “Original Film Fund”) as described in Note 17(b). The Company does not consolidate the other five film production companies because it does not have the power to direct their activities and it does not have the obligation to absorb the majority of the expected losses or the right to receive expected residual returns. The Company uses the equity method of accounting for these entities, which are not material to the Company’s Condensed Consolidated Financial Statements. A loss in the value of an equity method investment that is other than temporary is recognized as a charge in the Condensed Consolidated Statement of Operations.

As of March 31, 2023 and December 31, 2022, total assets and liabilities of the Company’s consolidated VIEs are as follows:

| <i>(In thousands of U.S. Dollars)</i> | March 31, 2023 | December 31, 2022 |
|---------------------------------------|---------------------------|------------------------------|
| Total assets | <u>\$ 1,537</u> | <u>\$ 1,523</u> |
| Total liabilities | <u>\$ 248</u> | <u>\$ 248</u> |

Estimates and Assumptions

In preparing the Company's Condensed Consolidated Financial Statements, management makes judgments in applying various accounting policies. The areas of policy judgment are consistent with those reported in Note 3(b) of the Company's audited Consolidated Financial Statements included in its 2022 Form 10-K. Management also considers that its determination of operating and reporting segments represents an area of judgment, and has made this conclusion on the basis of what comprises the discrete financial information produced, but not provided to or used by its Chief Operating Decision Maker ("CODM") to carry out this function. In addition, management makes assumptions about the Company's future operating results and cash flows in deriving critical accounting estimates used in preparing the Condensed Consolidated Financial Statements. The significant estimates made by management include, but are not limited to: (i) the allocation of the transaction price in an IMAX System arrangement to distinct performance obligations; (ii) the amount of variable consideration to be earned on sales of IMAX Systems based on projections of future box office performance; (iii) expected credit losses on accounts receivable, financing receivables, and variable consideration receivables; (iv) provisions for the write-down of excess and obsolete inventory; (v) the fair values of the reporting units used in assessing the recoverability of goodwill; (vi) the cash flow projections used in testing the recoverability of long-lived assets such as the system equipment supporting joint revenue sharing arrangements; (vii) the economic lives of the system equipment supporting joint revenue sharing arrangements; (viii) the useful lives of intangible assets; (ix) the ultimate revenue forecasts used to test the recoverability of film assets; (x) the discount rates used to determine the present value of financing receivables and lease liabilities, as well as to determine the fair values of the Company's reporting units for the purpose of assessing the recoverability of goodwill; (xi) pension plan assumptions; (xii) estimates related to the fair value and projected vesting of share-based payment awards; (xiii) the valuation of deferred income tax assets; and (xiv) reserves related to uncertain tax positions.

2. Recently Issued Accounting Standards

Adoption of New Accounting Policies

In March 2022, the FASB issued ASU No. 2022-02, "2022-02: Financial Instruments — Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" ("ASU 2022-02"). ASU 2022-02 amends and eliminates the accounting guidance for Troubled Debt Restructurings by creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty and requires for public business entities, to disclose current-period gross write offs by year of origination for financing receivables and net investments in leases. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company adopted ASU 2022-02 for the period ended March 31, 2023. The adoption of ASU 2022-02 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In September 2022, the FASB issued ASU No. 2022-04, "2022-04: Liabilities — Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations" ("ASU 2022-04"). ASU 2022-04 requires that a buyer in a supplier finance program disclose sufficient information about the program to allow a user of financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. ASU 2022-04 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company adopted ASU 2022-04 for the period ended March 31, 2023. The adoption of ASU 2022-04 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

Recently Issued FASB Accounting Standard Codification Updates Not Yet Adopted

The Company considers the applicability and impact of all FASB ASUs that are recently issued, but not yet effective. ASUs that are not noted above were assessed and determined to be not applicable or not significant to the Company's Condensed Consolidated Financial Statements for the period ended March 31, 2023.

3. Receivables

The ability of the Company to collect its receivables is principally dependent on the viability and solvency of individual theater operators which is significantly influenced by consumer behavior and general economic conditions. Theater operators, or other customers, may experience financial difficulties that could result in them being unable to fulfill their payment obligations to the Company.

In order to mitigate the credit risk associated with its receivables, management performs an initial credit evaluation prior to entering into an arrangement with a customer and then regularly monitors the credit quality of each customer through an analysis of collections history and aging. This monitoring process includes meetings on at least a monthly basis to identify credit concerns and potential changes in credit quality classification. A customer may improve their credit quality classification once a substantial payment is made on an overdue balance or when the customer has agreed to a payment plan and payments have commenced in accordance with that plan. Changes in credit quality classification are dependent upon management approval. The Company's internal credit quality classifications for theater operators are as follows:

- **Good Standing** — The theater operator continues to be in good standing as payments and reporting are received on a regular basis.
- **Credit Watch** — The theater operator has demonstrated a delay in payments, but continues to be in active communication with the Company. Theater operators placed on Credit Watch are subject to enhanced monitoring. In addition, depending on the size of the outstanding balance, length of time in arrears, and other factors, future transactions may need to be approved by management. These receivables are in better condition than those in the Pre-Approved Transactions Only category, but are not in as good condition as the receivables in the Good Standing category.
- **Pre-Approved Transactions Only** — The theater operator has demonstrated a delay in payments with little or no communication with the Company. All services and shipments to the theater operator must be reviewed and approved by management. These receivables are in better condition than those in the All Transactions Suspended category, but are not in as good condition as the receivables in the Credit Watch category. In certain situations, a theater operator may be placed on nonaccrual status and all revenue recognition related to the theater may be suspended, including the accretion of Finance Income for Financing Receivables.
- **All Transactions Suspended** — The theater operator is severely delinquent, non-responsive or not negotiating in good faith with the Company. Once a theater operator is classified within the All Transactions Suspended category, the theater is placed on nonaccrual status and all revenue recognitions related to the theater are suspended, including the accretion of Finance Income for Financing Receivables.

During the period when the accretion of Finance Income is suspended for Financing Receivables, any payments received from a customer are applied against the outstanding balance owed. If payments are sufficient to cover any unreserved receivables, a reversal of the provision is recorded to the extent of the residual cash received. Once the collectability issues are resolved and the customer has returned to being in good standing, the Company will resume recognition of Finance Income.

When a customer's aging exceeds 90 days, the Company's policy is to perform an enhanced review to assess collectability of the theater's past due accounts. The over 90 days past due category may be an indicator of potential impairment as up to 90 days outstanding is considered to be a reasonable time to resolve any issues.

The Company develops an estimate of expected credit losses by class of receivable and customer type through a calculation that utilizes historical loss rates, which are then adjusted for specific receivables that are judged to have a higher-than-normal risk profile after considering management's internal credit quality classifications. Additional credit loss provisions are also recorded taking into account macro-economic and industry risk factors. The write-off of any billed receivable balance requires the approval of management.

Commencing in March 2022, in response to numerous sanctions imposed by the United States, Canada and the European Union on companies transacting in Russia and Belarus resulting from ongoing conflict between Russia and Ukraine, the Company suspended its operations in Russia and Belarus. In the first quarter of 2022, the Company recorded provisions for potential credit losses against substantially all of its receivables in Russia due to uncertainties associated with the ongoing conflict and resulting sanctions. These receivables relate to existing sale agreements as the Company is not party to any joint revenue sharing arrangements in these countries. In addition, beginning in the first quarter of 2022, exhibitors in Russia, Ukraine, and Belarus were placed on nonaccrual status for maintenance revenue and finance income. As of March 31, 2023, all IMAX Systems in Ukraine have reopened. The Company continues to closely monitor the evolving impacts of this conflict (including the sanctions imposed by the United States, Canada and the European Union) and its effects on the global economy and the Company.

On September 7, 2022, Cineworld, the parent company of Regal, and certain of its subsidiaries and Regal CineMedia Holdings, LLC, filed petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the Southern District of Texas. The Company had an unsecured pre-petition claim of \$11.4 million related to receivables from the entities included in the reorganization proceedings. On October 21, 2022, the Company was ratified by the bankruptcy court as a critical vendor of Cineworld, allowing the Company to collect pre-petition amounts owed to it by Cineworld, and requiring Cineworld to stay current on the Company's post-petition receivables. On November 8, 2022, IMAX Corporation entered into a trade agreement with Cineworld (the "Trade Agreement"), pursuant to which Cineworld affirmed its pre-petition obligations to the Company and its post-petition obligations to the Company during the Chapter 11 proceedings, the amount of the receivables owed to the Company and agreed to a payment plan under which all amounts due will be settled over the period from November 9, 2022 to April 12, 2023. As of April 17, 2023, the Company had received all of the payments due from Cineworld in accordance with the terms of the Trade Agreement with respect to the pre-petition obligations. Based on its evaluation of its contracts with Cineworld, its assessment of the reorganization and its discussions with Cineworld to date, the Company has determined that no additional provision for expected credit losses is required. The Company also does not expect to see a material impact on its IMAX network with Cineworld resulting from this reorganization. There can, however, be no guarantees as to the ultimate outcome of a Chapter 11 proceeding.

Management's judgments regarding expected credit losses are based on the facts available to management and involve estimates about the future. As a result, the Company's judgments and associated estimates of credit losses may ultimately prove, with the benefit of hindsight, to be incorrect. The impacts of inflation, and rising interest rates may impact future credit losses. The Company will continue to monitor economic trends and conditions and portfolio performance and adjust its allowance for credit loss accordingly.

Accounts Receivable

Accounts receivable principally includes amounts currently due to the Company under IMAX System sale and sales-type lease arrangements, contingent fees owed by theater operators as a result of box office performance, and fees for maintenance services. Accounts receivable also includes amounts due to the Company from movie studios and other content creators principally for digitally remastering films into IMAX formats, as well as for film distribution and post-production services.

The following tables summarize the activity in the allowance for credit losses related to Accounts Receivable for the three months ended March 31, 2023 and 2022:

| | Three Months Ended March 31, 2023 | | | |
|--|--|-----------------|-----------------|------------------|
| <i>(In thousands of U.S. Dollars)</i> | Theater Operators | Studios | Other | Total |
| Beginning balance | \$ 11,144 | \$ 1,699 | \$ 1,276 | \$ 14,119 |
| Current period (reversal) provision, net | (265) | 3 | 21 | (241) |
| Write-offs | (115) | — | — | (115) |
| Foreign exchange | 60 | 5 | — | 65 |
| Ending balance | <u>\$ 10,824</u> | <u>\$ 1,707</u> | <u>\$ 1,297</u> | <u>\$ 13,828</u> |

| | Three Months Ended March 31, 2022 | | | |
|---------------------------------------|--|-----------------|-----------------|------------------|
| <i>(In thousands of U.S. Dollars)</i> | Theater Operators | Studios | Other | Total |
| Beginning balance | \$ 8,867 | \$ 1,994 | \$ 1,085 | \$ 11,946 |
| Current period provision, net | 1,981 | 3 | 273 | 2,257 |
| Write-offs | — | — | — | — |
| Foreign exchange | (17) | (2) | — | (19) |
| Ending balance | <u>\$ 10,831</u> | <u>\$ 1,995</u> | <u>\$ 1,358</u> | <u>\$ 14,184</u> |

For the three months ended March 31, 2023, the Company's allowance for current expected credit losses related to Accounts Receivable decreased by \$0.4 million.

For the three months ended March 31, 2022, the Company's allowance for current expected credit losses related to Accounts Receivable increased by \$2.2 million, principally due to reserves established against its receivables in Russia due to uncertainties associated with the ongoing Russia-Ukraine conflict, partially offset by the reversal of provisions associated with the COVID-19 pandemic.

Financing Receivables

Financing receivables are due from theater operators and consist of the Company's net investment in sales-type leases and receivables associated with financed sales of IMAX Systems. As of March 31, 2023 and December 31, 2022, financing receivables consist of the following:

| <i>(In thousands of U.S. Dollars)</i> | March 31, 2023 | December 31, 2022 |
|---|---------------------------|------------------------------|
| Net investment in leases | | |
| Gross minimum payments due under sales-type leases | \$ 32,097 | \$ 29,727 |
| Unearned finance income | (557) | (619) |
| Present value of minimum payments due under sales-type leases | 31,540 | 29,108 |
| Allowance for credit losses | (778) | (776) |
| Net investment in leases | <u>30,762</u> | <u>28,332</u> |
| Financed sales receivables | | |
| Gross minimum payments due under financed sales | 141,119 | 141,337 |
| Unearned finance income | (29,161) | (29,340) |
| Present value of minimum payments due under financed sales | 111,958 | 111,997 |
| Allowance for credit losses | (11,533) | (10,945) |
| Net financed sales receivables | <u>100,425</u> | <u>101,052</u> |
| Total financing receivables | <u>\$ 131,187</u> | <u>\$ 129,384</u> |
| Net financed sales receivables due within one year | \$ 33,721 | \$ 32,366 |
| Net financed sales receivables due after one year | 66,704 | 68,686 |
| Total financed sales receivables | <u>\$ 100,425</u> | <u>\$ 101,052</u> |

As of March 31, 2023 and December 31, 2022, the weighted-average remaining lease term and weighted-average interest rate associated with the Company's sales-type lease arrangements and financed sale receivables, as applicable, are as follows:

| | March 31, 2023 | December 31, 2022 |
|---|---------------------------|------------------------------|
| Weighted-average remaining lease term (in years) | | |
| Sales-type lease arrangements | <u>8.9</u> | <u>9.0</u> |
| Weighted-average interest rate | | |
| Sales-type lease arrangements | <u>8.25%</u> | <u>8.23%</u> |
| Financed sales receivables | <u>8.85%</u> | <u>8.79%</u> |

The tables below provide information on the Company's net investment in leases by credit quality indicator as of March 31, 2023 and December 31, 2022. The amounts disclosed for each credit quality classification are determined on a customer-by-customer basis and include both billed and unbilled amounts.

(In thousands of U.S. Dollars)

| As of March 31, 2023 | By Origination Year | | | | | | Total |
|---------------------------------------|---------------------|-----------------|------------------|-----------------|-----------------|-----------------|------------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | |
| Net investment in leases: | | | | | | | |
| Credit quality classification: | | | | | | | |
| In good standing | \$ 2,200 | \$ 4,141 | \$ 7,017 | \$ 2,544 | \$ 2,020 | \$ 1,020 | \$ 18,942 |
| Credit Watch | — | — | — | — | — | — | — |
| Pre-approved transactions | — | — | 3,112 | 1,179 | 5,423 | 2,483 | 12,197 |
| Transactions suspended | — | — | — | — | — | 401 | 401 |
| Total net investment in leases | \$ 2,200 | \$ 4,141 | \$ 10,129 | \$ 3,723 | \$ 7,443 | \$ 3,904 | \$ 31,540 |

(In thousands of U.S. Dollars)

| As of December 31, 2022 | By Origination Year | | | | | | Total |
|---------------------------------------|---------------------|------------------|-----------------|-----------------|-----------------|-----------------|------------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | Prior | |
| Net investment in leases: | | | | | | | |
| Credit quality classification: | | | | | | | |
| In good standing | \$ 4,148 | \$ 6,969 | \$ 2,494 | \$ 1,977 | \$ — | \$ 1,016 | \$ 16,604 |
| Credit Watch | — | — | — | — | — | — | — |
| Pre-approved transactions | — | 3,089 | 1,162 | 5,401 | 2,451 | — | 12,103 |
| Transactions suspended | — | — | — | — | — | 401 | 401 |
| Total net investment in leases | \$ 4,148 | \$ 10,058 | \$ 3,656 | \$ 7,378 | \$ 2,451 | \$ 1,417 | \$ 29,108 |

The tables below provide information on the Company's financed sale receivables by credit quality indicator as of March 31, 2023 and December 31, 2022. The amounts disclosed for each credit quality classification are determined on a customer-by-customer basis and include both billed and unbilled amounts.

(In thousands of U.S. Dollars)

| As of March 31, 2023 | By Origination Year | | | | | | Total |
|---|---------------------|------------------|------------------|-----------------|------------------|------------------|-------------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | |
| Financed sales receivables: | | | | | | | |
| Credit quality classification: | | | | | | | |
| In good standing | \$ 2,163 | \$ 9,830 | \$ 8,617 | \$ 6,381 | \$ 8,149 | \$ 45,647 | \$ 80,787 |
| Credit Watch | — | 1 | — | — | — | 943 | 944 |
| Pre-approved transactions | — | — | 2,377 | 1,162 | 1,590 | 13,220 | 18,349 |
| Transactions suspended | — | 272 | 795 | 142 | 1,256 | 9,413 | 11,878 |
| Total financed sales receivables | \$ 2,163 | \$ 10,103 | \$ 11,789 | \$ 7,685 | \$ 10,995 | \$ 69,223 | \$ 111,958 |

(In thousands of U.S. Dollars)

| As of December 31, 2022 | By Origination Year | | | | | | Total |
|---|---------------------|------------------|-----------------|------------------|------------------|------------------|-------------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | Prior | |
| Financed sales receivables: | | | | | | | |
| Credit quality classification: | | | | | | | |
| In good standing | \$ 10,252 | \$ 8,643 | \$ 6,280 | \$ 8,541 | \$ 9,854 | \$ 39,912 | \$ 83,482 |
| Credit Watch | — | — | — | — | — | 1,152 | 1,152 |
| Pre-approved transactions | — | 2,318 | 1,399 | 1,134 | 1,449 | 9,243 | 15,543 |
| Transactions suspended | 272 | 664 | 142 | 1,269 | 1,197 | 8,276 | 11,820 |
| Total financed sales receivables | \$ 10,524 | \$ 11,625 | \$ 7,821 | \$ 10,944 | \$ 12,500 | \$ 58,583 | \$ 111,997 |

The following tables provide an aging analysis for the Company's net investment in leases and financed sale receivables as of March 31, 2023 and December 31, 2022:

| <i>(In thousands of U.S. Dollars)</i> | As of March 31, 2023 | | | | | | | Net |
|---------------------------------------|----------------------|-----------------|------------------|------------------|-------------------|---------------------|-----------------------------|-------------------|
| | Accrued and Current | 30-89 Days | 90+ Days | Billed | Unbilled | Recorded Receivable | Allowance for Credit Losses | |
| Net investment in leases | \$ 235 | \$ 433 | \$ 2,892 | \$ 3,560 | \$ 27,980 | \$ 31,540 | \$ (778) | \$ 30,762 |
| Financed sales receivables | 1,352 | 3,190 | 13,131 | 17,673 | 94,285 | \$ 111,958 | (11,533) | 100,425 |
| Total | \$ 1,587 | \$ 3,623 | \$ 16,023 | \$ 21,233 | \$ 122,265 | \$ 143,498 | \$ (12,311) | \$ 131,187 |

| <i>(In thousands of U.S. Dollars)</i> | As of December 31, 2022 | | | | | | | Net |
|---------------------------------------|-------------------------|-----------------|------------------|------------------|-------------------|---------------------|-----------------------------|-------------------|
| | Accrued and Current | 30-89 Days | 90+ Days | Billed | Unbilled | Recorded Receivable | Allowance for Credit Losses | |
| Net investment in leases | \$ 237 | \$ 216 | \$ 2,593 | \$ 3,046 | \$ 26,062 | \$ 29,108 | \$ (776) | \$ 28,332 |
| Financed sales receivables | 2,269 | 1,307 | 12,793 | 16,369 | 95,628 | 111,997 | (10,945) | 101,052 |
| Total | \$ 2,506 | \$ 1,523 | \$ 15,386 | \$ 19,415 | \$ 121,690 | \$ 141,105 | \$ (11,721) | \$ 129,384 |

The following tables provide information about the Company's net investment in leases and financed sale receivables with billed amounts past due for which it continues to accrue finance income as of March 31, 2023 and December 31, 2022. The amounts disclosed for each credit quality classification are determined on a customer-by-customer basis and include both billed and unbilled amounts.

| <i>(In thousands of U.S. Dollars)</i> | As of March 31, 2023 | | | | | | | Net |
|---------------------------------------|----------------------|-----------------|------------------|------------------|------------------|---------------------|-----------------------------|-----|
| | Accrued and Current | 30-89 Days | 90+ Days | Billed | Unbilled | Recorded Receivable | Allowance for Credit Losses | |
| Net investment in leases | \$ 220 | \$ 387 | \$ 2,892 | \$ 3,499 | \$ 18,286 | \$ (228) | \$ 21,557 | |
| Financed sales receivables | 940 | 2,356 | 10,445 | 13,741 | 42,785 | (1,460) | 55,066 | |
| Total | \$ 1,160 | \$ 2,743 | \$ 13,337 | \$ 17,240 | \$ 61,071 | \$ (1,688) | \$ 76,623 | |

| <i>(In thousands of U.S. Dollars)</i> | As of December 31, 2022 | | | | | | | Net |
|---------------------------------------|-------------------------|-----------------|------------------|------------------|------------------|---------------------|-----------------------------|-----|
| | Accrued and Current | 30-89 Days | 90+ Days | Billed | Unbilled | Recorded Receivable | Allowance for Credit Losses | |
| Net investment in leases | \$ 190 | \$ 181 | \$ 2,593 | \$ 2,964 | \$ 17,070 | \$ (230) | \$ 19,804 | |
| Financed sales receivables | 1,550 | 1,115 | 10,814 | 13,479 | 43,172 | (1,587) | 55,064 | |
| Total | \$ 1,740 | \$ 1,296 | \$ 13,407 | \$ 16,443 | \$ 60,242 | \$ (1,817) | \$ 74,868 | |

The following table provides information about the Company's net investment in leases and financed sale receivables that are on nonaccrual status as of March 31, 2023 and December 31, 2022:

| <i>(In thousands of U.S. Dollars)</i> | As of March 31, 2023 | | | As of December 31, 2022 | | |
|---------------------------------------|----------------------|-----------------------------|------------------|-------------------------|-----------------------------|------------------|
| | Recorded Receivable | Allowance for Credit Losses | Net | Recorded Receivable | Allowance for Credit Losses | Net |
| Net investment in leases | \$ 401 | \$ (401) | \$ — | \$ 401 | \$ (401) | \$ — |
| Net financed sales receivables | 20,461 | (7,599) | 12,862 | 27,364 | (9,589) | 17,775 |
| Total | \$ 20,862 | \$ (8,000) | \$ 12,862 | \$ 27,765 | \$ (9,990) | \$ 17,775 |

For the three months ended March 31, 2023, the Company recognized less than \$0.1 million (2022 — less than \$0.1 million) in Finance Income related to the net investment in leases with billed amounts past due. For the three months ended March 31, 2023 and 2022, the Company did not recognize Finance Income related to the net investment in leases on nonaccrual status. For the three months ended March 31, 2023, the Company recognized \$0.8 million (2022 — \$0.7 million) in Finance Income related to the financed sale receivables with billed amounts past due. For the three months ended March 31, 2023, the Company recognized \$0.1 million (2022 — \$0.2 million) in Finance Income related to the financed sales receivables in nonaccrual status.

The following tables summarize the activity in the allowance for credit losses related to the Company's net investment in leases and financed sale receivables for the three months ended March 31, 2023 and 2022:

| | Three Months Ended March 31, 2023 | |
|--|--|---------------------------------------|
| | Net Investment in Leases | Financed Sales Receivables |
| <i>(In thousands of U.S. Dollars)</i> | | |
| Beginning balance | \$ 776 | \$ 10,945 |
| Current period (reversal) provision, net | (2) | 549 |
| Write-offs | — | — |
| Foreign exchange | 4 | 39 |
| Ending balance | <u>\$ 778</u> | <u>\$ 11,533</u> |

| | Three Months Ended March 31, 2022 | |
|--|--|---|
| | Net Investment in Leases | Net Financed Sales Receivables |
| <i>(In thousands of U.S. Dollars)</i> | | |
| Beginning balance | \$ 798 | \$ 5,414 |
| Current period (reversal) provision, net | (93) | 5,708 |
| Write-offs | — | — |
| Foreign exchange | 1 | 13 |
| Ending balance | <u>\$ 706</u> | <u>\$ 11,135</u> |

For the three months ended March 31, 2022, the Company's allowance for current expected credit losses related to its net investment in leases and financed sale receivables increased by \$5.6 million, principally due to reserves established against its receivables in Russia due to uncertainties associated with the ongoing Russia-Ukraine conflict and resulting sanctions, partially offset by the reversal of provisions associated with the COVID-19 pandemic as the outlook for the theatrical exhibition industry in Domestic and Rest of World markets improved.

Variable Consideration Receivables

In sale arrangements, variable consideration may become due to the Company from theater operators if certain annual minimum box office receipt thresholds are exceeded. Such variable consideration is recorded as revenue in the period when the sale is recognized and adjusted in future periods based on actual results and changes in estimates. Variable consideration is only recognized to the extent the Company believes there is not a risk of significant revenue reversal.

The following table summarizes the activity in the Allowance for Credit Losses related to Variable Consideration Receivables for the three months ended March 31, 2023 and 2022:

| | Three Months Ended March 31, | |
|---------------------------------------|-------------------------------------|------------------------------|
| | 2023 | 2022 |
| | Theater Operators | Theater Operators |
| <i>(In thousands of U.S. Dollars)</i> | | |
| Beginning balance | \$ 610 | \$ 1,082 |
| Current period reversal, net | (86) | (643) |
| Foreign exchange | 2 | — |
| Ending balance | <u>\$ 526</u> | <u>\$ 439</u> |

For the three months ended March 31, 2023, the Company's allowance for current expected credit losses related to Variable Consideration Receivables decreased by \$0.1 million.

For the three months ended March 31, 2022, the Company's allowance for current expected credit losses related to Variable Consideration Receivables decreased by \$0.6 million. This decrease is principally due to the reversal of provisions associated with the COVID-19 pandemic as the outlook for the theatrical exhibition industry in Domestic and Rest of World markets improved.

4. Lease Arrangements

(a) IMAX Corporation as a Lessee

The Company's operating lease arrangements principally involve office and warehouse space. Office equipment is generally purchased outright. Leases with an initial term of less than 12 months are not recorded on the Condensed Consolidated Balance Sheets and the related lease expense is recognized on a straight-line basis over the lease term. Most of the Company's leases include one or more options to renew, with renewal terms that can extend the lease term from one to five years or more. The Company has determined that it is reasonably certain that the renewal options on its warehouse leases will be exercised based on previous history, its current understanding of future business needs and its level of investment in leasehold improvements, among other factors. The incremental borrowing rate used in the calculation of the Company's lease liabilities is based on the location of each leased property. None of the Company's leases include options to purchase the leased property. The depreciable lives of right-of-use assets and related leasehold improvements are limited by the expected lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company rents or subleases certain office space to third parties, which have a remaining term of less than 12 months and are not expected to be renewed.

In the second quarter of 2022, the Company entered into a finance lease arrangement involving equipment used to facilitate the delivery of live events to certain IMAX locations. The lease arrangement includes an option for the Company to purchase the equipment at the end of the lease term that is reasonably certain to be exercised. The resulting right-of-use assets are being depreciated from the lease commencement dates over the useful life of the underlying equipment. The incremental borrowing rate used in the calculation of the lease liabilities is based on the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term.

For the three months ended March 31, 2023 and 2022, the components of lease expense recorded within Selling, General and Administrative Expenses are as follows:

| <i>(In thousands of U.S. Dollars)</i> | Three Months Ended March 31, | |
|---|-------------------------------------|-----------------|
| | 2023 | 2022 |
| Operating lease cost: | | |
| Amortization of operating lease assets | \$ 151 | \$ 693 |
| Interest on operating lease liabilities | 724 | 215 |
| Short-term and variable lease costs | 204 | 160 |
| Finance lease cost: | | |
| Amortization of finance lease assets | 100 | N/A |
| Interest on finance lease liabilities | 14 | N/A |
| Total lease cost | \$ 1,193 | \$ 1,068 |

For the three months ended March 31, 2023 and 2022, supplemental cash and non-cash information related to leases is as follows:

| <i>(In thousands of U.S. Dollars)</i> | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2023 | 2022 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating leases | \$ 971 | \$ 945 |
| Finance leases | \$ — | N/A |
| Supplemental disclosure of noncash leasing activities: | | |
| Right-of-use assets obtained in exchange for operating lease obligations | \$ 228 | \$ 217 |
| Right-of-use assets obtained in exchange for finance lease obligations | \$ — | N/A |

As of March 31, 2023 and December 31, 2022, supplemental balance sheet information related to leases is as follows:

| <i>(In thousands of U.S. Dollars)</i> | | March 31, 2023 | December 31, 2022 |
|--|-------------------------------|-------------------|----------------------|
| Assets | Balance Sheet Location | | |
| Operating lease right-of-use assets | Property, plant and equipment | \$ 11,888 | \$ 12,341 |
| Finance lease right-of-use assets | Property, plant and equipment | \$ 1,776 | \$ 1,876 |
| Liabilities | Balance Sheet Location | | |
| Operating lease liabilities | Accrued and other liabilities | \$ 14,140 | \$ 14,461 |
| Finance lease liabilities ⁽¹⁾ | Accrued and other liabilities | \$ 967 | \$ 1,011 |

(1) Recorded net of a \$0.9 million upfront payment made upon execution of the finance lease arrangement.

As of March 31, 2023 and December 31, 2022, the weighted-average remaining lease term and weighted-average interest rate associated with the Company's leases are as follows:

| | March 31, 2023 | December 31, 2022 |
|---|-------------------|----------------------|
| Operating leases: | | |
| Weighted-average remaining lease term (years) | 5.8 | 6.0 |
| Weighted-average discount rate | 5.91% | 5.90% |
| Finance leases: | | |
| Weighted-average remaining lease term (years) | 4.4 | 4.7 |
| Weighted-average discount rate | 6.00% | 6.00% |

As of March 31, 2023, the maturities of the Company's operating and finance lease liabilities are as follows:

| <i>(In thousands of U.S. Dollars)</i> | Operating Leases | Finance Leases |
|---------------------------------------|------------------|----------------|
| 2023 (nine months remaining) | \$ 2,699 | \$ 508 |
| 2024 | 3,049 | 508 |
| 2025 | 2,457 | — |
| 2026 | 2,069 | — |
| 2027 | 2,093 | — |
| Thereafter | 4,354 | — |
| Total lease payments | \$ 16,721 | \$ 1,016 |
| Less: interest expense | (2,581) | (49) |
| Present value of lease liabilities | \$ 14,140 | \$ 967 |

(b) IMAX Corporation as a Lessor

The Company provides IMAX Systems to customers through long-term lease arrangements that for accounting purposes are classified as sales-type leases. Under these arrangements, in exchange for providing the IMAX System, the Company earns fixed upfront and ongoing consideration. Certain arrangements that are legal sales are also classified as sales-type leases as certain clauses within the arrangements limit transfer of title or provide the Company with conditional rights to the system. The customer's rights under the Company's sales-type lease arrangements are described in Note 3(o) of the Company's audited Consolidated Financial Statements included in its 2022 Form 10-K. Under the Company's sales-type lease arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer. The Company's lease portfolio terms are typically non-cancellable for 10 years or longer with renewal provisions from inception. The Company's sales-type lease arrangements do not contain a guarantee of residual value at the end of the lease term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Company for maintenance and an extended warranty generally after the first year of the lease until the end of the lease term. The customer is responsible for obtaining insurance coverage for the IMAX System commencing on the date specified in the arrangement's shipping terms and ending on the date the IMAX System is returned to the Company.

The Company also provides IMAX Systems to customers through joint revenue sharing arrangements. Under the traditional form of these arrangements, in exchange for providing the IMAX System under a long-term lease, the Company earns rent based on a percentage of contingent box office receipts and, in some cases, concession revenues, rather than requiring the customer to pay a fixed upfront fee or annual minimum payments. Under certain other joint revenue sharing arrangements, known as hybrid arrangements, the customer is responsible for making fixed upfront payments prior to the delivery and installation of the IMAX System. Under joint revenue sharing arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer. The Company's joint revenue sharing arrangements are typically non-cancellable for 10 years or longer with renewal provisions. Title to the IMAX System under a joint revenue sharing arrangement generally does not transfer to the customer. The Company's joint revenue sharing arrangements do not contain a guarantee of residual value at the end of the lease term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Company for maintenance and an extended warranty throughout the term. The customer is responsible for obtaining insurance coverage for the IMAX System commencing on the date specified in the arrangement's shipping terms and ending on the date the IMAX System is returned to the Company.

The following lease payments are expected to be received by the Company for its sales-type leases and joint revenue sharing arrangements in each of the next five years and thereafter following the March 31, 2023 balance sheet date:

| <i>(In thousands of U.S. Dollars)</i> | Sales-Type Leases | Joint Revenue Sharing Arrangements |
|---------------------------------------|----------------------|---------------------------------------|
| 2023 (nine months remaining) | \$ 2,260 | \$ 130 |
| 2024 | 3,519 | 69 |
| 2025 | 3,248 | 27 |
| 2026 | 3,163 | — |
| 2027 | 3,018 | — |
| Thereafter | 16,889 | — |
| Total | <u>\$ 32,097</u> | <u>\$ 226</u> |

5. Inventories

As of March 31, 2023 and December 31, 2022, Inventories consist of the following:

| <i>(In thousands of U.S. Dollars)</i> | March 31, 2023 | December 31, 2022 |
|---------------------------------------|-------------------|----------------------|
| Raw materials | \$ 29,554 | \$ 25,365 |
| Work-in-process | 2,220 | 2,034 |
| Finished goods | 5,718 | 4,135 |
| | <u>\$ 37,492</u> | <u>\$ 31,534</u> |

As of March 31, 2023, Inventories include finished goods of \$5.3 million (December 31, 2022 — \$3.5 million) for which title had passed to the customer, but the criteria for revenue recognition were not met as of the balance sheet date.

During the three months ended March 31, 2023 and 2022, the Company had recorded write-downs of less than \$0.1 million in Costs and Expenses Applicable to Revenues — Technology Sales.

6. Borrowings

(a) Revolving Credit Facility Borrowings, Net

As of March 31, 2023 and December 31, 2022, Revolving Credit Facility Borrowings, Net includes the following:

| <i>(In thousands of U.S. Dollars)</i> | March 31, 2023 | December 31, 2022 |
|---|-------------------|----------------------|
| Wells Fargo Credit Facility borrowings | \$ 20,000 | \$ 25,000 |
| HSBC China Facility borrowings | 12,165 | 12,496 |
| Bank of China Facility borrowings | 379 | 374 |
| Unamortized debt issuance costs | (1,519) | (1,759) |
| Revolving Credit Facility Borrowings, net | <u>\$ 31,025</u> | <u>\$ 36,111</u> |

Wells Fargo Credit Agreement

On March 25, 2022, the Company entered into a Sixth Amended and Restated Credit Agreement with Wells Fargo Bank, National Association, as agent (the “Agent”), and a syndicate of lenders party thereto (the “Credit Agreement”), which extended the maturity date of the credit facility under the Credit Agreement (the “Credit Facility”) from June 28, 2023 to March 25, 2027. The Company’s obligations under the Credit Agreement are guaranteed by certain of the Company’s subsidiaries (the “Guarantors”), and are secured by first-priority security interests in substantially all of the assets of the Company and the Guarantors.

The Credit Agreement has a revolving borrowing capacity of \$300.0 million, and contains an uncommitted accordion feature allowing the Company to further increase its borrowing capacity by the greater of \$140.0 million, for a total of \$440.0 million, or by the Company’s EBITDA for the sum of the four most recently ended fiscal quarters, subject to certain conditions, depending on the mix of revolving loans and/or term loans under the incremental facility and subject to conditions set forth in the Credit Agreement.

The Credit Facility requires that the Company maintain a maximum Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) of no greater than 3.25:1.00, on the last day of each Fiscal Quarter. The Senior Secured Net Leverage Ratio is the ratio of Total Debt (as defined in the Credit Agreement), secured by liens, net of unrestricted cash and cash equivalents held outside of the People's Republic of China (“the PRC”) to a maximum of \$75.0 million, relative to Adjusted EBITDA per Credit Facility for the four prior quarters. The Senior Secured Net Leverage Ratio is calculated using Adjusted EBITDA per Credit Facility determined on a trailing twelve-month basis. The Company was in compliance with this requirement as of March 31, 2023 as the Senior Secured Net Leverage Ratio was 0.00:1.00.

Loans under the Credit Facility bear interest, at the Company’s option, at (i) Term Secure Overnight Financing Rate (“SOFR”), Eurocurrency Rate or Canadian Dollar Offered Rate (“CDOR”) plus a margin ranging from 1.00% to 1.75% per annum; or (ii) the U.S. base rate or the Canadian prime rate plus a margin ranging from 0.25% to 1.00% per annum, in each case depending on the Company’s total leverage ratio. In no event will Term SOFR, Eurocurrency Rate or CDOR Rate be less than 0.00% per annum.

As of March 31, 2023, borrowings under the Credit Facility were \$20.0 million (December 31, 2022 — \$25.0 million) and bear interest at Term SOFR, plus a margin of 1.75% per annum based on the Company’s total leverage ratio. The effective interest rate for the three months ended March 31, 2023 was 6.35%. There were no amounts drawn under the Credit Facility during the three months ended March 31, 2022.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit indebtedness, liens, asset sales, investments and restricted payments, in each case subject to negotiated exceptions and baskets. The Credit Agreement also contains customary representations, warranties and event of default provisions.

The Company incurred fees of approximately \$2.5 million in connection with the March 25, 2022 amendment of the Credit Agreement, which are being amortized on a straight-line basis over the term of the Credit Agreement. In the first quarter of 2022, the Company expensed \$0.4 million in unamortized deferred financing costs associated with lenders that are no longer parties to the Credit Agreement.

As of March 31, 2023 and December 31, 2022, the Company did not have any letters of credit or advance payment guarantees outstanding under the Credit Facility. As of March 31, 2023, the amount available for future borrowings under the Credit Facility was \$280.0 million.

Foreign Exchange Facility

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. As of March 31, 2023, the net unrealized loss on the Company’s outstanding foreign currency forward contracts was \$(0.2) million, representing the amount by which the notional value of these forward contracts exceeded their fair value (December 31, 2022 — net unrealized loss of \$(0.6) million). As of March 31, 2023, the notional value of the Company’s outstanding foreign currency forward contracts was \$34.4 million (December 31, 2022 — \$24.7 million).

Bank of China Facility

In June 2022, IMAX (Shanghai) Multimedia Technology Co., Ltd. (“IMAX Shanghai”), one of the Company’s majority-owned subsidiaries in China, renewed its unsecured revolving facility with Bank of China for up to 200.0 million Chinese Renminbi (“RMB”) (\$29.1 million), including RMB 10.0 million (\$1.4 million) for letters of guarantee, to fund ongoing working capital requirements (the “Bank of China Facility”). The Bank of China Facility expires in September 2023.

As of March 31, 2023, RMB 2.6 million (\$0.4 million) of borrowings were outstanding under the Bank of China Facility and outstanding letters of guarantee were RMB 3.0 million (\$0.4 million). As of December 31, 2022, outstanding Bank of China Facility borrowings were RMB 2.6 million (\$0.4 million) and outstanding letters of guarantee were RMB 2.8 million (\$0.4 million).

As of March 31, 2023, the amount available for future borrowings under the Bank of China Facility was RMB 187.4 million (\$27.3 million) and the amount available for letters of guarantee was RMB 7.0 million (\$1.0 million). The amount available for future borrowings under the Bank of China Facility is not subject to a standby fee. The effective interest rate for the three months ended March 31, 2023 was 3.85% (2022 — 4.15%).

HSBC China Facility

In June 2022, IMAX Shanghai entered into an unsecured revolving facility for up to RMB 200.0 million (\$29.1 million) with HSBC Bank (China) Company Limited, Shanghai Branch to fund ongoing working capital requirements (the “HSBC China Facility”). As of March 31, 2023, RMB 83.6 million (\$12.2 million) of borrowings were outstanding under the HSBC China Facility. As of December 31, 2022, outstanding HSBC China Facility borrowings were RMB 87.0 million (\$12.5 million). As of March 31, 2023, the amount available for future borrowings under the HSBC China Facility was RMB 116.4 million (\$16.9 million). The effective interest rate for the three months ended March 31, 2023 was 3.88% (2022 — 3.91%).

NBC Facility

In October 2019, the Company entered into a \$5.0 million facility with National Bank of Canada (the “NBC Facility”) fully insured by Export Development Canada for use solely in conjunction with the issuance of performance guarantees and letters of credit. The NBC Facility will expire on June 30, 2023, and is renewable on the same terms and conditions on an annual basis. The Company did not have any letters of credit or advance payment guarantees outstanding as of March 31, 2023 and December 31, 2022 under the NBC Facility.

(b) Convertible Notes and Other Borrowings, Net

As of March 31, 2023 and December 31, 2022, Convertible Notes and Other Borrowings, Net includes the following:

| <i>(In thousands of U.S. Dollars)</i> | March 31, 2023 | December 31, 2022 |
|---|---------------------------|------------------------------|
| Convertible Notes | \$ 230,000 | \$ 230,000 |
| Unamortized discounts and debt issuance costs | (4,494) | (4,870) |
| Convertible Notes, net | <u>225,506</u> | <u>225,130</u> |
| Federal Economic Development Loan | 3,128 | 2,812 |
| Unaccreted interest benefit | (1,085) | (1,030) |
| Federal Economic Development Loan, net | <u>2,043</u> | <u>1,782</u> |
| Convertible Notes and Other Borrowings, net | <u>\$ 227,549</u> | <u>\$ 226,912</u> |

Convertible Notes

On March 19, 2021, the Company issued \$230.0 million of 0.500% Convertible Senior Notes due 2026 (the “Convertible Notes”) in a private placement conducted pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from the issuance of the Convertible Notes were \$223.7 million, after deducting the initial purchasers’ discounts and commissions.

The Convertible Notes are senior unsecured obligations of the Company and bear interest at a rate of 0.500% per annum on the principal of \$230.0 million, payable semi-annually in arrears on April 1 and October 1 of each year, beginning on October 1, 2021. The Convertible Notes will mature on April 1, 2026, unless they are redeemed or repurchased by the Company or converted on an earlier date.

Holders of the Convertible Notes have the right to convert their Convertible Notes in certain circumstances and during specified periods. Before January 1, 2026, holders of the Convertible Notes have the right to convert their Convertible Notes only upon the occurrence of certain events. From and after January 1, 2026, holders of the Convertible Notes may convert their Convertible Notes at any time at their election until the close of business on the second scheduled trading day immediately before the maturity date. Upon conversion, the Company will pay or deliver, as applicable, cash or a combination of cash (in an amount no less than the principal amount of the Convertible Notes being converted) and common shares, at its election, based on the applicable conversion rates. The initial conversion rate is 34.7766 common shares per \$1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately \$28.75 per common share, and is subject to adjustment upon the occurrence of certain events.

The Convertible Notes are redeemable, in whole or in part, at the Company's option at any time, and from time to time, on or after April 6, 2024 and on or before the 40th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest, if any, but only if the last reported sale price per share of the Company's common stock exceeds 130% of the conversion price for a specified period of time. In addition, calling any Convertible Notes for redemption will constitute a "make-whole fundamental change" with respect to such notes, in which case the conversion rate applicable to the conversion of such notes will be increased in certain circumstances if such notes are converted after they are called for redemption.

In addition, upon the occurrence of a "fundamental change" (as defined below), holders may require the Company to repurchase their Convertible Notes at a cash repurchase price equal to the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any. Subject to the terms and conditions of the indenture governing the Convertible Notes, a "fundamental change" means, among other things, an event resulting in (i) a change of control, (ii) a transfer of all or substantially all of the assets of the Company, (iii) a merger, (iv) liquidation or dissolution of the Company, or (v) delisting of the Company's common shares from a national securities exchange.

The Company recorded the Convertible Notes entirely as a liability in the Condensed Consolidated Balance Sheets, net of initial purchasers' discounts and commissions and other debt issuance costs, with interest expense reflecting the cash coupon plus the amortization of the discounts and capitalized costs. Additionally, under the "if-converted" method, because the principal amount of the Convertible Notes is settled in cash and the conversion spread is settleable in the Company's common shares, diluted earnings per share is calculated by including the net number of incremental shares that would be issued upon conversion of the Convertible Notes, using the average market price during the period. Accordingly, the application of the "if-converted" method may reduce the Company's reported diluted earnings per share.

In connection with the pricing of the Convertible Notes, the Company entered into privately negotiated capped call transactions (the "Capped Call Transactions") with certain financial institutions. The Capped Call Transactions are expected to reduce potential dilution resulting from the common shares the Company is required to issue and/or to offset any potential cash payments the Company is required to make in excess of the principal amount of the Convertible Notes in the event that the market price per share of the Company's common shares is greater than the strike price of the Capped Call Transactions with such reduction and/or offset subject to a cap. The Capped Call Transactions have an initial cap price of \$37.2750 per share of the Company's common shares, which represents a premium of 75% over the last reported sale price of the common shares when they were priced on March 16, 2021, and are subject to certain adjustments under the terms of the Capped Call Transactions. Collectively, the Capped Call Transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes, the number of the Company's common shares underlying the Convertible Notes. The cost of the Capped Call Transactions was approximately \$19.1 million.

The Capped Call Transactions are separate transactions, are not part of the terms of the Convertible Notes and will not affect any holder's rights under the Convertible Notes. Holders of the Convertible Notes will not have any rights with respect to the Capped Call Transactions.

The Capped Call Transactions meet all of the applicable criteria for equity classification in accordance with ASC 815-10-15-74(a), "Derivatives and Hedging—Embedded Derivatives—Certain Contracts Involving an Entity's Own Equity," and, as a result, the related \$19.1 million cost was recorded as a reduction to Other Equity within Shareholders' Equity on the Company's Condensed Consolidated Statements of Shareholders' Equity and Condensed Consolidated Balance Sheets.

Federal Economic Development Loan

The Company's wholly-owned subsidiary, SSIMWAVE, entered into a contribution agreement with the Federal Economic Development Agency for Southern Ontario (the "Federal Economic Development Loan") on May 29, 2019, under which SSIMWAVE received \$4.2 million Canadian Dollars ("CAD") (\$3.1 million) by way of repayable contributions toward certain eligible projects costs. The contributions under the agreement cover 35% of the eligible and supported costs of SSIMWAVE between January 10, 2019 and December 31, 2022. The contributions are repayable over 60 months, with repayments estimated to begin in January 2024, with an annual interest rate of 0%.

The benefit of the interest free loan has been determined by calculating the present value of the payments using a market-based interest rate and comparing this to the proceeds received. The benefit is being recorded as the interest free benefit of government funding within Interest Income on the Condensed Consolidated Statements of Operations. The benefit, which was \$0.1 million for the three months ended March 31, 2023, was recorded as the interest free benefit of government funding within Interest Income on the Condensed Consolidated Statements of Operations. The obligation is being accreted to its maturity amount, resulting in an interest expense of less than \$0.1 million during the three months ended March 31, 2023 and is being recorded within Interest Expense on the Company's Condensed Consolidated Statements of Operations.

As of March 31, 2023, the Federal Economic Development Loan has a carrying value of \$2.0 million, net of unaccreted interest benefit and is recorded within Convertible Notes and Other Borrowings, Net on the Company's Condensed Consolidated Balance Sheets.

7. Commitments, Contingencies and Guarantees

(a) Commitments

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

(b) Contingencies and guarantees

The Company is involved in lawsuits, claims, and proceedings, including those identified below, which arise in the ordinary course of business. Management is required to assess the likelihood of any adverse judgments or outcomes related to these legal contingencies, as well as potential ranges of probable or reasonably possible losses. The Company records a provision for a liability when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The determination of the amount of any liability recorded or disclosed is reviewed at least quarterly based on a careful analysis of each individual exposure with, in some cases, the assistance of outside legal counsel, taking into account the impact of negotiations, settlements, rulings, and other pertinent information related to the case. The amount of liabilities recorded or disclosed for these contingencies may change in the future due to changes in management's judgments resulting from new developments or changes in settlement strategy. Any resulting adjustment to the liabilities recorded by the Company could have a material adverse effect on its results of operations, cash flows, and financial position in the period or periods in which such changes in judgment occur. The Company believes it has adequate provisions for any such matters. The Company expenses legal costs relating to its lawsuits, claims and proceedings as incurred.

(i) 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, 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 to prevent recognition of the ICC award in India. On March 10, 2017, the Supreme Court of India dismissed E-City's petition. On March 29, 2017, the Company filed an Execution Application in the Bombay High Court seeking to enforce the ICC award against E-City and several related parties, which award the Company calculates to be \$25.5 million, inclusive of interest, as of March 31, 2023. That matter is currently pending. The Company has also taken steps to enforce the ICC final award outside of India. In December 2011, the Ontario Superior Court of Justice issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application, and in May 2012, the New York Supreme Court recognized the Canadian judgment and entered it as a New York judgment. The Company intends to continue pursuing its rights and seeking to enforce the award, although no assurances can be given with respect to the ultimate outcome.

(ii) 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.

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

(c) Financial Guarantees

Certain subsidiaries of the Company have provided significant financial guarantees to third parties under the Credit Agreement.

(d) Product Warranties

The Company's accrual for product warranties, which is recorded within Accrued and Other Liabilities in the Condensed Consolidated Balance Sheets, was \$0.1 million and \$nil as of March 31, 2023 and December 31, 2022, respectively.

(e) Director and Officer Indemnifications

The Company's by-laws contain an indemnification of its current directors and officers, former directors and officers, and persons who have acted at its request to be a director and/or officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amounts actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. In addition, the Company has entered into indemnification agreements with each of its directors in order to effectuate the foregoing. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the Company's Condensed Consolidated Balance Sheets as of March 31, 2023 and December 31, 2022, with respect to this indemnity.

(f) Other Indemnification Agreements

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

8. Condensed Consolidated Statements of Operations – Supplemental Information

(a) Selling Expenses

The following table summarizes the Company's selling expenses, including sales commissions and marketing and other, which are recognized within Costs and Expenses Applicable to Revenues in the Condensed Consolidated Statements of Operations, for three months ended March 31, 2023 and 2022:

| (In thousands of U.S. Dollars) | Three Months Ended March 31, | | | |
|---|------------------------------|---------------------|-------------------|---------------------|
| | 2023 | | 2022 | |
| | Sales Commissions | Marketing and Other | Sales Commissions | Marketing and Other |
| Technology sales ⁽¹⁾ | \$ 200 | \$ 16 | \$ — | \$ 162 |
| Image enhancement and maintenance services ⁽²⁾ | — | 6,772 | — | 2,915 |
| Technology rentals ⁽³⁾ | 73 | 260 | 45 | 465 |
| Total | \$ 273 | \$ 7,048 | \$ 45 | \$ 3,542 |

- (1) Sales commissions paid prior to the recognition of the related revenue are deferred and recognized upon the client acceptance of the IMAX System. Direct advertising and marketing costs for each IMAX System are expensed as incurred.
- (2) Film exploitation costs, including advertising and marketing costs, are expensed as incurred.
- (3) Sales commissions related to joint revenue sharing arrangements accounted for operating leases are recognized in the month they are earned by the salesperson, which is typically the month in which the IMAX System is installed. Direct advertising and marketing costs for each IMAX System are expensed as incurred.

(b) Foreign Exchange

Included in Selling, General and Administrative Expenses for the three months ended March 31, 2023 is a foreign currency net loss of \$(0.1) million, (2022 — foreign currency net loss of \$(0.1) million) resulting from changes in exchange rates related to foreign currency denominated monetary assets and liabilities. (See Note 15(c) for additional information.)

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

The accounting policy for the Company's joint revenue sharing arrangements is disclosed in Note 3(o) of the Company's audited Consolidated Financial Statements in its 2022 Form 10-K.

Revenue attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are recorded within Revenues — Technology Sales (for hybrid joint revenue sharing arrangements) and Revenues — Technology Rentals (for traditional joint revenue sharing arrangements). For the three months ended March 31, 2023, such revenues totaled \$20.1 million (2022 — \$13.6 million).

IMAX Film Remastering and Distribution

In an IMAX film remastering and distribution (formerly known as "IMAX DMR") arrangement, the Company receives a percentage of the box office receipts from a third party who owns the copyright to a film in exchange for converting the film into IMAX format and distributing it through the IMAX network. The fee earned by the Company in a typical IMAX film remastering and distribution arrangement averages approximately 12.5% of box office receipts (i.e. gross box office receipts less applicable sales taxes), except for within Greater China, where the Company receives a lower percentage of net box office receipts for certain Hollywood films. The accounting policy for the Company's IMAX film remastering and distribution arrangements is disclosed in Note 3(o) of the Company's audited Consolidated Financial Statements in its 2022 Form 10-K.

Revenue attributable to transactions arising between the Company and its customers under IMAX film remastering and distribution arrangements are included in Revenues – Image Enhancement and Maintenance Services. For the three months ended March 31, 2023, such revenues totaled \$30.1 million (2022 — \$19.6 million). (See Note 12(a) for a disaggregated presentation of the Company's revenues.)

Co-Produced Film Arrangements

In certain film arrangements, the Company co-produces a film with a third party whereby the third party retains the copyright and certain other rights to the film. In some cases, the Company obtains exclusive theatrical distribution rights to the film. Under these arrangements, both parties contribute to the funding of the production, distribution and exploitation costs associated with the film.

As of March 31, 2023, the Company is party to one co-produced film arrangement, which represents the VIE total assets balance of \$1.5 million and liabilities balance of \$0.2 million, and four other co-produced film arrangements, the terms of which are similar. The accounting policies relating to co-produced film arrangements are disclosed in Notes 3(a) and 3(o) of the Company's 2022 Form 10-K.

For the three months ended March 31, 2023, an expense of \$0.1 million (2022 — \$0.1 million) attributable to transactions between the Company and other parties involved in the production of the films have been included in Costs and Expenses Applicable to Revenues — Image Enhancement and Maintenance Services.

9. Condensed Consolidated Statements of Cash Flows – Supplemental Information

(a) Changes in other operating assets and liabilities

| <i>(In thousands of U.S. Dollars)</i> | Three Months Ended | |
|---------------------------------------|--------------------|--------------------|
| | March 31, | |
| | 2023 | 2022 |
| (Increase) decrease in: | | |
| Financing receivables | \$ (1,625) | \$ 3,916 |
| Prepaid expenses | (2,406) | (2,413) |
| Variable consideration receivables | (3,440) | 829 |
| Other assets | 80 | 209 |
| Increase (decrease) in: | | |
| Accounts payable | 513 | 2,184 |
| Accrued and other liabilities | (1,466) | (14,911) |
| | <u>\$ (8,344)</u> | <u>\$ (10,186)</u> |

(b) Depreciation and amortization

| <i>(In thousands of U.S. Dollars)</i> | Three Months Ended | |
|---|--------------------|------------------|
| | March 31, | |
| | 2023 | 2022 |
| Film assets | \$ 3,452 | \$ 3,178 |
| Property, plant and equipment: | | |
| Equipment supporting joint revenue sharing arrangements | 5,772 | 5,548 |
| Other property, plant and equipment ⁽¹⁾ | 2,287 | 2,028 |
| Other intangible assets ⁽²⁾ | 1,399 | 1,532 |
| Other assets ⁽³⁾ | 410 | 455 |
| | <u>\$ 13,320</u> | <u>\$ 12,741</u> |

(1) Includes the amortization of laser projection systems, camera, and lens upgrades recorded in Research and Development on the Condensed Consolidated Statement of Operations of \$0.1 million in the three months ended March 31, 2023 (2022 — \$0.2 million).

(2) Includes the amortization of licenses and intellectual property recorded in Research and Development on the Condensed Consolidated Statement of Operations of \$0.3 million in the three months ended March 31, 2023 (2022 — \$0.3 million).

(3) Includes the amortization of lessee incentives provided by the Company to its customers under joint revenue sharing arrangements.

(c) *Write-downs*

| <i>(In thousands of U.S. Dollars)</i> | Three Months Ended | |
|--|--------------------|---------------|
| | March 31, | |
| | 2023 | 2022 |
| Property, plant and equipment: | | |
| Equipment supporting joint revenue sharing arrangements ⁽¹⁾ | \$ 297 | \$ 202 |
| Other property, plant and equipment | 1 | 2 |
| Inventories | 6 | 12 |
| Film assets | — | 165 |
| | <u>\$ 304</u> | <u>\$ 381</u> |

(1) In the three months ended March 31, 2023, the Company recorded charges of \$0.3 million (2022 — \$0.2 million) in Costs and Expenses Applicable to Revenues — Technology Rentals mostly related to the write-down of leased xenon-based digital systems which were taken out of service in connection with customer upgrades to laser-based digital systems, as well as the closure of one IMAX System.

(d) *Significant non-cash investing activities*

| <i>(In thousands of U.S. Dollars)</i> | Three Months Ended | |
|---|--------------------|-----------------|
| | March 31, | |
| | 2023 | 2022 |
| Net (decrease) increase in accruals related to: | | |
| Investment in equipment supporting joint revenue sharing arrangements | \$ (764) | \$ 1,133 |
| Acquisition of other intangible assets | (22) | 32 |
| Purchases of property, plant and equipment | 548 | — |
| | <u>\$ (238)</u> | <u>\$ 1,165</u> |

10. Income Taxes

(a) *Income Tax Expense*

For the three months ended March 31, 2023, the Company recorded income tax expense of \$4.9 million (2022 — \$2.6 million). For the three months ended March 31, 2023, the Company's effective tax rate differs from the combined Canadian federal and provincial statutory income tax rate due to the following factors:

| <i>(In thousands of U.S. Dollars, except rates)</i> | Three Months Ended | | Three Months Ended | |
|--|--------------------|--------------|--------------------|----------------|
| | March 31, 2023 | | March 31, 2022 | |
| | Amount | Rate | Amount | Rate |
| Income tax (expense) benefit at combined statutory rates | \$ (2,652) | 26.5% | \$ 2,475 | 26.5% |
| Adjustments resulting from: | | | | |
| Increase in valuation allowance | (1,610) | 16.1% | (5,009) | (53.6%) |
| Shortfall tax benefits related to share-based compensation | (83) | 0.8% | (129) | (1.4%) |
| Changes to tax reserves | (258) | 2.6% | (160) | (1.7%) |
| Other | (282) | 2.8% | 213 | 2.3% |
| Income tax expense | <u>\$ (4,885)</u> | <u>48.8%</u> | <u>\$ (2,610)</u> | <u>(27.9%)</u> |

As of March 31, 2023, the Company's Condensed Consolidated Balance Sheets include deferred income tax assets of \$11.2 million, net of a valuation allowance of \$64.5 million (December 31, 2022 — \$9.9 million, net of a valuation allowance of \$62.9 million). For the three months ended March 31, 2023, the Company recorded an additional \$1.6 million (2022 — \$5.0 million) valuation allowance where management cannot determine that the tax benefits will be realizable based on available evidence. The increase in the valuation allowance recorded in the three months ended March 31, 2023 and 2022 is reflected within Income Tax Expense in the Company's Condensed Consolidated Statements of Operations. The valuation allowance is expected to reverse at the point in time when management determines it is more likely than not that the Company will incur sufficient tax liabilities to allow it to utilize the deferred tax assets against which the valuation allowance is recorded.

As of March 31, 2023, the Company's Condensed Consolidated Balance Sheets also include deferred tax liabilities of \$16.0 million (December 31, 2022 — \$14.9 million).

(b) Income Tax Effect on Other Comprehensive Income

For the three months ended March 31, 2023 and 2022, the Income Tax Expense related to the components of Other Comprehensive Income (“OCI”) is as follows:

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2023 | 2022 |
| <i>(In thousands of U.S. Dollars)</i> | | |
| Unrealized change in cash flow hedging instruments | \$ (35) | \$ (82) |
| Realized change in cash flow hedging instruments | (89) | (8) |
| Defined benefit and postretirement benefit plans | 46 | (12) |
| | <u>\$ (78)</u> | <u>\$ (102)</u> |

11. Capital Stock and Reserves

(a) Share-Based Compensation

For the three months ended March 31, 2023, share-based compensation expense totaled \$5.1 million (2022 — \$6.1 million) and is reflected in the following accounts in the Condensed Consolidated Statements of Operations:

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2023 | 2022 |
| <i>(In thousands of U.S. Dollars)</i> | | |
| Costs and expenses applicable to revenues | \$ 263 | \$ 239 |
| Selling, general and administrative expenses | 5,196 | 5,726 |
| Research and development | 99 | 87 |
| Executive transition costs | (499) | — |
| | <u>\$ 5,059</u> | <u>\$ 6,052</u> |

The following table summarizes the Company’s share-based compensation expense by each award type:

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------------|
| | 2023 | 2022 |
| <i>(In thousands of U.S. Dollars)</i> | | |
| Stock Options | \$ 84 | \$ 207 |
| Restricted Share Units | 3,365 | 3,411 |
| Performance Stock Units | 924 | 1,729 |
| IMAX China Stock Options | 10 | 34 |
| IMAX China Long Term Incentive Plan Restricted Share Units | 541 | 497 |
| IMAX China Long Term Incentive Plan Performance Stock Units | 135 | 174 |
| | <u>\$ 5,059</u> | <u>\$ 6,052</u> |

For the three months ended March 31, 2023 and 2022, the Company did not record any expenses related to restricted share units granted to non-employees.

Stock Option Summary

The following table summarizes the activity under the Company’s Stock Option Plan (“SOP”) and the IMAX Corporation Second Amended and Restated Long-Term Incentive Plan (as may be amended, “IMAX LTIP”) for the three months ended March 31, 2023 and 2022:

| | Number of Shares | | Weighted Average Exercise Price Per Share | |
|--|------------------|------------------|---|----------|
| | 2023 | 2022 | 2023 | 2022 |
| Stock options outstanding, beginning of period | 3,604,739 | 3,736,157 | \$ 26.36 | \$ 26.61 |
| Granted | — | — | — | — |
| Exercised | — | — | — | — |
| Forfeited | — | — | — | — |
| Expired | (144,366) | (126,569) | 31.85 | 33.61 |
| Cancelled | — | (2,197) | — | 32.50 |
| Stock options outstanding, end of period | <u>3,460,373</u> | <u>3,607,391</u> | 26.13 | 26.36 |
| Stock options exercisable, end of period | <u>3,460,373</u> | <u>3,524,298</u> | 26.13 | 26.45 |

Stock options are no longer granted under the Company’s previously approved SOP.

IMAX LTIP Restricted Share Units (“RSU”) Summary

The following table summarizes the activity in respect of RSUs issued under the IMAX LTIP for the three months ended March 31, 2023 and 2022:

| | Number of Awards | | Weighted Average Grant Date Fair Value Per Share | |
|---------------------------------------|------------------|------------------|--|----------|
| | 2023 | 2022 | 2023 | 2022 |
| RSUs outstanding, beginning of period | 1,252,044 | 1,457,883 | \$ 19.16 | \$ 19.16 |
| Granted | 811,529 | 636,427 | 17.73 | 19.64 |
| Vested and settled | (677,611) | (648,527) | 18.70 | 18.78 |
| Forfeited | (19,509) | (1,328) | 19.80 | 14.84 |
| RSUs outstanding, end of period | <u>1,366,453</u> | <u>1,444,455</u> | 18.53 | 19.54 |

IMAX LTIP Performance Stock Units (“PSU”) Summary

The Company grants two types of PSU awards, one which vests based on a combination of employee service and the achievement of certain EBITDA-based targets and one which vests based on a combination of employee service and the achievement of total shareholder return (“TSR”) targets. The achievement of the EBITDA and TSR targets in these PSUs is determined over a three-year performance period. At the conclusion of the three-year performance period, the number of PSUs that ultimately vest can range from 0% to a maximum vesting opportunity of 175% of the initial award, depending upon actual performance versus the established EBITDA and stock-price targets.

The grant date fair value of PSUs with EBITDA-based targets is equal to the closing price of the Company’s common shares on the date of grant or the average closing price of the Company’s common shares for five days prior to the date of grant. The grant date fair value of PSUs with TSR targets is determined on the grant date using a Monte Carlo simulation, which is a valuation model that considers the likelihood of achieving the TSR targets embedded in the award (“Monte Carlo Model”). The compensation expense attributable to each type of PSU is recognized on a straight-line basis over the requisite service period.

The fair value determined by the Monte Carlo Model is affected by the Company’s share price, as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, market conditions as of the grant date, the Company’s expected share price volatility over the term of the awards, and other relevant data. The compensation expense is fixed on the date of grant based on the fair value of the PSUs granted.

The amount and timing of compensation expense recognized for PSUs with EBITDA-based targets is dependent upon management's assessment of the likelihood of achieving these targets. If, as a result of management's assessment, it is projected that a greater number of PSUs will vest than previously anticipated, a life-to-date adjustment to increase compensation expense is recorded in the period that such determination is made. Conversely, if, as a result of management's assessment, it is projected that a lower number of PSUs will vest than previously anticipated, a life-to-date adjustment to decrease compensation expense is recorded in the period that such determination is made. The expense recognized in the three months ended March 31, 2023 and 2022 includes adjustments reflecting management's estimate of the number of PSUs with EBITDA-based targets expected to vest.

The following table summarizes the activity in respect of PSUs issued under the IMAX LTIP for the three months ended March 31, 2023 and 2022:

| | Number of Awards | | Weighted Average Grant Date Fair Value Per Share | |
|---------------------------------------|------------------|----------------|--|----------|
| | 2023 | 2022 | 2023 | 2022 |
| PSUs outstanding, beginning of period | 931,716 | 613,405 | \$ 18.96 | \$ 18.21 |
| Granted ⁽¹⁾ | 580,118 | 359,138 | 17.68 | 20.34 |
| Forfeited | (208,648) | — | 18.09 | — |
| Vested and settled ⁽¹⁾ | (368,602) | — | 16.92 | — |
| PSUs outstanding, end of period | <u>934,584</u> | <u>972,543</u> | 19.16 | 19.00 |

(1) For the three months ended March 31, 2023, the balance of shares granted includes 157,963 additional shares, at a weighted average grant date fair value per share of \$16.92, as PSUs granted in 2020 with EBITDA-based targets vested at 175% on account of full achievement of the targets. This performance adjustment in the first quarter of 2023 reflects the Company's performance assessment of its first PSU awards.

As of March 31, 2023, the maximum number of shares of common stock that may be issued with respect to PSUs outstanding is 1,635,522, assuming full achievement of the EBITDA and TSR targets.

(b) Issuer Purchases of Equity Securities

In 2022, the Company's Board of Directors approved a 12-month extension to its share repurchase program through June 30, 2023 and an increase of \$200.0 million in the share repurchase program. With the increase of \$200.0 million, the Company's total share repurchase authority is \$400.0 million under the current share repurchase program. As of March 31, 2023, the Company has \$191.8 million available under its approved repurchased program. The repurchases may be made either in the open market or through private transactions, including repurchases made pursuant a plan intended to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, subject to market conditions, applicable legal requirements, and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time.

During the three months ended March 31, 2023, the Company repurchased 109,477 common shares, at an average price of \$14.87 per share, for a total of \$1.6 million, excluding commissions. The repurchases for the three months ended March 31, 2023 excludes repurchases of 140,000 shares with trade dates in December 2022, which were settled in January 2023 at an average price of \$14.45 per share, for a total of \$2.0 million, excluding commissions. During the three months ended March 31, 2022, the Company repurchased 380,652 common shares, at an average price of \$16.45 per share, for a total of \$6.3 million, excluding commissions. During the three months ended March 31, 2023 and 2022, there were no shares purchases in the administration of employee share based plans.

As of March 31, 2023 and December 31, 2022, the IMAX LTIP trustee did not hold any shares. Any shares held with the trustee are recorded at cost and are reported as a reduction against Capital Stock on the Company's Condensed Consolidated Balance Sheets.

In 2022, IMAX China Holding, Inc. ("IMAX China")'s shareholders granted its Board of Directors a general mandate authorizing the Board, subject to applicable laws, to repurchase shares of IMAX China not to exceed 10% of the total number of issued shares as of June 23, 2022 (34,063,480 shares). This program will be valid until the 2023 Annual General Meeting of IMAX China on June 6, 2023. The repurchases may be made in the open market or through other means permitted by applicable laws. IMAX China has no obligation to repurchase its shares and the share repurchase program may be suspended or discontinued by IMAX China at any time.

During the three months ended March 31, 2023, IMAX China did not repurchase any common shares. During the three months ended March 31, 2022, IMAX China repurchased 1,448,000 common shares, at an average price of HKD 9.89 per share, (\$1.26 per share) for a total of HKD 14.3 million (\$1.8 million). During the three months ended March 31, 2023 and 2022, there were no shares purchases in the administration of employee share based plans. The change in the non-controlling interest attributable to IMAX China as a result of common shares repurchased is recorded as a reduction to Non-Controlling Interests in the Condensed Consolidated Balance Sheets and the Condensed Consolidated Statements of Shareholders' Equity. The difference between the consideration paid and the ownership interest obtained as a result of IMAX China share repurchases is recorded within Other Equity in the Condensed Consolidated Balance Sheets and the Condensed Consolidated Statements of Shareholders' Equity.

(c) Basic and Diluted Weighted Average Shares Outstanding

The following table reconciles the denominator of the basic and diluted weighted average share computations:

| | Three Months Ended | |
|---|--------------------|---------------|
| | March 31, | |
| | 2023 | 2022 |
| <i>(In thousands)</i> | | |
| Issued and outstanding, beginning of period | 54,149 | 58,654 |
| Weighted average number of shares repurchased, net | (85) | (80) |
| Weighted average number of shares outstanding - basic | 54,064 | 58,574 |
| Weighted average effect of potential common shares, if dilutive | 927 | — |
| Weighted average number of shares outstanding - diluted | <u>54,991</u> | <u>58,574</u> |

For the three months ended March 31, 2023, the calculation of diluted weighted average shares outstanding excludes 4,260,382 shares (2022 — 6,348,736 shares) that are issuable upon the vesting or exercise of share-based compensation including: (i) 620,553 RSUs (2022 — 1,444,455 RSUs), (ii) 179,456 PSUs (2022 — 1,296,890 PSUs) and (iii) 3,460,373 stock options (2022 — 3,607,391 stock options), as the effect would be anti-dilutive.

The calculation of diluted weighted average shares outstanding for the three months ended March 31, 2023 and 2022 also excludes any shares potentially issuable upon the conversion of the Convertible Notes as the average market price of the Company's common shares during the period of time they were outstanding was less than the conversion price of the Convertible Notes.

(d) Statutory Surplus Reserve

Pursuant to the corporate law of the PRC, entities registered in the PRC are required to maintain certain statutory reserves, which are appropriated from after-tax profits (after offsetting accumulated losses from prior years), as reported in their respective statutory financial statements, before the declaration or payment of dividends to equity holders. All statutory reserves are created for specific purposes.

The Company's PRC subsidiaries are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their after-tax profits. The Company's PRC subsidiaries may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserve is non-distributable other than during liquidation and may only be used to fund losses from prior years, to expand production operations, or to increase the capital of the subsidiaries. In addition, the subsidiaries may make further contribution to the discretionary surplus reserve using post-tax profits in accordance with resolutions of the Board of Directors.

The statutory surplus reserve of RMB 36.4 million (\$5.6 million) has reached 50% of its PRC subsidiaries' registered capital.

12. Revenue from Contracts with Customers

(a) Disaggregated Information About Revenue

In the first quarter of 2023, the Company updated its reportable segments (see Note 13). Prior period comparatives have been revised to conform with the current period presentation. The following tables summarize the Company's Revenues by reportable segment and revenue stream type for the three months ended March 31, 2023 and 2022:

| | Three Months Ended March 31, 2023 | | | | |
|---|-----------------------------------|--|--------------------|-----------------|------------------|
| | Technology Sales | Image Enhancement and Maintenance Services | Technology Rentals | Finance Income | Total |
| <i>(In thousands of U.S. Dollars)</i> | | | | | |
| Content Solutions Segment | | | | | |
| Film Remastering and Distribution | \$ — | \$ 30,073 | \$ — | \$ — | \$ 30,073 |
| Other Content Solutions | — | 2,028 | — | — | 2,028 |
| | — | 32,101 | — | — | 32,101 |
| Technology Products and Services Segment | | | | | |
| System Sales | 16,119 | — | — | — | 16,119 |
| System Rentals | — | — | 20,058 | — | 20,058 |
| Maintenance | — | 13,551 | — | — | 13,551 |
| Finance Income | — | — | — | 1,939 | 1,939 |
| | 16,119 | 13,551 | 20,058 | 1,939 | 51,667 |
| Sub-total for reportable segments | 16,119 | 45,652 | 20,058 | 1,939 | 83,768 |
| All Other | 1,703 | 1,475 | — | — | 3,178 |
| Total | \$ 17,822 | \$ 47,127 | \$ 20,058 | \$ 1,939 | \$ 86,946 |

| | Three Months Ended March 31, 2022 | | | | |
|---|-----------------------------------|--|--------------------|-----------------|------------------|
| | Technology Sales | Image Enhancement and Maintenance Services | Technology Rentals | Finance Income | Total |
| <i>(In thousands of U.S. Dollars)</i> | | | | | |
| Content Solutions Segment | | | | | |
| Film Remastering and Distribution | \$ — | \$ 19,564 | \$ — | \$ — | \$ 19,564 |
| Other Content Solutions | — | 1,406 | 18 | — | 1,424 |
| | — | 20,970 | 18 | — | 20,988 |
| Technology Products and Services Segment | | | | | |
| System Sales | 7,973 | — | — | — | 7,973 |
| System Rentals | — | — | 12,643 | — | 12,643 |
| Maintenance | — | 14,942 | — | — | 14,942 |
| Finance Income | — | — | — | 2,305 | 2,305 |
| | 7,973 | 14,942 | 12,643 | 2,305 | 37,863 |
| Sub-total for reportable segments | 7,973 | 35,912 | 12,661 | 2,305 | 58,851 |
| All Other | 1,003 | 182 | — | — | 1,185 |
| Total | \$ 8,976 | \$ 36,094 | \$ 12,661 | \$ 2,305 | \$ 60,036 |

For the three months ended March 31, 2023, revenues earned from Technology Sales includes variable consideration of \$5.6 million (2022 — \$0.4 million). Variable consideration revenues represent an estimate of the contingent fees that may become due if certain annual minimum box office receipt thresholds are exceeded and are recorded as revenue in the period when the sale is recognized and may be adjusted in future periods based on actual results and changes in estimates over the term of the system agreement.

For the three months ended March 31, 2023, revenues earned from leasing arrangements total \$22.4 million (2022 — \$13.6 million), including \$20.1 million in Revenues — Technology Rentals (2022 — \$12.6 million), and \$2.3 million in Revenues — Technology Sales (2022 — \$1.0 million).

(b) Deferred Revenue

IMAX System sale and lease arrangements include a requirement for the Company to provide maintenance services over the life of the arrangement, some of which are subject to a consumer price index adjustment each year. In circumstances where customers prepay the entire term's maintenance fee based on the original arrangement, additional payments are due to the Company for the years after its extended warranty and maintenance obligations expire. Payments, upon renewal each year, are either prepaid or made in arrears and can vary in frequency from monthly to annually. As of March 31, 2023, \$22.2 million of consideration has been deferred in relation to outstanding maintenance services to be provided on existing maintenance contracts (December 31, 2022 — \$21.0 million). Maintenance revenue is recognized evenly over the contract term which coincides with the period over which maintenance services are provided. In the event of customer default, any payments made by the customer may be retained by the Company.

In instances where the Company receives consideration prior to satisfying its performance obligations, the recognition of revenue is deferred. The majority of the deferred revenue balance relates to payments received by the Company for IMAX Systems where control of the system has not yet transferred to the customer. The deferred revenue balance related to an individual IMAX System increases as progress payments are made and is then derecognized when control of the system is transferred to the customer. Recognition dates are variable and depend on numerous factors, including some outside of the Company's control.

13. Segment Reporting

The Company's Chief Executive Officer ("CEO") is its Chief Operating Decision Maker ("CODM"), as such term is defined under U.S. GAAP. The CODM assesses segment performance based on segment revenues and segment gross margins. Selling, general and administrative expenses, research and development costs, the amortization of intangible assets, provision for (reversal of) current expected credit losses, certain write-downs, interest income, interest expense, and income tax (expense) benefit are not allocated to the Company's segments.

In the first quarter of 2023, the Company revised its internal segment reporting, including the information provided to the CODM to assess segment performance and allocate resources. Accordingly, the Company has two reportable segments: (i) Content Solutions, which principally includes content enhancement and distribution services, previously included within the IMAX DMR, Film Distribution and Film Post-Production segments, and (ii) Technology Products and Services, which principally includes the sale, lease, and maintenance of IMAX Systems, previously included within the JRSA, IMAX Systems, IMAX Maintenance, and Other Theater Business segments. The Company's activities that do not meet the criteria to be considered a reportable segment are reported within All Other. Prior period comparatives have been revised to conform with the current period presentation.

The Company has the following reportable segments:

- (i) Content Solutions, which principally includes the digital remastering of films and other content into IMAX formats for distribution to the IMAX network. To a lesser extent, the Content Solutions segment also earns revenue from the distribution of large-format documentary films and exclusive experiences ranging from live performances to interactive events with leading artists and creators, as well as film post-production services.
- (ii) Technology Products and Services, which includes results from the sale or lease of IMAX Systems, as well as from the maintenance of IMAX Systems. To a lesser extent, the Technology Product and Services segment also earns revenue from certain ancillary theater business activities, including after-market sales of IMAX System parts and 3D glasses.

Transactions between segments are valued at exchange value. Inter-segment profits are eliminated upon consolidation, as well as for the disclosures below.

The following table presents the Company's revenue and gross margin by reportable segment for the three months ended March 31, 2023 and 2022:

| | Revenue ⁽¹⁾ | | Gross Margin | |
|---------------------------------------|------------------------|-----------|--------------|-----------|
| | 2023 | 2022 | 2023 | 2022 |
| <i>(In thousands of U.S. Dollars)</i> | | | | |
| Content Solutions | \$ 32,101 | \$ 20,988 | \$ 17,995 | \$ 12,625 |
| Technology Products and Services | 51,667 | 37,863 | 29,891 | 18,416 |
| Sub-total for reportable segments | 83,768 | 58,851 | 47,886 | 31,041 |
| All Other ⁽²⁾ | 3,178 | 1,185 | 2,165 | 730 |
| Total | \$ 86,946 | \$ 60,036 | \$ 50,051 | \$ 31,771 |

(1) The Company's largest customer represents 9% of total Revenues for the three months ended March 31, 2023 (2022 — 11%). No single customer comprises more than 10% of the Company's total Accounts Receivable as of March 31, 2023 and December 31, 2022.

(2) All Other includes the results from IMAX Enhanced, SSIMWAVE, and other ancillary activities.

Geographic Information

Revenue by geographic area is based on the location of the customer. Revenue related to IMAX film remastering and distribution is presented based upon the geographic location of the IMAX System that exhibits the remastered films. IMAX film remastering and distribution revenue is generated through contractual relationships with studios and other third parties and these may not be in the same geographical location as the IMAX System.

The following table summarizes the Company's revenues by geographic area for the three months ended March 31, 2023 and 2022:

| | Three Months Ended March 31, | |
|---|------------------------------|-----------|
| | 2023 | 2022 |
| <i>(In thousands of U.S. Dollars)</i> | | |
| United States | \$ 26,753 | \$ 19,067 |
| Greater China | 26,566 | 21,476 |
| Asia (excluding China) | 10,652 | 5,767 |
| Western Europe | 10,168 | 7,061 |
| Canada | 7,196 | 1,772 |
| Latin America | 1,603 | 1,886 |
| Russia/the CIS & Ukraine ⁽¹⁾ | 135 | 1,010 |
| Rest of the World | 3,873 | 1,997 |
| Total | \$ 86,946 | \$ 60,036 |

(1) In addition to Russia, the Company has IMAX Systems in the Commonwealth of Independent States ("CIS") which are Azerbaijan, Belarus, Kazakhstan, and Kyrgyzstan. Commencing in March 2022, in response to the ongoing conflict between Russia and Ukraine and resulting sanctions, the Company suspended its operations in Russia and Belarus. As of March 31, 2023, the IMAX network includes 54 systems in Russia, eight systems in Ukraine, and one system in Belarus.

United States and Greater China each comprises greater than 10% of the Company's total revenues for the three months ended March 31, 2023 and 2022.

14. Employee's Pension and Postretirement Benefits

(a) Defined Benefit Plan

The Company has an unfunded defined benefit pension plan, the Supplemental Executive Retirement Plan (the "SERP"), covering its CEO, Richard L. Gelfond. 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 amendment to his employment agreement dated September 19, 2022, the term of Mr. Gelfond's employment was extended through December 31, 2025, although Mr. Gelfond has not informed the Company that he intends to retire at that time. Under the terms of his employment agreement, as amended, the total benefit payable to Mr. Gelfond under the SERP is fixed at \$20.3 million.

As of March 31, 2023, the Company's projected benefit obligation under the SERP is \$17.5 million (December 31, 2022 — \$17.3 million). For the three months ended March 31, 2023, the Company recorded interest costs of \$0.2 million (2022 — less than \$0.1 million) related to the SERP. The Company expects to recognize additional interest costs of \$0.6 million related to the SERP during the remainder of 2023. No contributions are expected to be made to the SERP in 2023.

(b) Defined Contribution Pension Plan

The Company also maintains defined contribution plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three months ended March 31, 2023, the Company contributed and recorded expense of \$0.3 million (2022 — \$0.3 million) to its Canadian defined contribution plan and \$0.3 million (2022 — \$0.3 million) to its defined contribution employee plan under Section 401(k) of the U.S. Internal Revenue Code.

(c) Postretirement Benefits – Executives

The Company has an unfunded postretirement plan for Mr. Gelfond and Bradley J. Wechsler, former Chairman of the Company's Board of Directors (the "Executive Postretirement Benefit Plan"). The Executive Postretirement Benefit Plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplemental coverage as selected by Messrs. Gelfond and Wechsler. Mr. Wechsler retired from the Company's Board of Directors on June 9, 2021. The Company maintained Mr. Wechsler's health benefits through December 31, 2021, and thereafter is providing him with Medicare supplemental coverage or its cash equivalent.

As of March 31, 2023, the Company's postretirement benefits obligation under this plan is \$0.5 million (December 31, 2022 — \$0.5 million). For the three months ended March 31, 2023, the Company has recorded an expense of less than \$0.1 million (2022 — less than \$0.1 million) related to this plan.

(d) Postretirement Benefits – Canadian Employees

The Company has an unfunded postretirement plan for its Canadian employees meeting specific eligibility requirements. The Company will provide eligible participants, upon retirement, with health and welfare benefits. As of March 31, 2023, the Company's postretirement benefits obligation under this plan is \$0.9 million (December 31, 2022 — \$1.0 million). For the three months ended March 31, 2023, the Company has recorded expense of less than \$0.1 million (2022 — less than \$0.1 million) related to this plan.

(e) Deferred Compensation Benefit Plan

The Company maintained a nonqualified deferred compensation benefit plan (the "Retirement Plan") covering the former CEO of IMAX Entertainment and Senior Executive Vice President of the Company. Under the terms of the Retirement Plan, the benefits were due to vest in full if the executive incurred a separation from service from the Company (as defined therein). In 2018, the executive incurred a separation from service from the Company, and as such, the Retirement Plan benefits became fully vested as of December 31, 2018.

As of March 31, 2023, the benefit obligation related to the Retirement Plan was \$3.9 million (December 31, 2022 — \$3.9 million) and is recorded on the Company’s Condensed Consolidated Balance Sheets within Accrued and Other Liabilities. As the Retirement Plan is fully vested, the benefit obligation is measured at the present value of the benefits expected to be paid in the future with the accretion of interest recognized in the Condensed Consolidated Statements of Operations within Retirement Benefits Non-Service Expense.

The Retirement Plan is funded by an investment in company-owned life insurance (“COLI”), which is recorded at its fair value on the Company’s Condensed Consolidated Balance Sheets within Prepaid Expenses. As of March 31, 2023, fair value of the COLI asset was \$3.4 million (December 31, 2022 — \$3.4 million). Gains and losses resulting from changes in the cash surrender value of the COLI asset are recognized in the Condensed Consolidated Statements of Operations within Realized and Unrealized Investment Gains.

15. Financial Instruments

(a) Financial Instruments

The Company maintains cash with various major financial institutions. The Company’s cash is invested with highly rated financial institutions. The Company’s \$99.2 million balance of cash and cash equivalents as of March 31, 2023 (December 31, 2022 — \$97.4 million) includes \$83.6 million in cash held outside of Canada (December 31, 2022 — \$79.7 million), of which \$47.2 million was held in the PRC (December 31, 2022 — \$43.7 million).

(b) Fair Value Measurements

The carrying values of the Company’s Cash and Cash Equivalents, Accounts Receivable, Accounts Payable and Accrued Liabilities due within one year approximate their fair values due to the short-term maturity of these instruments. Including these instruments, the Company’s financial instruments consist of the following:

| | As of March 31, 2023 | | As of December 31, 2022 | |
|--|----------------------|----------------------|-------------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| <i>(In thousands of U.S. Dollars)</i> | | | | |
| Level 1 | | | | |
| Cash and cash equivalents ⁽¹⁾ | \$ 99,246 | \$ 99,246 | \$ 97,401 | \$ 97,401 |
| Equity securities ⁽²⁾ | 1,050 | 1,050 | 1,035 | 1,035 |
| Level 2 | | | | |
| Net financed sales receivables ⁽³⁾ | \$ 100,425 | \$ 96,801 | \$ 101,052 | \$ 100,059 |
| Net investment in sales-type leases ⁽³⁾ | 30,762 | 30,716 | 28,332 | 27,972 |
| Equity securities ⁽¹⁾ | 1,000 | 1,000 | 1,000 | 1,000 |
| COLI ⁽⁴⁾ | 3,428 | 3,428 | 3,398 | 3,398 |
| Foreign exchange contracts — designated forwards ⁽²⁾ | (176) | (176) | (649) | (649) |
| Wells Fargo Credit Facility borrowings ⁽¹⁾ | (20,000) | (20,000) | (25,000) | (25,000) |
| HSBC China Facility borrowings ⁽¹⁾ | (12,165) | (12,165) | (12,496) | (12,496) |
| Bank of China Facility borrowings ⁽¹⁾ | (379) | (379) | (374) | (374) |
| Federal Economic Development Loan ⁽³⁾ | (2,043) | (2,043) | (1,782) | (1,782) |
| Convertible Notes ⁽⁵⁾ | (230,000) | (218,210) | (230,000) | (196,717) |
| Level 3 | | | | |
| Interest in film classified as a financial instrument ⁽⁶⁾ | \$ — | \$ — | \$ — | \$ — |

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

(2) Fair value is determined using quoted prices in active markets.

(3) Fair value is estimated based on discounting future cash flows at currently available interest rates with comparable terms.

(4) Measured at cash surrender value, which approximates fair value.

(5) Fair value is determined using quoted market prices that are observable in the market or that could be derived from observable market data.

- (6) Recorded at amortized cost less impairment losses. Inputs used in the calculation of estimated fair value include management’s projection of future box office and ancillary receipts for the film net of distribution costs and other costs in accordance with the investment agreement. See 15(e) below.

(c) Foreign Exchange Risk Management

The Company is exposed to market risk from changes in foreign currency rates.

A majority of the Company’s revenues is denominated in U.S. Dollars while a significant portion of its costs and expenses is denominated in Canadian Dollars. A portion of the Company’s net U.S. Dollar cash is converted to Canadian Dollars to fund Canadian Dollar expenses through the spot market. In China and Japan, the Company has ongoing operating expenses related to its operations in RMB and Japanese Yen, respectively. Net cash flows are converted to and from U.S. Dollars through the spot market. The Company also has cash receipts under leases denominated in RMB, Japanese Yen, Canadian Dollars and Euros which are converted to U.S. Dollars through the spot market. In addition, because IMAX films generate box office in 87 different countries, unfavorable exchange rates between applicable local currencies and the U.S. Dollar could have an impact on box-office receipts and the Company’s revenues and results of operations. The Company’s policy is to not use any financial instruments for trading or other speculative purposes.

The Company has entered into a series of foreign currency forward contracts to manage the risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests as of March 31, 2023 (the “Foreign Currency Hedges”), with settlement dates throughout 2023 and 2024. Foreign currency derivatives are recognized and measured in the Condensed Consolidated Balance Sheets at fair value. Changes in the fair value (i.e., gains or losses) are recognized in the Condensed Consolidated Statements of Operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. The Company currently has cash flow hedging instruments associated with Selling, General and Administrative Expenses. For foreign currency cash flow hedging instruments related to Selling, General and Administrative Expenses, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in Accumulated Other Comprehensive (Loss) Income (“AOCI”) and reclassified to the Condensed Consolidated Statements of Operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the Condensed Consolidated Statements of Operations.

The notional value of foreign currency cash flow hedging instruments that qualify for hedge accounting as of March 31, 2023 was \$34.4 million (December 31, 2022 — \$24.7 million). The Company currently does not hold any derivatives which are not designated as hedging instruments.

The following tabular disclosures reflect the impact that derivative instruments and hedging activities have on the Company’s Condensed Consolidated Financial Statements:

Fair value of derivatives in foreign exchange contracts:

| <i>(In thousands of U.S. Dollars)</i> | Balance Sheet Location | March 31, 2023 | December 31, 2022 |
|---|-------------------------------|---------------------------|------------------------------|
| Derivatives designated as hedging instruments: | | | |
| Foreign exchange contracts — Forwards | Other assets | \$ 193 | \$ 50 |
| | Accrued and other liabilities | (369) | (699) |
| | | <u>\$ (176)</u> | <u>\$ (649)</u> |

Derivatives in foreign currency hedging relationships are as follows:

| | | Three Months Ended March 31, | |
|---------------------------------------|-----------------------------|------------------------------|---------|
| | | 2023 | 2022 |
| <i>(In thousands of U.S. Dollars)</i> | | | |
| Foreign exchange contracts | Derivative Gain | | |
| — Forwards | Recognized in OCI | | |
| | (Effective Portion) | \$ 134 | \$ 315 |
| | | | |
| | | Three Months Ended March 31, | |
| | | 2023 | 2022 |
| <i>(In thousands of U.S. Dollars)</i> | | | |
| Foreign exchange contracts | Location of Derivative Loss | | |
| — Forwards | Reclassified from AOCI | | |
| | (Effective Portion) | | |
| | Selling, general and | \$ (339) | \$ (29) |
| | administrative expenses | | |

The Company's estimated net amount of the existing loss as of March 31, 2023 is \$(0.2) million, which is expected to be reclassified to the Condensed Consolidated Statements of Operations within the next twelve months.

(d) Investments in Equity Securities

The Company has an investment in the shares of an exchange traded fund which is classified as an equity investment. As of March 31, 2023, the value of the investment was \$1.1 million (December 31, 2022 — \$1.0 million) and is recorded within Investment in Equity Securities in the Condensed Consolidated Balance Sheets.

The Company held an investment in the preferred shares of enterprises which meets the criteria for classification as an equity security carried at historical cost, net of impairment charges. The carrying value of the equity security investment was \$1.0 million as of March 31, 2023 (December 31, 2022 — \$1.0 million) and is recorded within Other Assets in the Condensed Consolidated Balance Sheets.

(e) Interest in Film

On January 10, 2022, IMAX (Shanghai) Culture and Technology Co., Ltd, a wholly-owned subsidiary of IMAX China, entered into a joint film investment agreement with Wanda Film (Horgos) Co. Ltd. to invest RMB 30.0 million (\$4.7 million) in the movie *Mozart from Space*, which was released on July 15, 2022. Pursuant to the investment agreement, IMAX (Shanghai) Culture and Technology Co., Ltd. has the right to receive a share of the profits or losses of the film distribution. IMAX (Shanghai) Culture and Technology Co., Ltd.'s commitment is limited to its investment and has no further obligation if the actual movie production cost exceeds the original budget. The investment meets the criteria for classification as a financial asset. The investment is measured at amortized cost less impairment losses and is recorded within Other Assets in the Condensed Consolidated Balance Sheets.

During the second quarter of 2022, the Company recognized a full impairment of its RMB 30.0 million (\$4.5 million) investment in *Mozart from Space* based on projected box office results and distribution costs.

16. Executive Transition Costs

On March 13, 2023, the Company and Megan Colligan, President, IMAX Entertainment and Executive Vice President of the Company agreed to conclude Ms. Colligan's employment with the Company, effective April 30, 2023. Pursuant to the employment agreement between the Company and Ms. Colligan, dated as of October 10, 2018, and the letter agreement between the Company and Ms. Colligan, dated as of March 15, 2023, the Company recognized executive transition costs of \$1.4 million associated with the departure of Ms. Colligan during the first quarter of 2023. The costs include severance of \$1.6 million, transition services covering three months of \$0.8 million, and the reversal of previously recognized share-based compensation costs of \$1.0 million for PSU forfeitures.

17. Non-Controlling Interests

(a) *IMAX China Non-Controlling Interest*

The Company indirectly owns 71.63% of IMAX China, whose shares trade on the Hong Kong Stock Exchange (December 31, 2022 — 71.73%). IMAX China remains a consolidated subsidiary of the Company. As of March 31, 2023, the balance of the Company's non-controlling interest in IMAX China is \$69.1 million (December 31, 2022 — \$65.7 million). For the three months ended March 31, 2023, the net income attributable to the non-controlling interest in IMAX China was \$2.7 million (2022 — \$1.7 million).

(b) *Other Non-Controlling Interest*

The Company's Original Film Fund was established in 2014 to co-finance a portfolio of 10 original large-format films. The initial investment in the Original Film Fund was committed by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company has contributed \$9.0 million to the Original Film Fund since 2014 and has reached its maximum contribution. As of March 31, 2023, the Original Film Fund has invested \$22.3 million toward the development of original films. The related production, financing and distribution agreement includes put and call rights relating to change of control of the rights, title and interest in the co-financed pictures.

(c) *Non-Controlling Interest in Temporary Equity*

The following table summarizes the movement of the non-controlling interest in temporary equity related to the Original Film Fund for the three months ended March 31, 2023 and 2022:

| | March 31, | |
|---------------------------------------|---------------|---------------|
| | 2023 | 2022 |
| <i>(In thousands of U.S. Dollars)</i> | | |
| Beginning balance | \$ 722 | \$ 758 |
| Net income | 9 | 3 |
| Ending balance | <u>\$ 731</u> | <u>\$ 761</u> |

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

Presented below is Management's Discussion and Analysis of Financial Condition and Results of Operations (or "MD&A") for IMAX Corporation and its consolidated subsidiaries ("IMAX" or the "Company") for the three months ended March 31, 2023 and 2022. In the first quarter of 2023, the Company revised its internal segment reporting, including the information provided to its Chief Operating Decision Maker ("CODM") to assess segment performance and allocate resources, and, as a result, updated its reportable segments. Prior period comparatives in this MD&A have been revised to conform with the updated segment reporting presentation. MD&A should be read in conjunction with Note 13, "Segment Reporting," in the accompanying Condensed Consolidated Financial Statements in Item 1.

As of March 31, 2023, the Company indirectly owns 71.63% of IMAX China Holding, Inc. ("IMAX China"), whose shares trade on the Hong Kong Stock Exchange. IMAX China is a consolidated subsidiary of the Company. For the three months ended March 31, 2023, net income attributable to IMAX China is \$9.4 million, of which \$6.7 million is attributable to the shareholders of the Company (2022 — \$5.7 million and \$4.0 million, respectively).

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this quarterly report may constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 or "forward-looking information" within the meaning of Canadian securities laws. These forward-looking statements include, but are not limited to, references to business and technology strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business, operations and technology, future capital expenditures (including the amount and nature thereof), industry prospects and consumer behavior, plans and references to the future success of the Company and expectations regarding its future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, risks related to the adverse impact of the COVID-19 pandemic; 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, as well as geopolitical conflicts, such as the conflict between Russia and Ukraine; risks related to the Company's growth and operations in China; the performance of IMAX DMR® films and other films released to the IMAX network; the signing of IMAX System agreements; conditions, changes and developments in the commercial exhibition industry; risks related to currency fluctuations; the potential impact of increased competition in the markets within which the Company operates, including competitive actions by other companies; the failure to respond to change and advancements in digital technology; risks relating to consolidation among commercial exhibitors and studios; risks related to brand extensions and new business initiatives; conditions in the in-home and out-of-home entertainment industries; the opportunities (or lack thereof) that may be presented to and pursued by the Company; risks related to cyber-security and data privacy; risks related to the Company's inability to protect its intellectual property; risks related to climate change; risks related to weather conditions and natural disasters that may disrupt or harm the Company's business; risks related to the Company's indebtedness and compliance with its debt agreements; general economic, market or business conditions; risks related to political, economic and social instability, including with respect to the Russia-Ukraine conflict; the failure to convert system backlog into revenue; changes in laws or regulations; any statements of belief and any statements of assumptions underlying any of the foregoing; other factors and risks outlined in the Company's periodic filings with the United States Securities and Exchange Commission (the "SEC") or in Canada, the System for Electronic Document Analysis and Retrieval (the "SEDAR"); and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this quarterly report are qualified by these cautionary statements, and actual results or anticipated developments by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or effects on, the Company. The forward-looking statements herein are made only as of the date hereof and the Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

IMAX®, IMAX® 3D, Experience It In IMAX®, The IMAX Experience®, DMR®, Filmed For IMAX™, IMAX Live™, IMAX Enhanced®, and SSIMWAVE® are trademarks and trade names of the Company or its subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

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 SEC and Canadian securities regulators. Reports may be obtained free of charge through the SEC's website at www.sec.gov or the SEDAR's website at www.sedar.com and through the Company's website at www.imax.com or by calling the Company's Investor Relations Department at 212-821-0100. No information included on the Company's website shall be deemed included or otherwise incorporated into this filing, except where expressly indicated.

The information posted on the Company's Corporate and Investor Relations websites may be deemed material to investors. Accordingly, investors, media and others interested in the Company should monitor the Company's websites in addition to the Company's press releases, SEC and SEDAR filings and public conference calls and webcasts.

OVERVIEW

IMAX is a premier global technology platform for entertainment and events. Through its proprietary software, theater architecture, patented intellectual property, and specialized equipment, IMAX offers a unique end-to-end solution to create superior, immersive content experiences for which the IMAX® brand is globally renowned. Top filmmakers, movie studios, artists, and creators utilize the cutting-edge visual and sound technology of IMAX to connect with audiences in innovative ways. As a result, IMAX is among the most important and successful global distribution platforms for domestic and international tentpole films and, increasingly, exclusive experiences ranging from live performances to interactive events with leading artists and creators.

The Company leverages its proprietary technology and engineering in all aspects of its business, which principally consists of the digital remastering of films and other content into the IMAX format for distribution across the IMAX network and the sale or lease of premium IMAX theater systems ("IMAX System(s)").

IMAX Systems are based on proprietary and patented image, audio and other technology developed over the course of the Company's history since its founding in 1967. The customers for IMAX Systems are principally theater exhibitors that operate commercial multiplex theaters, and, to a much lesser extent, museums, science centers and destination entertainment sites. The Company does not own the locations, except for one, in the IMAX network, and is not an exhibitor, but instead sells or leases the IMAX System to exhibitor customers along with a license to use its trademarks and ongoing maintenance services.

As of March 31, 2023, there were 1,711 IMAX Systems in 87 countries and territories, including 1,631 commercial multiplexes, 12 commercial destinations, and 68 institutional locations in the Company's global network. This compares to 1,690 IMAX Systems in 87 countries and territories as of March 31, 2022, including 1,606 commercial multiplexes, 12 commercial destinations, and 72 institutional locations in the Company's global network. (See the table under "IMAX Network and Backlog" for additional information on the composition of the IMAX network.)

The IMAX System provides the Company's exhibitor customers with a combination of the following benefits:

- the ability to exhibit content that has been enhanced through the IMAX film remastering (formerly known as "IMAX DMR") process, 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;
- advanced sound system components, which deliver more expansive sound imagery and pinpointed origination of sound to every specific spot in a theater equipped with an IMAX System;
- specialized theater acoustics, which result in a four-fold reduction in background noise;
- ongoing maintenance and extended warranty services, and
- a license to the globally recognized IMAX brand.

In addition, select movies shown in the IMAX network are filmed using proprietary IMAX film cameras or IMAX certified digital cameras, which offer filmmakers customized guidance and a workflow process to provide further enhanced and differentiated image quality and an IMAX-exclusive film aspect ratio that delivers up to 26% more image onto a standard IMAX movie screen. In select IMAX locations worldwide, movies filmed with IMAX cameras have an IMAX-exclusive 1.43 film aspect ratio, delivering up to 67% more image.

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

As a result of the engineering and scientific achievements that are a hallmark of *The IMAX Experience*[®], the Company's exhibitor customers typically charge a premium for films released in the IMAX network over films exhibited in their other auditoriums. The premium pricing, combined with the higher attendance levels associated with IMAX 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 films exhibited in the IMAX network has helped establish IMAX as a key premium distribution and marketing platform for Hollywood and foreign local language movie studios.

In addition, the Company continues to experiment in bringing new, innovative IMAX Live[™] events and experiences to audiences worldwide. The Company has a footprint of connected IMAX Systems capable of delivering live, interactive content with low latency and superior sight and sound. As of March 31, 2023, 258 systems in the IMAX network across North America, Europe and Asia were configured with connectivity to deliver live and interactive events.

As a premier global technology platform for entertainment and events, the Company strives to remain at the forefront of advancements in technology. The Company offers a suite of laser-based digital projection systems ("IMAX Laser Systems"), which deliver increased resolution, sharper and brighter images, deeper contrast, and the widest range of colors available to filmmakers today. The Company further believes that its suite of IMAX Laser Systems are helping facilitate the next major renewal and upgrade cycle for the global IMAX network.

In September 2022, the Company acquired SSIMWAVE Inc. ("SSIMWAVE"), a leader in AI-driven video quality solutions for media and entertainment companies. The acquisition of SSIMWAVE marks a significant expansion of the Company's strategy to deliver the highest quality images on any screen, while also creating cost efficiencies to streaming companies, broadcasters and other companies that transmit visual data — to drive new, recurring revenue and grow its global leadership in entertainment technology.

Commencing in March 2022, in response to numerous sanctions imposed by the United States, Canada and the European Union on companies transacting in Russia and Belarus resulting from ongoing conflict between Russia and Ukraine, the Company suspended its operations in Russia and Belarus. As of March 31, 2023, the IMAX network includes 54 systems in Russia, eight systems in Ukraine, and one system in Belarus. In the first quarter of 2022, the Company recorded provisions for potential credit losses against substantially all of its receivables in Russia due to uncertainties associated with the ongoing conflict. These receivables relate to existing sale agreements as the Company is not party to any joint revenue sharing arrangements in these countries. In addition, exhibitors in Russia, Ukraine, and Belarus were placed on nonaccrual status for maintenance revenue and finance income beginning in the first quarter of 2022, which resulted in revenue deferred and not recognized of \$0.6 million during the three months ended March 31, 2023. As of March 31, 2023, all IMAX Systems in Ukraine have reopened. The Company continues to closely monitor the evolving impacts of this conflict (including the sanctions imposed by the United States, Canada and the European Union) and its effects on the global economy and the Company. (See Note 3 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 and "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 Part I, Item 1A of the Company's 2022 Form 10-K.)

On September 7, 2022, Cineworld Group plc (“Cineworld”), the parent company of Regal, and certain of its subsidiaries and Regal CineMedia Holdings, LLC, filed petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the Southern District of Texas. The Company had an unsecured pre-petition claim of \$11.4 million related to receivables from the entities included in the reorganization proceedings. On October 21, 2022, the Company was ratified by the bankruptcy court as a critical vendor of Cineworld, allowing the Company to collect pre-petition amounts owed to it by Cineworld, and requiring Cineworld to stay current on the Company’s post-petition receivables. On November 8, 2022, IMAX Corporation entered into a trade agreement with Cineworld (the “Trade Agreement”), pursuant to which Cineworld affirmed its pre-petition obligations to the Company and its post-petition obligations to the Company during the Chapter 11 proceedings, the amount of the receivables owed to the Company and agreed to a payment plan under which all amounts due will be settled over the period from November 9, 2022 to April 12, 2023. As of April 17, 2023, the Company had received all of the payments due from Cineworld in accordance with the terms of the Trade Agreement with respect to the pre-petition obligations. Based on its evaluation of its contracts with Cineworld, its assessment of the reorganization and its discussions with Cineworld to date, the Company has determined that no additional provision for expected credit losses is required. The Company also does not expect to see a material impact on its IMAX network with Cineworld resulting from this reorganization. There can, however, be no guarantees as to the ultimate outcome of a Chapter 11 proceeding.

The COVID-19 pandemic and the measures to prevent its spread have impacted and may continue to impact the Company’s business and the global economy. For additional discussion regarding the risks related to the COVID-19 pandemic on the Company’s business, see “Risk Factors – The Company experienced a significant decrease in its revenues, earnings and cash flows due to the COVID-19 pandemic and its business, financial condition and results of operations may continue to be significantly harmed in future reporting periods” in Part I, Item 1A of the Company’s 2022 Form 10-K.

SOURCES OF REVENUE

The historical results of operations for the three months ended March 31, 2023 and 2022 reflect the results of operations for two reportable segments: (i) Content Solutions, which principally includes content enhancement and distribution services, previously included within the IMAX DMR, Film Distribution and Film Post-Production segments, and (ii) Technology Products and Services, which principally includes the sale, lease, and maintenance of IMAX Systems, previously included within the JRSA, IMAX Systems, IMAX Maintenance, and Other Theater Business segments. The Company’s activities that do not meet the criteria to be considered a reportable segment will be reported within All Other. (See Note 13 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1).

Content Solutions

The Content Solutions segment earns revenue from the digital remastering of films and other content into IMAX formats for distribution across the IMAX network. To a lesser extent, the Content Solutions segment also earns revenue from the distribution of large-format documentary films and exclusive experiences ranging from live performance to interactive events with leading artists and creators, as well as the provision of film post-production services.

IMAX Film Remastering and Distribution

IMAX film remastering is a proprietary technology that digitally remasters films and other content into IMAX formats for distribution across the IMAX network. In a typical IMAX film remastering and distribution arrangement, the Company receives a percentage of the box office receipts from a movie studio in exchange for converting a commercial film into the IMAX format and distributing it through the IMAX network. The fee earned by the Company in a typical IMAX film remastering and distribution arrangement averages approximately 12.5% of box office receipts (i.e., GBO less applicable sales taxes), except for within Greater China, where the Company receives a lower percentage of net box office receipts for certain Hollywood films.

IMAX film remastering digitally enhances the image resolution of 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 addition, the original soundtrack of a film to be exhibited across the IMAX network is remastered for IMAX digital sound systems. Unlike the soundtracks played in conventional theaters, IMAX remastered soundtracks are uncompressed and full fidelity. IMAX sound systems use proprietary loudspeaker systems and proprietary surround sound configurations that ensure every theater seat is in an optimal listening position.

IMAX films also benefit from enhancements made by individual filmmakers exclusively for the IMAX release of the film. Collectively, the Company refers to these enhancements as “IMAX DNA.” Filmmakers and movie studios have sought IMAX-specific enhancements in recent years to generate interest in and excitement for their films. Such enhancements include shooting films with IMAX cameras to increase the audience’s immersion in the film and to take advantage of the unique dimensions of the IMAX screen by projecting the film in a larger aspect ratio that delivers up to 26% more image onto a standard IMAX movie screen. In select IMAX locations worldwide, movies filmed with IMAX cameras have an IMAX-exclusive 1.43 film aspect ratio, delivering up to 67% more image. The Company has a Filmed For IMAX™ program for select films under which filmmakers craft films from their inception in numerous ways to optimize *The IMAX Experience*. The program includes incremental and bespoke marketing support, which box office metrics demonstrate audiences respond extremely favorably to, and drives higher market share for IMAX.

Management believes that growth in international box office remains an important driver of growth for the Company. To support continued growth in international markets, the Company is focused on the expansion of the IMAX network and has sought to elevate its international film strategy, supplementing its slate of Hollywood films with appealing local language films released in select markets, including China, Japan, India, and South Korea. More recently, the Company has further diversified its strategy by distributing local language films in both native and foreign markets.

In the first quarter of 2023, the IMAX network generated over \$80 million in box office from local language films, a record for the Company. Local language box office represented approximately 30% of the Company’s total box office in the quarter. This year’s quarter included the highest grossing Chinese New Year holiday and highest grossing local language title (*Wandering Earth 2*) in the Company’s history. The Company is also seeing its local language films increasingly generate significant IMAX box office in markets outside of those in which they are released, such as the Japanese film *Suzume* and the Indian film *RRR*.

The following table provides detailed information about the films that were released to the Company’s global network during the three months ended March 31, 2023 and 2022:

| | For the Three Months Ended March 31, | |
|--|---|-----------|
| | 2023 | 2022 |
| Hollywood film releases ⁽¹⁾ | 6 | 6 |
| Local language film releases: | | |
| China | 5 | 4 |
| India | 2 | 1 |
| Japan | 2 | — |
| South Korea | 1 | 1 |
| France | — | 1 |
| Total local language film releases | 10 | 7 |
| Total film releases ⁽²⁾ | 16 | 13 |

(1) Includes one re-released film for the three months ended March 31, 2023 (2022 — nil).

(2) For the three months ended March 31, 2023, the films released to the Company’s global network include two with IMAX DNA (2022 — three).

The films distributed through the Company’s global network during the three months ended March 31, 2023 include *Avatar: The Way of Water*, *The Wandering Earth 2*, *Ant-Man and the Wasp: Quantumania*, *Creed III*, *John Wick: Chapter 4*, and *Suzume*.

In addition to the 16 IMAX films released through the Company's global network during the three months ended March 31, 2023, the Company has announced the following additional 30 titles to be released in 2023:

| Title | Studio | Scheduled Release Date⁽¹⁾ | IMAX DNA |
|--|--------------------------|---|-----------------------------|
| <i>The Super Mario Bros. Movie</i> | Universal Pictures | April 2023 | — |
| <i>The Three Musketeers: D'Artagnan⁽²⁾</i> | Pathé | April 2023 | — |
| <i>Beau is Afraid</i> | A24 | April 2023 | — |
| <i>Detective Conan: The Black Iron Submarine⁽²⁾</i> | Toho Studios | April 2023 | — |
| <i>Ponniyin Selvan: II⁽²⁾</i> | Lyca Productions | April 2023 | — |
| <i>Born to Fly⁽²⁾</i> | Alibaba | April 2023 | — |
| <i>Godspeed⁽²⁾</i> | Maoyan | April 2023 | — |
| <i>Flashover⁽²⁾</i> | Lian Ray | April 2023 | — |
| <i>Guardians of the Galaxy Vol. 3</i> | Walt Disney Studios | May 2023 | Filmed For IMAX |
| <i>Fast X</i> | Universal Pictures | May 2023 | — |
| <i>The Little Mermaid</i> | Walt Disney Studios | May 2023 | — |
| <i>Spider-Man: Across the Spider-Verse</i> | Sony Pictures | June 2023 | — |
| <i>Transformers: Rise of the Beasts</i> | Paramount Pictures | June 2023 | — |
| <i>The Flash</i> | Warner Bros. Pictures | June 2023 | — |
| <i>Adipurush⁽²⁾</i> | T-Series | June 2023 | — |
| <i>Indiana Jones and the Dial of Destiny</i> | Walt Disney Studios | June 2023 | — |
| <i>Mission: Impossible - Dead Reckoning Part One</i> | Paramount Pictures | July 2023 | — |
| <i>Oppenheimer</i> | Universal Pictures | July 2023 | Shot with IMAX Film Cameras |
| <i>Smuggler⁽²⁾</i> | Next Entertainment World | July 2023 | — |
| <i>Gran Turismo</i> | Sony Pictures | August 2023 | — |
| <i>Blue Beetle</i> | Warner Bros. Pictures | August 2023 | Filmed For IMAX |
| <i>The Equalizer 3</i> | Sony Pictures | September 2023 | — |
| <i>The Nun 2</i> | Warner Bros. Pictures | September 2023 | — |
| <i>A Haunting in Venice</i> | Walt Disney Studios | September 2023 | — |
| <i>The Creator</i> | Walt Disney Studios | September 2023 | — |
| <i>Kraven the Hunter</i> | Sony Pictures | October 2023 | — |
| <i>Untitled Exorcist</i> | Universal Pictures | October 2023 | — |
| <i>Dune: Part Two</i> | Warner Bros. Pictures | November 2023 | Filmed For IMAX |
| <i>Wonka</i> | Warner Bros. Pictures | December 2023 | — |
| <i>Aquaman and the Lost Kingdom</i> | Warner Bros. Pictures | December 2023 | Filmed For IMAX |

(1) The scheduled release dates in the table above are subject to change, may vary by territory, and may not reflect the date(s) of limited premiere events.

(2) Local language film.

The Company remains in active negotiations with studios, both domestically and internationally, for additional films to fill out its short- and long-term film slate for the IMAX network.

Other Content Solutions

The Company distributes large-format documentary films, primarily to institutional theaters. The Company receives as its distribution fee either a fixed amount or a fixed percentage of the theater box office receipts and, following the recoupment of its costs, is typically entitled to receive an additional percentage of gross revenues as participation revenues.

In addition, the Company continues to experiment in bringing new, innovative IMAX Live™ events and experiences to audiences worldwide. The Company has a footprint of connected IMAX Systems capable of delivering live, interactive content with low latency and superior sight and sound. As of March 31, 2023, 258 systems in the IMAX network across North America, Europe and Asia were configured with connectivity to deliver live and interactive events.

In the first quarter of 2023, the Company partnered with United Artists Releases for an IMAX premiere event consisting of red carpet interviews and behind the scenes footage, followed by a special advanced screening of *Creed III*, which was later released across the IMAX global network, taking 7% of total box office. Additionally, the Company partnered with A24 for an IMAX Live event in March 2023 for the 25th anniversary of Darren Aronofsky's debut film *Pi*, including a Q&A with members of the cast and crew live from Los Angeles followed by a screening of the restored film.

The Company provides film post-production services for large-format films, whether produced by IMAX or third parties, and digital post-production services. In addition, the Company also provides IMAX film and digital cameras to content creators under the IMAX certified camera program.

Technology Products and Services

The Technology Product and Services segment earns revenue principally from the sale or lease of IMAX Systems, as well as from the maintenance of IMAX Systems. To a lesser extent, the Technology Product and Services segment also earns revenue from certain ancillary theater business activities, including after-market sales of IMAX System parts and 3D glasses.

Sales and Sales-Type Lease Arrangements

The Company provides IMAX Systems to exhibitors through sale arrangements or long-term lease arrangements that for accounting purposes are classified as sales-type leases. Under these arrangements, in exchange for providing the IMAX System, the Company earns initial fees and ongoing consideration, which can include fixed annual minimum payments and contingent fees in excess of the minimum payments, as well as maintenance and extended warranty fees (see “IMAX Maintenance” below). The initial fees vary depending on the system configuration and location of the IMAX System. Initial fees are paid to the Company in installments between the time of signing the arrangement 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. Finance income is recognized over the term of a financed sale or sales-type lease arrangement. In addition, in sale arrangements, an estimate of the contingent fees that may become due if certain annual minimum box office receipt thresholds are exceeded is recorded as revenue in the period when the sale is recognized and is adjusted in future periods based on actual results and changes in estimates. Such variable consideration is only recognized on sales transactions to the extent the Company believes there is not a risk of significant revenue reversal.

In sale arrangements, title to the IMAX System equipment generally transfers to the customer. However, in certain instances, the Company retains title or a security interest in the equipment until the customer has made all payments required by the agreement or until certain shipment events for the equipment have occurred. In a sales-type lease arrangement, title to the IMAX System equipment 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 IMAX System sale or sales-type lease agreements varies from quarter-to-quarter and year-to-year based on a number of factors, including the number and mix of IMAX System configurations sold or leased, the timing of installation of the IMAX Systems, the nature of the arrangement and other factors specific to individual contracts.

Joint Revenue Sharing Arrangements

The Company provides IMAX Systems to exhibitors through joint revenue sharing arrangements (“JRSA”). Under the traditional form of these arrangements, the Company provides the IMAX System under a long-term lease in which the Company assumes the majority of the equipment and installation costs. In exchange for its upfront investment, the Company, primarily, earns rent based on a percentage of contingent box office receipts rather than requiring the customer to pay a fixed upfront fee or annual minimum payments. Rental payments from the customer are required throughout the term of the arrangement and are due either monthly or quarterly. The Company retains title to the IMAX System equipment components throughout the lease term, and the equipment is returned to the Company at the conclusion of the arrangement.

Under certain other joint revenue sharing arrangements, known as hybrid arrangements, the customer is responsible for making fixed upfront payments prior to the delivery and installation of the IMAX System in an amount that is typically half of what the Company would receive from a typical sale transaction. As with a traditional joint revenue sharing arrangement, the customer also pays the Company a percentage of contingent box office receipts over the term of the arrangement, although this percentage is typically half that of a traditional joint revenue sharing arrangement. Hybrid joint revenue sharing arrangements take the form of a sales. The fixed upfront payment is recognized when the lease term commences and is recorded within Revenues – Technology Sales. The contingent rent is recognized as revenue over the lease term and are recorded within Revenues – Technology Rentals.

Under most joint revenue sharing arrangements (both traditional and hybrid), the initial non-cancellable term 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 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 that drive box office levels including film performance, the mix of IMAX System configurations, the timing of installation of IMAX Systems, the nature of the arrangement, the location, size and management of the theater and other factors specific to individual arrangements.

Joint revenue sharing arrangements also require IMAX to provide maintenance and extended warranty services to the customer over the term of the lease in exchange for a separate fixed annual fee. These fees are reported within IMAX Maintenance, as discussed below.

Joint revenue sharing arrangements have been an important factor in the expansion of the Company's commercial theater network. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX 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 these arrangements pay the Company a portion of their ongoing box office receipts. The Company funds its investment in equipment for joint revenue sharing arrangements through cash flows from operations. As of March 31, 2023, the Company had 927 locations under joint revenue sharing arrangements in its global commercial multiplex network. The Company also had contracts in backlog for 298 systems under joint revenue sharing arrangements as of March 31, 2023, including 75 upgrades to existing locations and 223 new locations.

IMAX Maintenance

IMAX System arrangements also include a requirement for the Company to provide maintenance services over the life of the arrangement in exchange for an extended warranty and annual maintenance fee paid by the exhibitor. Under these arrangements, the Company provides preventative and emergency maintenance services 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 system agreements.

All Other

IMAX Enhanced

IMAX Enhanced is a solution, made in partnership with audio leader DTS (an Xperi subsidiary), to bring *The IMAX Experience* into the home. IMAX Enhanced provides end-to-end premium technology across streaming content and best-in-class entertainment devices, offering consumers high-fidelity playback of image and sound in the home and beyond, including the following features:

- IMAX's expanded aspect ratio, which is available on select titles and streaming platforms, including Disney+;
- IMAX's proprietary remastering technology, which produces more vivid, higher-fidelity 4K HDR images on premium televisions; and
- IMAX Signature Sound, which is specially recreated and calibrated for the home by DTS to unlock more immersive audio.

For their products to be certified as IMAX Enhanced, leading consumer electronics manufacturers spanning 4K/8K televisions, projectors, A/V receivers, loudspeakers, soundbars, smartphones, personal computers, tablets, and more must meet a carefully prescribed set of audiovisual performance standards, set by a certification committee of IMAX and DTS engineers, along with some of Hollywood's leading technical specialists.

At present, certified global device partners include Sony Electronics, Hisense, TCL, LG, Phillips, Hewlett Packard, Xiaomi, Sound United and Honor, among others. As of March 31, 2023, more than 250 IMAX Enhanced titles have been released across five of the biggest streaming platforms worldwide: Disney+, Sony Bravia CORE, Tencent Video, iQiyi and Rakuten TV. Over 10 million IMAX Enhanced certified devices are estimated to be in the market today.

In addition, the Company's collaboration with Disney allows fans to stream 19 Disney titles in IMAX's Expanded Aspect Ratio at home on Disney+, primarily including content created by Marvel Studios, a division of Walt Disney Studios. The launch of IMAX Enhanced on Disney+ provides strong brand exposure for IMAX by expanding the Company's in-home entertainment footprint to Disney+ and the majority of its 160 million global subscribers. In 2023, IMAX Enhanced is expected to enable an elevated end-to-end experience on Disney+, with IMAX Signature Sound coming to subscribers with IMAX Enhanced certified devices.

IMAX Enhanced is part of the Company's next evolutionary step to extend the IMAX brand and technology further into new use cases, including streaming entertainment and the consumer electronics market.

SSIMWAVE

In September 2022, the Company acquired SSIMWAVE, a leader in AI-driven video quality solutions for media and entertainment companies. Following the acquisition, SSIMWAVE became a wholly-owned subsidiary of the Company. SSIMWAVE provides perceptual quality measurement and optimization solutions based on artificial intelligence technologies for leading media and entertainment companies. The acquisition of SSIMWAVE marks a significant expansion of the Company's strategy to deliver the highest quality video images on any screen—to drive new, recurring revenue and grow its global leadership in entertainment technology.

Other

All Other also includes revenues from one owned and operated IMAX theater in Sacramento, California; a commercial arrangement with one theater resulting in the sharing of profits and losses; the provision of management services to three other theaters; renting the Company's proprietary 2D and 3D large-format film; and also offering production advice and technical assistance to both documentary and Hollywood filmmakers.

IMAX NETWORK AND BACKLOG

IMAX Network

The following table provides detailed information about the IMAX network by type and geographic location as of March 31, 2023 and 2022:

| | March 31, 2023 | | | | March 31, 2022 | | | |
|---|-----------------------------|-------------------------------|----------------------|--------------|-----------------------------|-------------------------------|----------------------|--------------|
| | Commercial Multiplex | Commercial Destination | Institutional | Total | Commercial Multiplex | Commercial Destination | Institutional | Total |
| United States | 361 | 4 | 25 | 390 | 362 | 4 | 27 | 393 |
| Canada | 40 | 1 | 7 | 48 | 40 | 1 | 7 | 48 |
| Greater China ⁽¹⁾ | 777 | — | 16 | 793 | 776 | — | 15 | 791 |
| Asia (excluding Greater China) | 140 | 2 | 2 | 144 | 122 | 2 | 2 | 126 |
| Western Europe | 118 | 4 | 8 | 130 | 115 | 4 | 8 | 127 |
| Russia/the CIS & Ukraine ⁽²⁾ | 69 | — | — | 69 | 70 | — | — | 70 |
| Latin America ⁽³⁾ | 54 | 1 | 8 | 63 | 53 | 1 | 11 | 65 |
| Rest of the World | 72 | — | 2 | 74 | 68 | — | 2 | 70 |
| Total⁽⁴⁾ | 1,631 | 12 | 68 | 1,711 | 1,606 | 12 | 72 | 1,690 |

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

- (2) In addition to Russia, the Company has IMAX Systems in the Commonwealth of Independent States (“CIS”) which are Azerbaijan, Belarus, Kazakhstan, and Kyrgyzstan. Commencing in March 2022, in response to the ongoing conflict between Russia and Ukraine and resulting sanctions, the Company suspended its operations in Russia and Belarus. As of March 31, 2023, the IMAX network includes 54 systems in Russia, eight systems in Ukraine, and one system in Belarus.
- (3) Latin America includes South America, Central America and Mexico.
- (4) Period-to-period changes in the table above are reported net of the effect of permanently closed locations.

The Company currently believes that over time its commercial multiplex network could grow to over 3,300 IMAX Systems worldwide from the 1,631 as of March 31, 2023. The Company believes that the majority of its future growth will come from international markets. As of March 31, 2023, 75% of IMAX Systems in the global commercial multiplex network were located within international markets (defined as all countries other than the United States and Canada). Revenues and GBO derived from international markets continue to exceed revenues and GBO from the United States and Canada. Risks associated with the Company’s international business, including Russia, are outlined in “Risk Factors – The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects” in Part I, Item 1A of the Company’s 2022 Form 10-K.

In the three months ended March 31, 2023 the Company’s revenue generated from its Greater China operations represents 31% of consolidated revenue. As of March 31, 2023, the Company had 793 IMAX Systems operating in Greater China with an additional 200 systems in backlog. The Company’s backlog in Greater China represents 43% of its total current backlog, including upgrades in system type. The Company has a partnership in China with Wanda Film (“Wanda”). As of March 31, 2023, through the Company’s partnership with Wanda, there were 375 IMAX Systems operational in Greater China of which 361 are under the parties’ joint revenue sharing arrangements.

In the first quarter of 2023, the IMAX network generated over \$80 million in box office from local language films, a record for the Company. Local language box office represented approximately 30% of the Company’s total box office in the quarter. This year’s quarter included the highest grossing Chinese New Year holiday and highest grossing local language title (*Wandering Earth 2*) in the Company’s history. The Company is also seeing its local language films increasingly generate significant IMAX box office in markets outside of those in which they are released, such as the Japanese film *Suzume* and the Indian film *RRR*.

(See “Risk Factors – The Company faces risks in connection with its significant presence in China and the continued expansion of its business there,” “Risk Factors – General political, social and economic conditions can affect the Company’s business by reducing both revenues generated from existing IMAX Systems and the demand for new IMAX Systems,” and “Risk Factors – The Company may not convert all of its backlog into revenue and cash flows” in Part I, Item 1A of the Company’s 2022 Form 10-K.)

The following tables provide detailed information about the Company's global commercial multiplex network by arrangement type and geographic location as of March 31, 2023 and 2022:

| | March 31, 2023 | | | |
|---|--|----------------|-----------------------------|-------|
| | Commercial Multiplex Locations in IMAX Network | | | |
| | Traditional JRSA | Hybrid JRSA | Sale / Sales- type Lease | Total |
| Domestic Total (United States & Canada) | 274 | 6 | 121 | 401 |
| International: | | | | |
| Greater China | 401 | 110 | 266 | 777 |
| Asia (excluding Greater China) | 37 | 5 | 98 | 140 |
| Western Europe | 47 | 28 | 43 | 118 |
| Russia/the CIS & Ukraine ⁽¹⁾ | — | — | 69 | 69 |
| Latin America | 2 | — | 52 | 54 |
| Rest of the World | 17 | — | 55 | 72 |
| International Total | 504 | 143 | 583 | 1,230 |
| Worldwide Total ⁽²⁾ | 778 | 149 | 704 | 1,631 |

| | March 31, 2022 | | | |
|---|--|----------------|-----------------------------|-------|
| | Commercial Multiplex Locations in IMAX Network | | | |
| | Traditional JRSA | Hybrid JRSA | Sale / Sales- type Lease | Total |
| Domestic Total (United States & Canada) | 273 | 6 | 123 | 402 |
| International: | | | | |
| Greater China | 397 | 112 | 267 | 776 |
| Asia (excluding Greater China) | 33 | 2 | 87 | 122 |
| Western Europe | 46 | 28 | 41 | 115 |
| Russia/the CIS & Ukraine ⁽¹⁾ | — | — | 70 | 70 |
| Latin America | 2 | — | 51 | 53 |
| Rest of the World | 16 | — | 52 | 68 |
| International Total | 494 | 142 | 568 | 1,204 |
| Worldwide Total ⁽²⁾ | 767 | 148 | 691 | 1,606 |

(1) In addition to Russia, the Company has IMAX Systems in the Commonwealth of Independent States ("CIS") which are Azerbaijan, Belarus, Kazakhstan, and Kyrgyzstan. Commencing in March 2022, in response to the ongoing conflict between Russia and Ukraine and resulting sanctions, the Company suspended its operations in Russia and Belarus. As of March 31, 2023, the IMAX network includes 54 systems in Russia, eight systems in Ukraine, and one system in Belarus.

(2) Period-to-period changes in the tables above are reported net of the effect of permanently closed systems.

Backlog

The following table provides detailed information about the Company's backlog as of March 31, 2023 and 2022:

| | March 31, 2023 | | | | March 31, 2022 | | | |
|--|----------------------|---------|--------------|-----------|----------------------|---------|--------------|-----------|
| | Number of Systems | | Dollar Value | | Number of Systems | | Dollar Value | |
| | New | Upgrade | New | Upgrade | New | Upgrade | New | Upgrade |
| (In thousands of U.S. Dollars, except number of systems) | | | | | | | | |
| Sale and sales-type lease arrangements | 157 | 13 | \$ 173,374 | \$ 14,293 | 159 | 12 | \$ 182,246 | \$ 11,252 |
| Hybrid JRSA | 114 | 4 | 84,354 | 3,235 | 125 | 6 | 91,001 | 4,785 |
| Traditional JRSA ⁽¹⁾⁽²⁾ | 109 | 71 | 200 | 2,900 | 99 | 86 | 200 | 4,500 |
| | 380 | 88 | \$ 257,928 | \$ 20,428 | 383 | 104 | \$ 273,447 | \$ 20,537 |

(1) Includes 38 IMAX Systems (2022 — 43) where certain of the Company's contracts contain options for the customer to elect to upgrade system type or to alter the contract structure (for example, from a joint revenue sharing arrangement to a sale) after signing, but before installation. Current backlog information reflects all known elections.

- (2) The consideration owed under joint revenue sharing arrangements, which are accounted for as leases, is typically contingent on the box office receipts earned by the exhibitor. Accordingly, such arrangements do not usually have a dollar value in backlog; however, certain joint revenue sharing arrangements provide for contracted upfront payments and therefore carry a backlog value based on those payments.

As of March 31, 2023, the Company's backlog includes 14 systems in Russia, one system in Ukraine, and five systems in Belarus with a total fixed contracted value of \$22.9 million.

The backlog reflects the minimum number of commitments for IMAX Systems under signed contracts. The dollar value fluctuates depending on the number of new arrangements signed from year-to-year, which adds to backlog and the installation and acceptance of IMAX Systems and the settlement of contracts, both of which reduce backlog. The dollar value of backlog typically represents the fixed contracted revenue under signed IMAX System sale and lease agreements that the Company expects to recognize as revenue upon installation and acceptance of the associated system, as well as an estimate of variable consideration in sales arrangements. The value of backlog does not include amounts allocated to maintenance and extended warranty revenues or revenue from systems in which the Company has an equity interest, operating leases, and long-term conditional theater commitments. The Company believes that the contractual obligations for IMAX System installations that are listed in 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 an IMAX System installation for a variety of reasons, including the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the agreement with the customer is terminated or amended. If the agreement is terminated, once the Company and the customer are released from all their future obligations under the agreement, all or a portion of the initial rents or fees that the customer previously made to the Company are recognized as revenue.

The following tables provide detailed information about the Company's backlog by arrangement type and geographic location as of March 31, 2023 and 2022:

| | March 31, 2023 | | | |
|---|---------------------|----------------|-----------------------------|--------------------|
| | IMAX System Backlog | | | Total |
| | Traditional JRSA | Hybrid JRSA | Sale / Sales- type Lease | |
| Domestic Total (United States & Canada) | 100 | 2 | 9 | 111 |
| International: | | | | |
| Greater China | 42 | 92 | 66 | 200 |
| Asia (excluding Greater China) | 13 | 13 | 33 | 59 |
| Western Europe | 19 | 10 | 6 | 35 |
| Russia/the CIS & Ukraine ⁽¹⁾ | — | — | 22 | 22 |
| Latin America | 3 | — | 2 | 5 |
| Rest of the World | 3 | 1 | 32 | 36 |
| International Total | 80 | 116 | 161 | 357 |
| Worldwide Total | 180 | 118 | 170 | 468 ⁽²⁾ |

| | March 31, 2022 | | | |
|---|---------------------|----------------|-----------------------------|--------------------|
| | IMAX System Backlog | | | Total |
| | Traditional JRSA | Hybrid JRSA | Sale / Sales- type Lease | |
| Domestic Total (United States & Canada) | 124 | 2 | 8 | 134 |
| International: | | | | |
| Greater China | 41 | 99 | 68 | 208 |
| Asia (excluding Greater China) | 3 | 16 | 35 | 54 |
| Western Europe | 11 | 12 | 5 | 28 |
| Russia/the CIS & Ukraine ⁽¹⁾ | — | — | 23 | 23 |
| Latin America | 3 | — | 6 | 9 |
| Rest of the World | 3 | 2 | 26 | 31 |
| International Total | 61 | 129 | 163 | 353 |
| Worldwide Total | 185 | 131 | 171 | 487 ⁽³⁾ |

RESULTS OF OPERATIONS

The Company's business and future prospects are evaluated by Richard L. Gelfond, its Chief Executive Officer ("CEO"), using a variety of factors and financial and operational metrics including: (i) IMAX box office performance and the securing of new IMAX films and other events to be exhibited across the IMAX network; (ii) the signing, installation, and financial performance of IMAX System arrangements, particularly those involving laser-based projection systems; (iii) the success of the Company's investments in business evolution and brand extensions, including the integration and performance of SSIMWAVE, the distribution of live events to the IMAX network and IMAX Enhanced, (iv) revenues and gross margins earned by the Company's segments, as discussed below; (v) consolidated earnings (loss) from operations, as adjusted for unusual items; (vi) the continuing ability to invest in and improve the Company's technology to enhance the differentiation of *The IMAX Experience* versus other out-of-home experiences; (vii) the overall execution, reliability, and consumer acceptance of *The IMAX Experience*; and (viii) short- and long-term cash flow projections.

The CEO is the Company's CODM, as such term is defined under United States Generally Accepted Accounting Principles ("U.S. GAAP"). The CODM assesses segment performance based on segment revenues and gross margins. Selling, general and administrative expenses, research and development costs, the amortization of intangible assets, provision for (reversal of) current expected credit losses, certain write-downs, interest income, interest expense, and income tax (expense) benefit are not allocated to the Company's segments.

The Company has two reportable segments: (i) Content Solutions, which principally includes content enhancement and distribution services, previously included within the IMAX DMR, Film Distribution and Film Post-Production segments, and (ii) Technology Products and Services, which principally includes the sale, lease, and maintenance of IMAX Systems, previously included within the JRSA, IMAX Systems, IMAX Maintenance, and Other Theater Business segments. The Company's activities that do not meet the criteria to be considered a reportable segment are reported within All Other. Prior period comparatives have been revised to conform with the current period presentation. (See Note 13 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1.)

Results of Operations for the Three Months Ended March 31, 2023 and 2022

Net Income (Loss) and Adjusted Net Income (Loss) Attributable to Common Shareholders

The following table presents the Company's net income (loss) attributable to common shareholders and the associated per diluted share amounts, as well as adjusted net income (loss) attributable to common shareholders⁽¹⁾ and adjusted net income (loss) attributable to common shareholders per diluted share⁽¹⁾ for the three months ended March 31, 2023 and 2022:

| | Three Months Ended March 31, | | | |
|---|------------------------------|-----------|-------------|-----------|
| | 2023 | | 2022 | |
| | Net Income | Per Share | Net Loss | Per Share |
| <i>(In thousands of U.S. Dollars, except per diluted share amounts)</i> | | | | |
| Net income (loss) attributable to common shareholders | \$ 2,454 | \$ 0.04 | \$ (13,609) | \$ (0.23) |
| Adjusted net income (loss) attributable to common shareholders ⁽¹⁾ | \$ 9,025 | \$ 0.16 | \$ (8,244) | \$ (0.14) |

(1) See "Non-GAAP Financial Measures" for a description of this non-GAAP financial measure and a reconciliation to the most comparable GAAP amount.

Revenues and Gross Margin

During the three months ended March 31, 2023, the Company's revenues and gross margin increased by \$26.9 million, or 45%, and \$18.3 million, or 58%, respectively, when compared to same period in 2022 principally due to the strength of IMAX GBO performance through the distribution of films such as *Avatar: The Way of Water*, *Wandering Earth 2*, *Ant-Man and the Wasp: Quantumania*, and *Creed III*.

The following table presents the Company's revenue, gross margin and gross margin percentage by reportable segment for the three months ended March 31, 2023 and 2022:

| (In thousands of U.S. Dollars) | Revenue | | Gross Margin | | Gross Margin % | |
|-----------------------------------|-----------|-----------|--------------|-----------|----------------|------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Content Solutions | \$ 32,101 | \$ 20,988 | \$ 17,995 | \$ 12,625 | 56% | 60% |
| Technology Products and Services | 51,667 | 37,863 | 29,891 | 18,416 | 58% | 49% |
| Sub-total for reportable segments | 83,768 | 58,851 | 47,886 | 31,041 | 57% | 53% |
| All Other ⁽¹⁾ | 3,178 | 1,185 | 2,165 | 730 | 68% | 62% |
| Total | \$ 86,946 | \$ 60,036 | \$ 50,051 | \$ 31,771 | 58% | 53% |

(1) All Other includes the results from IMAX Enhanced, SSIMWAVE, and other ancillary activities.

Content Solutions

Content Solutions segment results are influenced by the level of commercial success and box office performance of the films and other content released to the IMAX network, as well as other factors including the timing of the releases, the length of play across the IMAX network, the box office share take rates under the Company's film remastering and distribution arrangements, the level of marketing spend associated with the releases in the year and the fluctuations in the value of foreign currencies versus the U.S. Dollar.

For the three months ended March 31, 2023, Content Solutions segment revenues and gross margin increased by \$11.1 million, or 53%, and \$5.4 million, or 43%, respectively, when compared to the same period in 2022 principally due to the strong performance of the films distributed through the IMAX network. In the first quarter of 2023, box office generated by IMAX films totaled \$273.4 million, leading to the Company's best-ever first quarter box office performance, a \$100.2 million, or 58% increase versus the prior year comparative period of \$173.2 million. In the first quarter of 2023, box office was generated by the exhibition of 22 films (15 new films, 6 carryovers and 1 re-release) including *Avatar: The Way of Water*, which generated box office of \$109.1 million, and other content. In addition, in the first quarter of 2023, local language films exhibited across the Company's global IMAX network generated over \$80 million in box office representing 30% of the Company's total box office. The growth in local language box office was driven primarily by a record IMAX Chinese New Year of \$61.3 million for the full 26-day Chinese New Year holiday, a growth of 72% over the prior year, as well as growth in Rest of World box office. Leading local language titles distributed across the IMAX network in the first quarter of 2023 included the Chinese film *Wandering Earth 2*, which generated \$48.8 million in box office, the Japanese anime film *Suzume*, which generated \$6.7 million in box office, and the Indian film *Pathaan*, which generated \$3.6 million in box office. In the first quarter of 2022, box office was generated by the exhibition of 23 films (13 new films and 10 carryovers) and other content. Despite accounting for approximately 1% of all domestic screens and less than 1% of all screens globally, the IMAX network had a domestic market share of 4.6% and a global market share of 3.5% for the three months ended March 31, 2023. Furthermore, the share of industry box office that IMAX Systems captured in 2022 increased by 50% domestically and 33% internationally from 2019.

In addition to the level of revenues, Content Solutions segment gross margin is also influenced by the costs associated with the films and other content exhibited in the period, and can vary from period-to-period, especially with respect to marketing expenses for films and the costs incurred to produce, market and distribute live events and documentary content during the period. For the three months ended March 31, 2023, marketing expenses for films were \$6.4 million, as compared to \$2.3 million during the same period in 2022, primarily driven by marketing costs for *Avatar: The Way of Water*. The costs incurred to operate the IMAX connected network, including infrastructure costs, depreciation expense and network connection fees were \$1.6 million (2022 — \$0.4 million), an increase over the prior year comparative period of \$1.2 million resulting from the growth of the IMAX connected network to 258 systems (2022 — 68 systems).

Technology Products and Services

The primary drivers of Technology Products and Services segment results are the number of IMAX Systems installed in a period, the costs associated with each installation, lease payments tied to the box office performance of the films released to the IMAX network, as well as the associated maintenance contracts that accompany each installation. The average revenue and gross margin per IMAX System under sale and sales-type lease arrangements varies depending upon the number of IMAX System commitments with a single respective exhibitor, an exhibitor's location, the type of system sold and various other factors. The installation of IMAX Systems in newly built theaters or multiplexes, which make up a large portion of the Company's system backlog, depends primarily on the timing of the construction of those projects, which is not under the Company's control.

For the three months ended March 31, 2023, Technology Products and Services segment revenue and gross margin increased by \$13.8 million, or 36%, and \$11.5 million, or 62%, respectively, when compared to the same period in the prior year. Box office from joint revenue sharing arrangements increased \$48.9 million in the first quarter of 2023 when compared to the prior year comparative period, from \$92.8 million to \$141.7 million. The box office performance increase of 53% over the prior period resulted in an increase of \$7.4 million in rental revenues. Also contributing to the higher level of revenue was an increase of \$5.5 million in revenue from the renewal of existing IMAX system arrangements and an increase of \$1.5 million in revenue from after-market sales of IMAX 3D glasses when compared to the same period in the prior year. The Technology Products and Services segment revenue increase is partially offset by a decrease of \$1.5 million in maintenance revenues primarily due to temporary relief to select exhibitor customers by waving or reducing maintenance fees related to periods when theaters were closed or operating with reduced capacities as a result of public health restrictions related to the COVID-19 pandemic.

The Technology Products and Services segment gross margin increase during the three months ended March 31, 2023 is primarily due to the renewal of certain existing IMAX Systems which extended the agreement term, as well as higher rental revenues from the Company's joint revenue sharing arrangements, driven by the stronger box office performance which led to incremental profit flow-through during the quarter.

The following table provides information about IMAX Systems installed and recognized, under sales, sales-type leases and hybrid joint revenue sharing arrangements, during the three months ended March 31, 2023 and 2022:

| | For the Three Months Ended March 31, | | | |
|--|--------------------------------------|-----------------|-------------------|-----------------|
| | 2023 | | 2022 | |
| (In thousands of U.S. Dollars, except number of systems) | Number of Systems | Revenue | Number of Systems | Revenue |
| New IMAX Systems: | | | | |
| Sale and sales-type lease arrangements ⁽¹⁾ | 7 | \$ 6,627 | 4 | \$ 4,747 |
| JRSA — hybrid | — | — | 2 | 1,014 |
| Total new IMAX Systems | 7 | 6,627 | 6 | 5,761 |
| IMAX System upgrades: | | | | |
| Sale and sales-type lease arrangements ⁽¹⁾ | 1 | 1,339 | 1 | 1,673 |
| Total upgraded IMAX Systems | 1 | 1,339 | 1 | 1,673 |
| Total | 8 | \$ 7,965 | 7 | \$ 7,434 |

- (1) The arrangement for the sale of an IMAX System includes fixed upfront and ongoing consideration, including indexed annual minimum payment increases over the term of the arrangement, as well as an estimate of the contingent fees that may become due if certain annual minimum box office receipt thresholds are exceeded.

All Other

For the three months ended March 31, 2023, All Other revenue and gross margin increased by \$2.0 million, or 168%, and \$1.4 million, or 197%, respectively, when compared to the same period in 2022 principally due to the inclusion of revenues earned by SSIMWAVE's operations which were not in the prior year comparative period as the acquisition was completed in late September 2022, as well as growth in IMAX Enhanced initiatives resulting in an increase in revenues of \$0.7 million over the same period in 2022.

Selling, General and Administrative Expenses

The following table presents information about the Company's Selling, General and Administrative Expenses for the three months ended March 31, 2023 and 2022:

| <i>(In thousands of U.S. Dollars)</i> | Three Months Ended | | Variance | |
|--|--------------------|------------------|-----------------|------------|
| | March 31, | | | |
| | 2023 | 2022 | \$ | % |
| Total selling, general and administrative expenses | \$ 34,148 | \$ 30,181 | \$ 3,967 | 13% |
| Less: Share-based compensation ⁽¹⁾ | 5,196 | 5,726 | (530) | (9%) |
| Total selling, general and administrative expenses, excluding share-based compensation | <u>\$ 28,952</u> | <u>\$ 24,455</u> | <u>\$ 4,497</u> | <u>18%</u> |

- (1) A portion of share-based compensation expense is recognized within Costs and Expenses Applicable to Revenues, Research and Development, and Executive Transition Costs. (See Note 11(a) of Notes to Condensed Consolidated Financial Statements in Part I, Item 1.)

The increase in Selling, General and Administrative Expenses reflects the Company's normalized level of business activity in the current period, primarily the result of higher workforce costs of \$1.8 million reflecting a full staff complement and the resumption of travel as compared to the prior year period, as well as from the inclusion of SSIMWAVE which was not in the prior year comparative period as the acquisition was completed in late September 2022.

As a percentage of revenue, Selling, General and Administrative Expenses excluding share-based compensation was 33% versus 41% in the three months ended March 31, 2022, an improvement over the prior year period which reflected cost discipline efforts and the strong operating leverage in the business.

Research and Development

A significant portion of the Company's recent research and development efforts have been focused on its laser-based projection systems, which the Company believes present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, consume less power and last longer than other digital projection technologies, and are capable of illuminating the largest screens in the IMAX network. To a lesser extent, the Company's recent research and development efforts have also focused on image enhancement technology, developing technologies and systems to help bring additional interactivity to its global IMAX network. With the acquisition of SSIMWAVE, there is ongoing research and development in perceptual metrics including novel measurement and optimization techniques. Teams from IMAX and SSIMWAVE are working to expand existing and/or develop new technologies which are expected to further enhance video quality, delivery, and creation across devices.

For the three months ended March 31, 2023, Research and Development expenses increased by \$0.7 million, or 55%, when compared to the same period in the prior year, which primarily reflects the increased efforts specifically related to SSIMWAVE technologies.

The Company intends to continue research and development to further evolve its end-to-end technology. This includes bringing connectivity to the Company's global network and experimenting with live and interactive events worldwide; developing new IMAX film cameras and certifying additional digital cameras; further improving its proprietary film remastering and distribution process for the delivery of content for both theatrical (including local language content) and home entertainment; and further improving the reliability of its projectors, as well as enhancing the Company's image and sound quality.

Credit Loss Expense, Net

For the three months ended March 31, 2023, the Company recorded current expected credit losses of \$0.2 million, as compared to credit losses of \$7.2 million recognized in the prior year. The prior period expense was principally due to reserves established against substantially all of the Company's receivables in Russia due to uncertainties associated with the ongoing Russia-Ukraine conflict and resulting sanctions, partially offset by the reversal of provisions associated with the COVID-19 pandemic as the outlook for the theatrical exhibition industry in Domestic and Rest of World markets improved.

Management's judgments regarding expected credit losses are based on the facts available to management at the time that the Condensed Consolidated Financial Statements are prepared and involve estimates about the future. As a result, the Company's judgments and associated estimates of credit losses may ultimately prove, with the benefit of hindsight, to be incorrect. (See Note 3 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1.)

Interest Expense

For the three months ended March 31, 2023, interest expense was \$1.8 million, representing an increase of \$0.1 million, or 4% when compared to interest expense of \$1.7 million during the same period of the prior year.

Income Taxes

For the three months ended March 31, 2023, the Company recorded income tax expense of \$4.9 million (2022 — \$2.6 million). The Company's effective tax rate for the three months ended March 31, 2023 of 48.8% differs from the Canadian statutory tax rate of 26.5% primarily due to the fact that the Company recorded an additional \$1.6 million valuation allowance against deferred tax assets in jurisdictions where management cannot determine that the tax benefits will be realizable based on available evidence. Accordingly, the tax benefit associated with the current period losses in these jurisdictions is not ultimately reflected in the Company's Condensed Consolidated Statements of Operations. (See Note 10 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1.)

Non-Controlling Interests

The Company's Condensed Consolidated Financial Statements primarily include the non-controlling interest in the net income or loss of IMAX China, as well as the impact of non-controlling interests in the activity of its Original Film Fund subsidiary. For the three months ended March 31, 2023, the net income attributable to non-controlling interests of the Company's subsidiaries was \$2.7 million, an increase of \$1.0 million, or 61%, when compared to the same period of the prior year. The increase can be primarily attributed to IMAX China's box office success in the first quarter of 2023 following the Chinese government relaxing its dynamic zero-COVID policies and easing capacity restrictions at the end of 2022.

CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022

Operating Activities

The net cash used in or provided by the Company's operating activities is affected by a number of factors, including: (i) the level of cash collections from customers in respect of existing IMAX System sale and lease agreements, (ii) the amount of upfront payments collected in respect of IMAX System sale and lease agreements in backlog, (iii) the box-office performance of films distributed by the Company and/or released to IMAX locations, (iv) the level of inventory purchases, and (v) the level of the Company's operating expenses, including expenses for research and development and new business initiatives.

For the three months ended March 31, 2023, net cash provided by the Company's operating activities totaled \$21.2 million, as compared to net cash used in operating activities of \$3.8 million in the same period of the prior year, an improvement of 675%.

For the three months ended March 31, 2023, the net cash provided by the Company's operating activities is principally due to cash collected from earnings in the period, as a result of revenue growth attributable to the record box office performance of the films distributed through the IMAX network, partially offset by \$5.9 million in inventory purchases, and \$3.9 million of expenditures incurred in connection with the development of Film Assets.

For the three months ended March 31, 2022, the net cash used in the Company's operating activities was principally due to the settlement of Accrued and Other Liabilities and \$5.1 million spent in connection with the development of Film Assets, partially offset by the Company's cash earnings in the period.

Investing Activities

For the three months ended March 31, 2023, net cash used in investing activities totaled \$4.3 million, as compared to \$10.6 million used in investing activities in the same period of the prior year. For the three months ended March 31, 2023, the net cash used in investing activities is primarily driven by \$2.2 million invested in equipment to be used in the Company's joint revenue sharing arrangements with exhibitor customers, \$0.4 million in purchases of property, plant and equipment, and \$1.8 million of intangible assets acquired, principally related to the purchase or continued development of internal use software.

For the three months ended March 31, 2022, the net cash used by investing activities was primarily driven by \$4.6 million invested in equipment to be used in the Company's joint revenue sharing arrangements with exhibitors, and \$4.7 million invested by IMAX (Shanghai) Culture and Technology Co., Ltd, a wholly-owned subsidiary of IMAX China, in the movie *Mozart from Space*. (See Note 15 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1.)

Based on management's current operating plan for 2023, the Company expects to continue to use cash to deploy additional IMAX Systems under joint revenue sharing arrangements.

Capital expenditures, including the Company's investment in joint revenue sharing arrangements, the purchase of property, plant and equipment, the acquisition of other intangible assets, and investments in films, were \$8.2 million for the three months ended March 31, 2023, as compared to \$15.7 million for the three months ended March 31, 2022. The Company expects its investment in joint revenue sharing arrangements to be weighted toward the second half of the year which aligns with the historical seasonality of system installations.

Financing Activities

For the three months ended March 31, 2023, net cash used in financing activities totaled \$15.0 million, as compared to \$13.0 million used in financing activities in the same period of the prior year. For the three months ended March 31, 2023, the net cash used in financing activities is principally due to \$5.5 million in net repayments of revolving credit facility borrowings, \$3.7 million used to repurchase common shares of the Company, and \$6.2 million in taxes withheld and paid on vested employee stock awards.

For the three months ended March 31, 2022, net cash used in financing activities was principally due to the \$8.1 million used to repurchase common shares, including \$6.3 million in share repurchases for the Company and \$1.8 million in share repurchases for IMAX China, \$3.1 million in taxes withheld and paid on vested employee stock awards, and \$1.8 million in fees paid in relation to the Sixth Amended and Restated Credit Agreement entered into by the Company during the first quarter of 2022. (See Note 6 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 for additional information on the Sixth Amended and Restated Credit Agreement.)

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2023, the Company's available liquidity was \$423.4 million, including its balance of cash and cash equivalents of \$99.2 million, \$280.0 million in available borrowing capacity under the Credit Facility and \$44.2 million in available borrowing capacity under IMAX China's revolving facilities.

As of March 31, 2023, the Company's principal sources of liquidity included: (i) its balances of cash and cash equivalents; (ii) the anticipated collection of trade accounts receivable, which includes amounts owed under joint revenue sharing arrangements and film remastering and distribution agreements with movie studios; (iii) the anticipated collection of financing receivables due in the next 12 months under sale and sales-type lease arrangements for systems currently in operation; and (iv) installment payments expected in the next 12 months under sale and sales-type lease arrangements in backlog. Under the terms of the Company's typical sale and sales-type lease agreements, the Company receives substantial cash payments before it completes the performance of its contractual obligations.

In addition, as of March 31, 2023, the Company had \$280.0 million in available borrowing capacity under its Sixth Amended and Restated Credit Agreement with Wells Fargo Bank, National Association (the "Credit Agreement"), \$27.3 million in available borrowing capacity under the IMAX (Shanghai) Multimedia Technology Co., Ltd. ("IMAX Shanghai") revolving credit facility with the Bank of China (the "Bank of China Facility"), and \$16.9 million in available borrowing capacity under IMAX Shanghai's revolving credit facility with HSBC Bank (China) Company Limited, Shanghai Branch (the "HSBC China Facility"). (See Note 6(a) of Notes to Condensed Consolidated Financial Statements in Part 1, Item 1 for a description of the material terms of the Credit Agreement, the Bank of China Facility, and the HSBC Facility.)

The Company's \$99.2 million balance of cash and cash equivalents as of March 31, 2023 (December 31, 2022 — \$97.4 million) includes \$83.6 million in cash held outside of Canada (December 31, 2022 — \$79.7 million), of which \$47.2 million was held in the People's Republic of China (the "PRC") (December 31, 2022 — \$43.7 million). Management reassessed its strategy with respect to the most efficient means of deploying the Company's capital resources globally and determined that historical earnings of certain foreign subsidiaries in excess of amounts required to sustain business operations would no longer be indefinitely reinvested. As of March 31, 2023, the Company's Condensed Consolidated Balance Sheets include a deferred tax liability of \$14.9 million for the applicable foreign withholding taxes associated with the remaining balance of unrepatriated historical earnings that will not be indefinitely reinvested outside of Canada. These taxes will become payable upon the repatriation of any such earnings.

The Company forecasts its future cash flow and short-term liquidity requirements on an ongoing basis. These forecasts are based on estimates and may be materially impacted by factors that are outside of the Company's control (including the factors described in "Risk Factors" in Part I, Item 1A of the Company's 2022 Form 10-K. As a result, there is no guarantee that these forecasts will come to fruition and that the Company will be able to fund its operations through cash flows from operations. In particular, the Company's operating cash flows and cash balances will be adversely impacted if management's projections of future signings and installations of IMAX Systems and box office performance of IMAX content are not realized.

For the three months ended March 31, 2023, box office generated by films exhibited in the IMAX network totaled \$273.4 million, leading to the Company's best-ever first quarter box office performance, a \$100.2 million, or 58% increase versus the prior year comparative period of \$173.2 million. In the first quarter of 2023, box office was generated by the exhibition of 22 films (15 new films, 6 carryovers and 1 re-release) including *Avatar: The Way of Water*, which generated box office of \$109.1 million, and other content. In addition, in the first quarter of 2023, local language films exhibited across the Company's global IMAX network generated over \$80 million in box office representing 30% of the Company's total box office. The growth in local language box office was driven primarily by a record IMAX Chinese New Year of \$61.3 million for the full 26-day Chinese New Year holiday, a growth of 72% over the prior year, as well as growth in Rest of World box office. Despite accounting for approximately 1% of all domestic screens and less than 1% of all screens globally, the IMAX network had a domestic market share of 4.6% and a global market share of 3.5% for the three months ended March 31, 2023. Management is encouraged by the return of the prevalence of exclusive theatrical windows and the strong pipeline of Hollywood and local language movies scheduled to be released for theatrical exhibition throughout the remainder of 2023 and the visibility into 2024.

Based on the Company's current cash balances and operating cash flows, management expects to have sufficient capital and liquidity to fund its anticipated operating needs and capital requirements during the next twelve-month period following the date of this report.

CONTRACTUAL OBLIGATIONS

Payments to be made by the Company under contractual obligations as of March 31, 2023 are as follows:

| <i>(In thousands of U.S. Dollars)</i> | Payments Due by Period | | | | |
|--|------------------------|-----------------------|------------------|-------------------|-----------------|
| | Total Obligation | Less Than One Year | 1 to 3 years | 3 to 5 years | Thereafter |
| Purchase obligations ⁽¹⁾ | \$ 39,534 | \$ 36,231 | \$ 2,668 | \$ 391 | \$ 244 |
| Pension obligations ⁽²⁾ | 20,298 | — | — | 20,298 | — |
| Operating lease obligations ⁽³⁾ | 16,969 | 3,669 | 5,551 | 4,127 | 3,622 |
| Finance lease obligations | 1,016 | 508 | 508 | — | — |
| Wells Fargo Facility | 20,000 | — | — | 20,000 | — |
| HSBC Facility | 12,165 | 12,165 | — | — | — |
| Bank of China Facility | 379 | 379 | — | — | — |
| Federal Economic Development Loan ⁽⁴⁾ | 3,128 | 156 | 1,251 | 1,251 | 470 |
| Convertible Notes ⁽⁵⁾ | 234,025 | 1,150 | 2,300 | 230,575 | — |
| Postretirement benefits obligations | 2,480 | 104 | 210 | 220 | 1,946 |
| | <u>\$ 349,994</u> | <u>\$ 54,362</u> | <u>\$ 12,488</u> | <u>\$ 276,862</u> | <u>\$ 6,282</u> |

- (1) Represents total payments to be made under binding commitments with suppliers and outstanding payments to be made for supplies ordered, but yet to be invoiced.
- (2) The Company has an unfunded defined benefit pension plan, the Supplemental Executive Retirement Plan (the “SERP”), covering its CEO, Mr. Richard L. Gelfond. The SERP has a fixed benefit payable of \$20.3 million. The table above assumes that Mr. Gelfond will receive a lump sum payment of \$20.3 million six months after retirement at the end of the term of his current employment agreement, which expires on December 31, 2025, in accordance with the terms of the SERP, although Mr. Gelfond has not informed the Company that he intends to retire at that time. (See Note 14 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1.)
- (3) Represents total minimum annual rental payments due under the Company’s operating leases.
- (4) The Federal Economic Development Loan will be repayable over 60 months, with repayments estimated to begin in January 2024. (See Note 6(b) of Notes to Condensed Consolidated Financial Statements in Part I, Item 1.)
- (5) The Convertible Notes bear interest at a rate of 0.500% per annum on the principal of \$230.0 million, payable semi-annually in arrears on April 1 and October 1 of each year. The Convertible Notes will mature on April 1, 2026, unless earlier repurchased, redeemed or converted. (See Note 6(b) of Notes to Condensed Consolidated Financial Statements in Part I, Item 1.)

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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements and related disclosures in accordance with U.S. GAAP requires management to make judgments, assumptions, and estimates that affect the amounts reported in the Company's Condensed Consolidated Financial Statements and accompanying notes. Management's judgments, assumptions, and estimates are based on historical experience, future expectations, and other factors that are believed to be reasonable as of the date of the Company's Condensed Consolidated Financial Statements. Actual results may ultimately differ from the Company's original estimates, as future events and circumstances sometimes do not develop as expected, and the differences may be material. For more information on the Company's critical accounting estimates refer to the section entitled "Critical Accounting Estimates" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the 2022 Form 10-K.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 2 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 for a discussion of recently issued accounting standards and their impact on the Company's Condensed Consolidated Financial Statements.

NON-GAAP FINANCIAL MEASURES

GAAP refers to generally accepted accounting principles in the United States of America. In this report, the Company presents financial measures in accordance with GAAP and also on a non-GAAP basis under the SEC regulations. Specifically, the Company presents the following non-GAAP financial measures as supplemental measures of its performance:

- Adjusted net income or loss attributable to common shareholders;
- Adjusted net income or loss attributable to common shareholders per basic and diluted share;
- EBITDA; and
- Adjusted EBITDA per Credit Facility.

Adjusted net income or loss attributable to common shareholders and adjusted net income or loss attributable to common shareholders per basic and diluted share exclude, where applicable: (i) share-based compensation; (ii) COVID-19 government relief benefits; (iii) realized and unrealized investment gains or losses; (iv) acquisition-related expenses; and (v) executive transition costs, as well as the related tax impact of these adjustments.

The Company believes that these non-GAAP financial measures are important supplemental measures that allow management and users of the Company's financial statements to view operating trends and analyze controllable operating performance on a comparable basis between periods without the after-tax impact of share-based compensation and certain unusual items included in net income or loss attributable to common shareholders. Although share-based compensation is an important aspect of the Company's employee and executive compensation packages, it is a non-cash expense and is excluded from certain internal business performance measures.

Reconciliations of net income (loss) attributable to common shareholders and the associated per share amounts to adjusted net income (loss) attributable to common shareholders and adjusted net income (loss) attributable to common shareholders per diluted share are presented in the tables below.

| <i>(In thousands of U.S. Dollars, except per share amounts)</i> | Three Months Ended March 31, | | | |
|---|-------------------------------------|------------------|-------------------|------------------|
| | 2023 | | 2022 | |
| | Net Income | Per Share | Net Loss | Per Share |
| Net income (loss) attributable to common shareholders | \$ 2,454 | \$ 0.04 | \$ (13,609) | \$ (0.23) |
| Adjustments ⁽¹⁾ : | | | | |
| Share-based compensation | 5,536 | 0.10 | 5,959 | 0.10 |
| COVID-19 government relief benefits, net | — | — | (193) | — |
| Realized and unrealized investment gains | (45) | — | (34) | — |
| Acquisition-related expenses | 156 | — | — | — |
| Executive transition costs ⁽²⁾ | 1,353 | 0.02 | — | — |
| Tax impact on items listed above | (429) | (0.01) | (367) | (0.01) |
| Adjusted net income (loss) ⁽¹⁾ | <u>\$ 9,025</u> | <u>\$ 0.16</u> | <u>\$ (8,244)</u> | <u>\$ (0.14)</u> |
| Weighted average shares outstanding — basic | | <u>54,064</u> | | <u>58,574</u> |
| Weighted average shares outstanding — diluted | | <u>54,991</u> | | <u>58,574</u> |

(1) Reflects amounts attributable to common shareholders.

(2) Reflects costs in connection with the departure of Megan Colligan, President, IMAX Entertainment and Executive Vice President of the Company. (See Note 16 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1.)

In addition to the non-GAAP financial measures discussed above, management also uses “EBITDA,” as well as “Adjusted EBITDA per Credit Facility,” as defined in the Credit Agreement. As allowed by the Credit Agreement, Adjusted EBITDA per Credit Facility includes adjustments in addition to the exclusion of interest, taxes, depreciation and amortization. Accordingly, this non-GAAP financial measure is presented to allow a more comprehensive analysis of the Company’s operating performance and to provide additional information with respect to the Company’s compliance with its Credit Agreement requirements, when applicable. In addition, the Company believes that Adjusted EBITDA per Credit Facility presents relevant and useful information widely used by analysts, investors and other interested parties in the Company’s industry to evaluate, assess and benchmark the Company’s results.

EBITDA is defined as net income or loss excluding: (i) income tax expense or benefit; (ii) interest expense, net of interest income; (iii) depreciation and amortization, including film asset amortization; and (iv) amortization of deferred financing costs. Adjusted EBITDA per Credit Facility is defined as EBITDA excluding: (v) share-based and other non-cash compensation; (vi) realized and unrealized investment gains or losses; (vii) acquisition-related expenses; (viii) executive transition costs, and (ix) write-downs, net of recoveries, including asset impairments and credit loss expense.

Reconciliations of net income (loss) attributable to common shareholders, which is the most directly comparable GAAP measure, to EBITDA and Adjusted EBITDA per Credit Facility are presented in the tables below.

| | For the Three Months Ended March 31, 2023 | | |
|--|--|--|--|
| | Attributable to Non-controlling Interests and Common Shareholders | Less: Attributable to Non-controlling Interests | Attributable to Common Shareholders |
| <i>(In thousands of U.S. Dollars)</i> | | | |
| Reported net income | \$ 5,123 | \$ 2,669 | \$ 2,454 |
| Add (subtract): | | | |
| Income tax expense | 4,885 | 793 | 4,092 |
| Interest expense, net of interest income | 735 | (11) | 746 |
| Depreciation and amortization, including film asset amortization | 13,320 | 1,301 | 12,019 |
| Amortization of deferred financing costs ⁽¹⁾ | 625 | — | 625 |
| EBITDA | 24,688 | 4,752 | 19,936 |
| Share-based and other non-cash compensation | 5,633 | 194 | 5,439 |
| Unrealized investment gains | (44) | — | (44) |
| Acquisition-related expenses | 156 | — | 156 |
| Write-downs, including asset impairments and credit loss expense | 524 | 82 | 442 |
| Executive transition costs ⁽²⁾ | 1,353 | — | 1,353 |
| Adjusted EBITDA per Credit Facility | <u>\$ 32,310</u> | <u>\$ 5,028</u> | <u>\$ 27,282</u> |

| | For the Twelve Months Ended March 31, 2023 | | |
|--|--|--|--|
| | Attributable to Non-controlling Interests and Common Shareholders | Less: Attributable to Non-controlling Interests | Attributable to Common Shareholders |
| <i>(In thousands of U.S. Dollars)</i> | | | |
| Reported net (loss) income | \$ (2,804) | \$ 3,933 | \$ (6,737) |
| Add (subtract): | | | |
| Income tax expense | 12,382 | 1,562 | 10,820 |
| Interest expense, net of interest income | 1,827 | (156) | 1,983 |
| Depreciation and amortization, including film asset amortization | 57,240 | 4,820 | 52,420 |
| Amortization of deferred financing costs ⁽¹⁾ | 2,779 | — | 2,779 |
| EBITDA | 71,424 | 10,159 | 61,265 |
| Share-based and other non-cash compensation | 27,017 | 751 | 26,266 |
| Unrealized investment gains | (81) | — | (81) |
| Acquisition-related expenses | 1,278 | — | 1,278 |
| Write-downs, including asset impairments and credit loss expense | 8,638 | 1,787 | 6,851 |
| Executive transition costs ⁽²⁾ | 1,353 | — | 1,353 |
| Adjusted EBITDA per Credit Facility | <u>\$ 109,629</u> | <u>\$ 12,697</u> | <u>\$ 96,932</u> |

(1) The amortization of deferred financing costs is recorded within Interest Expense in the Condensed Consolidated Statements of Operations.

(2) Reflects costs in connection with the departure of Megan Colligan, President, IMAX Entertainment and Executive Vice President of the Company. (See Note 16 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1.)

The Company cautions users of its financial statements that these non-GAAP financial measures may not be comparable to similarly titled measures reported by other companies. Additionally, the non-GAAP financial measures used by the Company should not be considered in isolation, or as a substitute for, or superior to, the comparable GAAP amounts.

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

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

Foreign Exchange Rate Risk

A majority of the Company's revenue is denominated in U.S. Dollars while a significant portion of its costs and expenses is denominated in Canadian Dollars. A portion of the Company's net U.S. Dollar cash flows is converted to Canadian Dollars to fund Canadian Dollar expenses through the spot market. In addition, IMAX films generate box office in 87 different countries, and therefore unfavorable exchange rates between applicable local currencies and the U.S. Dollar could have an impact on the GBO generated by the Company's exhibitor customers and its revenues. The Company has incoming cash flows from its revenue generating IMAX network and ongoing operating expenses in China through its majority-owned subsidiary IMAX Shanghai. In Japan, the Company has ongoing Yen-denominated operating expenses related to its Japanese operations. Net RMB and Japanese Yen cash flows are converted to U.S. Dollars through the spot market. The Company also has cash receipts from lease arrangements denominated in RMB, Japanese Yen, Euros and Canadian Dollars.

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

Certain of the Company's PRC subsidiaries held approximately RMB 322.6 million (\$47.0 million) in cash and cash equivalents as of March 31, 2023 (December 31, 2022 — RMB 303.8 million or \$43.6 million) and are required to transact locally in RMB. Foreign currency exchange transactions, including the remittance of any funds into and out of the PRC, are subject to controls and require the approval of the China State Administration of Foreign Exchange to complete. Any developments relating to the Chinese economy and any actions taken by the Chinese government are beyond the control of the Company; however, the Company monitors and manages its capital and liquidity requirements to ensure compliance with local regulatory and policy requirements. (See "Risk Factors – The Company faces risks in connection with its significant presence in China and the continued expansion of its business there" in Part I, Item 1A of the Company's 2022 Form 10-K.)

Management also monitors the macroeconomic environment as part of its continuous assessment of credit risk. This includes consideration of developments in the U.S. and global banking sectors following recent banking collapses, which informs management's assessment of any potential direct and indirect impacts on the Company. There are no concentrations of cash and cash equivalents in any regional banking institutions, such that management considers there to be any material risk in this regard.

For the three months ended March 31, 2023 and 2022, the Company recorded foreign exchange net losses of \$(0.1) million, resulting from changes in exchange rates related to foreign currency denominated monetary assets and liabilities.

The Company has entered into a series of foreign currency forward contracts to manage the risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests as of March 31, 2023, with settlement dates throughout 2023 and 2024. Foreign currency derivatives are recognized and measured in the Condensed Consolidated Balance Sheets at fair value. Changes in the fair value (i.e., gains or losses) are recognized in the Condensed Consolidated Statements of Operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. The Company currently has cash flow hedging instruments associated with Selling, General and Administrative Expenses. For foreign currency cash flow hedging instruments related to Selling, General and Administrative Expenses, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported within Accumulated Other Comprehensive Income (Loss) and reclassified to the Condensed Consolidated Statements of Operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the Condensed Consolidated Statements of Operations.

The notional value of foreign currency cash flow hedging instruments that qualify for hedge accounting as of March 31, 2023 was \$34.4 million (December 31, 2022 — \$24.7 million). A gain of \$0.1 million was recorded to Other Comprehensive Income (Loss) with respect to the change in fair value of these contracts for the three months ended March 31, 2023, (2022 — gain of \$0.3 million). A loss of \$(0.3) million was reclassified from Accumulated Other Comprehensive Loss to Selling, General and Administrative Expenses for the three months ended March 31, 2023 (2022 — loss of less than \$(0.1) million). The Company currently does not hold any derivatives which are not designated as hedging instruments.

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.

As of March 31, 2023, the Company's Financing Receivables and working capital items denominated in Canadian Dollars, RMB, Japanese Yen, Euros and other foreign currencies translated into U.S. Dollars was \$163.3 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates as of March 31, 2023, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$16.3 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 as of March 31, 2023, the potential change in the amount of Selling, General, and Administrative Expenses would be \$0.1 million.

Interest Rate Risk Management

The Company's earnings may also be 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 that may be made under the Credit Facility.

As of March 31, 2023, the Company had drawn down \$20.0 million on its Credit Facility (December 31, 2022 — \$25.0 million), \$12.2 million on its HSBC China Facility (December 31, 2022 — \$12.5 million) and \$0.4 million on its Bank of China Facility (December 31, 2022 — \$0.4 million), which are subject to variable effective interest rates.

The Company had variable rate debt instruments representing 6.7% and 7.7% of its total liabilities as of March 31, 2023 and December 31, 2022, respectively. If the interest rates available to the Company increased by 10%, the Company's interest expense would increase by \$0.2 million and interest income from cash would increase by \$0.2 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable rate debt and cash balances as of March 31, 2023.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods and that such information is accumulated and communicated to management, including the CEO and the Chief Financial Officer (“CFO”), to allow timely discussions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The Company’s management, with the participation of its CEO and its CFO, has evaluated the effectiveness of the Company’s “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as of March 31, 2023 and has concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were effective. The Company will continue to periodically evaluate its disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

On September 22, 2022, the Company acquired SSIMWAVE and commenced consolidating the assets, liabilities, and results of operations of SSIMWAVE in its financial reporting. Management has excluded SSIMWAVE from its assessment of internal control over financial reporting as of March 31, 2023, as it has been less than 12 months since it was acquired by the Company in a purchase business combination. SSIMWAVE is a wholly-owned subsidiary whose total assets and total revenues excluded from management’s assessment of internal control over financial reporting represent approximately 3% and 1%, respectively, of the related consolidated financial statement amounts as of and for the three months ended March 31, 2023.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company’s internal control over financial reporting which occurred during the three months ended March 31, 2023, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

See Note 7 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 for information regarding legal proceedings involving the Company.

Item 1A. *Risk Factors*

This Form 10-Q should be read together with the risk factors in Item 1A. Risk Factors in the Company's 2022 Form 10-K, which describes various risks and uncertainties to which the Company is or may become subject. The risks described in the Company's 2022 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect its business, financial condition and/or operating results.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

Issuer Purchases of Equity Securities

In 2022, the Company's Board of Directors approved a 12-month extension to its share repurchase program through June 30, 2023 and an increase of \$200.0 million in the share repurchase program, respectively. With the increase of \$200.0 million, the Company's total share repurchase authority is \$400.0 million under the current share repurchase program. As of March 31, 2023, the Company had \$191.8 million available under the repurchase program. The repurchases may be made either in the open market or through private transactions, including repurchases made pursuant to a plan intended to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, subject to market conditions, applicable legal requirements, and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time.

During the three months ended March 31, 2023, the Company repurchased 109,477 common shares at an average price of \$14.87 per share for a total of \$1.6 million, excluding commission.

The Company's common share repurchase program activity for the three months ended March 31, 2023 was as follows:

| | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced program | Maximum approximate dollar value of shares that may yet be purchased under the program |
|--------------------------------------|----------------------------------|------------------------------|--|--|
| January 1 through January 31, 2023 | 109,477 | \$ 14.87 | 109,477 | \$ 191,805,295 |
| February 1 through February 28, 2023 | — | — | — | 191,805,295 |
| March 1 through March 31, 2023 | — | — | — | 191,805,295 |
| Total | <u>109,477</u> | <u>\$ 14.87</u> | <u>109,477</u> | |

In 2022, IMAX China's shareholders granted its Board of Directors a general mandate authorizing the Board, subject to applicable laws, to repurchase shares of IMAX China not to exceed 10% of the total number of issued shares as of June 23, 2022 (34,063,480 shares). This program will be valid until the 2023 Annual General Meeting of IMAX China on June 6, 2023. The repurchases may be made in the open market or through other means permitted by applicable laws. IMAX China has no obligation to repurchase its shares and the share repurchase program may be suspended or discontinued by IMAX China at any time. During the three months ended March 31, 2023, IMAX China did not repurchase any common shares.

(See Note 6 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 for a summary of the material terms and conditions of the Company's revolving credit facility, which include a limitation of the amount of permitted share repurchases.)

Item 6. Exhibits

Exhibit

| No. | Description |
|------------|---|
| 3.1 | Second Amended and Restated By-law No.1 of IMAX Corporation, enacted on February 7, 2023. Incorporated by reference to Exhibit 3.1 to IMAX Corporation's Form 8-K, dated as of February 10, 2023. |
| 10.1+ | Statement of Directors' Compensation as of January 2023. Incorporated by reference to Exhibit 10.37 to IMAX Corporation's Form 10-K for the fiscal year ended December 31, 2022. |
| 10.2*+† | Letter Agreement by and between Megan Colligan and IMAX Corporation, dated as of March 15, 2023. |
| 31.1* | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 27, 2023, by Richard L. Gelfond. |
| 31.2* | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 27, 2023, by Natasha Fernandes. |
| 32.1* | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 27, 2023, by Richard L. Gelfond. |
| 32.2* | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 27, 2023, by Natasha Fernandes. |
| 101.INS | Inline XBRL Instance Document – The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101) |

*Filed herewith.

+Management contract or compensatory plan, contract or arrangement.

†Certain information contained in this exhibit has been omitted because it is not material and is the type that the registrant treats as private or confidential.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IMAX CORPORATION

Date: April 27, 2023

By: /s/ NATASHA FERNANDES

Natasha Fernandes

Chief Financial Officer

(Principal Financial Officer)

Date: April 27, 2023

By: /s/ ELIZABETH GITAJN

Elizabeth Gitajn

Senior Vice-President, Finance & Controller

(Principal Accounting Officer)

IMAX CORPORATION

Exhibit 10.2

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THE EXHIBIT BECAUSE IT IS BOTH NOT MATERIAL AND IS THE TYPE THAT THE REGISTRANT TREATS AS PRIVATE OR CONFIDENTIAL. [*] INDICATES THAT INFORMATION HAS BEEN REDACTED.**



March 15, 2023

Via Email

Ms. Megan Colligan
[***]

Dear Megan:

I am writing to confirm our agreement with respect to your departure from IMAX Corporation (the “Company”).

1. Your final day of employment with the Company will be April 30, 2023 (the “**Termination Date**”).
2. Sixty days after the Termination Date, you will receive the following in a lump sum:
 - a. The compensation set forth in Section 4(c) of your Employment Agreement; and
 - b. \$42,595.08, representing the cost of 12 months of COBRA coverage.
3. In addition, and pursuant to the terms of Paragraph 4 below, you will receive the following:
 - a. Three months of base pay, totaling \$262,500 (the “**Additional Severance**”); and
 - b. The vesting of 32,000 RSUs (the “**Additional Equity**”) on March 7, 2024 (the “**Vesting Date**”). For the sake of clarity, all additional granted but unvested equity will be canceled without any consideration.
4. Throughout the ninety (90) day period immediately following the Termination Date (the “**Availability Period**”), you will make yourself reasonably available on an as-needed basis to respond to questions or requests for information concerning the Company’s business, particularly as it relates to IMAX Live events. Following completion of each month of the the Availability Period, you will receive one-third of the Additional Severance. Upon completion of the entire Availability Period, you will be qualified to receive the Additional Equity on the Vesting Date.
5. All of the foregoing is conditioned on your signing a general waiver and release of claims, which we will send you shortly, and provided further that you otherwise comply with the terms of the Employment Agreement.

If the foregoing accurately reflects our agreement, please sign where indicated below and return a signed copy to me.

Very truly yours,
/s/ Michele Golden
Michele Golden
Chief People Officer

Accepted and Agreed:
/s/ Megan Colligan
Megan Colligan

cc: [***]

IMAX CORPORATION

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002

I, Richard L. Gelfond, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2023

By: /s/ Richard L. Gelfond
Name: Richard L. Gelfond
Title: Chief Executive Officer

IMAX CORPORATION

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002

I, Natasha Fernandes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2023

By: /s/ Natasha Fernandes
Name: Natasha Fernandes
Title: Chief Financial Officer

IMAX CORPORATION

Exhibit 32.1

CERTIFICATIONS

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), I, Richard L. Gelfond, Chief Executive Officer & Director of IMAX Corporation, a Canadian corporation (the "Company"), hereby certify, to my knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2023

By: /s/ Richard L. Gelfond

Name: Richard L. Gelfond

Title: Chief Executive Officer

IMAX CORPORATION

Exhibit 32.2

CERTIFICATIONS

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), I, Natasha Fernandes, Chief Financial Officer of IMAX Corporation, a Canadian corporation (the “Company”), hereby certify, to my knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 (the “Form 10-Q”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2023

By: /s/ Natasha Fernandes

Name: Natasha Fernandes

Title: Chief Financial Officer