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IMAX CORP
Form 10-Q
October 28, 2004

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2004

OR

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

Commission File Number 0-24216

IMAX CORPORATION
(Exact name of registrant as specified in its charter)

Canada 98-0140269

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

2525 Speakman Drive, Mississauga, Ontario, Canada L5K 1B1

(Address of principal executive offices) (Postal Code)

Registrant's telephone number, including area code (905) 403-6500

N/A

(Former name or former address, if changed since last report)

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class	Outstanding as of October 15, 2004
-----	-----
Common stock, no par value	39,315,491

IMAX CORPORATION

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this quarterly report may constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business and operations, plans and references to the future success of IMAX Corporation together with its wholly-owned subsidiaries (the "Company") and expectations regarding the Company's future operating 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, general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other companies; conditions in the out-of-home entertainment industry; changes in laws or regulations; conditions in the commercial exhibition industry; the acceptance of the Company's new technologies; 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; the potential impact of increased competition in the markets the Company operates within; and other factors, many

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of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this quarterly report are qualified by these cautionary statements, and actual results or anticipated developments by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

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PART I FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	
The following Condensed Consolidated Financial Statements are filed as part of this Report:	
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IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(in thousands of U.S. dollars)

	SEPTEMBER 30, 2004 (UNAUDITED) -----
ASSETS	
Cash and cash equivalents	\$ 20,66
Restricted cash (note 7(b))	-
Accounts receivable, net of allowance for doubtful accounts of \$7,902 (2003 - \$7,278)	17,57
Financing receivables (note 3)	60,77
Inventories (note 4)	27,37
Prepaid expenses	3,48
Film assets	73

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Fixed assets		31,35
Other assets		13,27
Deferred income taxes (note 11)		4,54
Goodwill		39,02
Other intangible assets		3,11

Total assets	\$	221,92
		=====
LIABILITIES		
Accounts payable	\$	6,63
Accrued liabilities (note 7(c))		53,79
Deferred revenue		50,64
New Senior Notes due 2010 (note 5)		160,00
Old Senior Notes due 2005 (note 6)		-

Total liabilities		271,06

COMMITMENTS AND CONTINGENCIES (notes 7 and 8)		
SHAREHOLDERS' EQUITY (DEFICIT)		
Capital stock - no par value. Authorized - unlimited number. Issued and outstanding - 39,315,491 (2003 - 39,301,758)		115,65
Other equity		3,29
Deficit		(168,73)
Accumulated other comprehensive income		64

Total shareholders' deficit		(49,14)

Total liabilities and shareholders' equity (deficit)	\$	221,92
		=====

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

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IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(in thousands of U.S. dollars, except per share amounts)
(UNAUDITED)

	THREE MONTHS ENDED		
	SEPTEMBER 30,		
	2004	2003	
	-----	-----	-----
REVENUE			
IMAX systems (note 9(a))	\$ 21,309	\$ 11,455	\$
Films	6,076	5,275	
Theater operations	3,689	3,367	
Other	753	1,131	
	-----	-----	-----
	31,827	21,228	
COSTS OF GOODS AND SERVICES			
	17,356	11,538	
	-----	-----	-----

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GROSS MARGIN	14,471	9,690	
Selling, general and administrative expenses (note 9(b))	7,587	8,265	
Research and development	1,019	952	
Amortization of intangibles	240	181	
Income from equity-accounted investees	--	(228)	
Receivable provisions, net of (recoveries) (note 10)	2	(425)	
	-----	-----	
EARNINGS FROM OPERATIONS	5,623	945	
Interest income	439	105	
Interest expense	(4,378)	(3,606)	
Loss on retirement of notes (note 6)	--	(146)	
Recovery on long-term investments (note 9(c))	--	355	
	-----	-----	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,684	(2,347)	
Recovery of (provision for) income taxes (note 11)	(84)	(163)	
	-----	-----	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	1,600	(2,510)	
Net earnings (loss) from discontinued operations (note 15)	200	(144)	
	-----	-----	
NET EARNINGS (LOSS)	\$ 1,800	\$ (2,654)	\$
	=====	=====	=====
EARNINGS PER SHARE (note 12(b)):			
Earnings per share - basic and diluted:			
Net earnings (loss) from continuing operations	\$ 0.04	\$ (0.07)	\$
Net earnings (loss) from discontinued operations	\$ 0.01	\$ --	\$
	-----	-----	-----
Net earnings (loss)	\$ 0.05	\$ (0.07)	\$
	=====	=====	=====

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

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IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(in thousands of U.S. dollars)
(UNAUDITED)

	NINE MONTHS ENDED SEP	2004	2003
	-----	-----	-----
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net earnings from continuing operations	\$	1,856	\$
Items not involving cash:			
Depreciation and amortization		10,537	
Write-downs (recoveries)		(963)	
Income from equity-accounted investees		--	
Deferred income taxes		(788)	
Loss on retirement of notes		784	
Stock and other non-cash compensation		2,264	

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Non-cash foreign exchange gain	(12)	
Premium on repayment of notes	(576)	
Payment under certain employment agreements	--	
Investment in film assets	(2,782)	
Changes in restricted cash	4,961	
Changes in other non-cash operating assets and liabilities	(10,606)	
Net cash used in operating activities from discontinued operations	--	
	-----	-----
Net cash provided by (used in) operating activities	4,675	
	-----	-----
 INVESTING ACTIVITIES		
Purchase of fixed assets	(693)	
Increase in other assets	(857)	
Increase in other intangible assets	(271)	
Recovery on long-term investments	--	
Net cash used in investing activities from discontinued operations	--	
	-----	-----
Net cash used in investing activities	(1,821)	
	-----	-----
 FINANCING ACTIVITIES		
Repayment of Old Senior Notes due 2005	(29,234)	
Repayment of Subordinated Notes	--	
Financing costs related to New Senior Notes due 2010	(681)	
Common shares issued	44	
Net cash provided by financing activities from discontinued operations	400	
	-----	-----
Net cash used in financing activities	(29,471)	
	-----	-----
 Effects of exchange rate changes on cash	 (1)	
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(27,018)	
Increase in cash and cash equivalents from discontinued operations	400	
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD	(26,618)	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	47,282	
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 20,664	\$
	=====	=====

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

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IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
(UNAUDITED)

1. BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements include the accounts of IMAX Corporation together with its wholly-owned subsidiaries (the

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"Company"). The nature of the Company's business is such that the results of operations for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations.

The Company reports its results under United States Generally Accepted Accounting Principles ("U.S. GAAP"). Significant differences between United States and Canadian Generally Accepted Accounting Principles are described in note 19.

These financial statements should be read in conjunction with the Company's most recent annual report on Form 10-K/A (amendment No. 2) for the year ended December 31, 2003 which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company's financial statements for the year ended December 31, 2003, except as described in note 2.

EMPLOYEE STOCK-BASED COMPENSATION

The Company currently follows the intrinsic value method of accounting for employee stock options as prescribed by APB 25. If the fair value methodology prescribed by FASB Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123") had been adopted by the Company, pro forma results for the three and nine months ended September 30, would have been as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS SEPTEMBER	
	2004	2003	2004	
Net earnings (loss) as reported	\$ 1,800	\$ (2,654)	\$ 2,456	\$
Stock based compensation expense, if the methodology prescribed by FAS 123 had been adopted	(1,930)	(2,323)	(5,292)	
Adjusted net loss	\$ (130)	\$ (4,977)	\$ (2,836)	\$
 Earnings (loss) per share - basic and diluted:				
Net earnings as reported	\$ 0.05	\$ (0.07)	\$ 0.06	\$
FAS 123 stock based compensation expense	(0.05)	\$ (0.06)	\$ (0.13)	\$
Adjusted net loss	\$ --	\$ (0.13)	\$ (0.07)	\$

Of the total stock based compensation expense under FAS 123 for the three and nine months ended September 30, 2004, \$1,206 and \$3,616, respectively relate to stock grants made in 2000 at an average exercise price of \$24.25. In accordance with FAS 123, this expense represents amortization of stock option charges that were valued at the grant date using an option-pricing model with assumptions that were valid at the time with no further update of current stock trends and assumptions.

IMAX CORPORATION
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EMPLOYEE STOCK-BASED COMPENSATION (cont'd)

The weighted average fair value of common share options granted to employees for the three and nine months ended September 30, 2004 at the time of grant was \$2.11 and \$2.07 per share, respectively (2003 - \$2.85 and \$2.70 per share). For the three months ended March 31, 2003 and prior, the Company used the Black-Scholes option-pricing model to determine the fair value of common share options granted as estimated at the grant date. The following assumptions were used during the three months ended March 31, 2003: dividend yield of 0% an average risk free interest rate of 2.1%, 20% forfeiture of options vesting greater than two years; expected life of one to seven years; and expected volatility of 50%. As of April 1, 2003, the Company adopted a Binomial option-pricing model to determine the fair value of common share options at the grant date. For the three and nine months ended September 30, 2004, the following assumptions were used: dividend yield of 0%. (three and six months ended September 30, 2003 - 0%); an average risk free interest rate of 4.1% and 4.8% (three and six months ended September 30, 2003 - 4.1% and 3.0%); an equity risk premium between 5.5% and 6.3% and between 3.8% and 6.3% (three and six months ended September 30, 2003 - between 4.7% and 6.3% and between 4.7% and 10.7%); a beta between 1.04 and 1.11 and between 0.95 and 1.11 (three and six months ended September 30, 2003 - between 0.85 and 1.03); expected option life between 4.4 and 5.4 years and between 2.6 and 5.4 years (three and six months ended September 30, 2003 - between 2.6 and 4.4 years and between 2.6 and 5.1 years); an average expected volatility of 62% (three and six months ended September 30, 2003 - 62%); and an annual termination probability of between 8.1% and 9.6% (three and six months ended September 30, 2003 - 8.1% and 9.6%). Had the Company changed from using the Black-Scholes option pricing model to a Binomial option pricing model effective January 1, 2003 rather than April 1, 2003, the impact would not have been significant.

2. ACCOUNTING CHANGES

As of January 1, 2004, the Company adopted FIN 46 (revised 2003 by FIN 46R) which requires a variable interest entity ("VIE") to be consolidated by its primary beneficiary ("PB"). The PB is the party that absorbs a majority of the VIE's expected losses and/or receives a majority of the expected residual returns. The Company has evaluated its various variable interests to determine whether they are in VIE's.

The Company reviewed its management agreements relating to theaters which the Company manages, and has no equity interest, and concluded that such arrangements were not variable interests since the Company's fees are commensurate with the level of service and the theater owner retains the right to terminate the service.

The Company has also reviewed its financial arrangements with theaters where it shares in the profit or losses of the theater. The Company has not considered these arrangements under FIN 46R as the arrangements meet the scope exceptions defined in the pronouncement.

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The Company has determined that one of its film production companies is a VIE with total assets of \$0.1 million and total liabilities of \$0.1 million as at September 30, 2004. Since the Company absorbs a majority of the VIE's losses, the Company has determined that it is the PB of the entity. The Company continues to consolidate this entity with no material impact on the operating results or financial condition of the Company.

The Company also has interests in three other film production companies which are VIE's, however the Company did not consolidate these film entities since it did not bear the majority of the expected losses or expected residual returns.

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IMAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
 (Tabular amounts in thousands of U.S. dollars unless otherwise stated)
 (UNAUDITED)

3. FINANCING RECEIVABLES

The Company generally provides its theater systems to customers on a long-term lease basis, typically with initial lease terms of 10 to 20 years. Financing receivables consisting of net investment in leases and long term receivables are comprised of the following:

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
	-----	-----
NET INVESTMENT IN LEASES		
Gross minimum lease amounts receivable	\$ 103,016	\$ 97,408
Residual value of equipment	787	824
Unearned finance income	(41,255)	(38,847)
	-----	-----
Present value of minimum lease amounts receivable	62,548	59,385
Accumulated allowance for uncollectible amounts	(5,116)	(5,840)
	-----	-----
Net investment in leases	57,432	53,545
	-----	-----
Long-term receivables	3,342	3,197
	-----	-----
Total financing receivables	\$ 60,774	\$ 56,742
	=====	=====

4. INVENTORIES

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
	-----	-----
Raw materials	\$ 6,831	\$ 5,868
Work-in-process	6,695	4,327

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Finished goods	13,848	18,023
	-----	-----
	\$ 27,374	\$ 28,218
	=====	=====

5. NEW SENIOR NOTES DUE 2010

As at September 30, 2004, the Company has \$160.0 million aggregate principal of 9.625% senior notes due December 1, 2010 (the "New Senior Notes"). On October 6, 2004, the Company commenced an offer to exchange up to US\$160,000,000 aggregate principal amount of its outstanding New Senior Notes for a like principal amount of its 9.625% Senior Notes due 2010 (the "Registered Notes"). The Company's registration statement on Form S-4 relating to the Registered Notes was declared effective by the Securities and Exchange Commission on September 30, 2004. The Registered Notes are unconditionally guaranteed, jointly and severally, by certain of the Company's wholly-owned subsidiaries. The terms of the Registered Notes are substantially identical to the terms of the New Senior Notes, and evidence the same indebtedness as the New Senior Notes, except that the Registered Notes are registered under U.S. securities laws, do not contain restrictions on transfer or provisions relating to special interest under circumstances related to the timing of the exchange offer, bear a different CUSIP number from the New Senior Notes and do not entitle their holders to registration rights.

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6. OLD SENIOR NOTES DUE 2005

In December 2003, the Company completed a tender offer and consent solicitation for the remaining \$152.8 million of principal of senior notes due December 1, 2005 bearing interest at a rate of 7.875% per annum (the "Old Senior Notes") that were not retired previously. In December 2003, \$123.6 million in principal of the Old Senior Notes were redeemed pursuant to a tender offer. Notice of Redemption for all remaining outstanding Old Senior Notes was delivered on December 4, 2003 and the remaining \$29.2 of outstanding Old Senior Notes were redeemed on January 2, 2004 using proceeds from its New Senior Notes (see note 5).

In January 2004, the Company recorded a loss of \$0.8 million related to the retirement of the Company's Old Senior Notes. During the first nine months of 2003, the Company recorded a loss of \$0.3 million from the retirement of \$31.5 million of the Company's Old Senior Notes.

7. COMMITMENTS

- (a) The Company's total minimum annual rental payments to be made under operating leases for premises as of September 30, 2004 for each of the years ended December 31 are as follows:

2004 (three months remaining)	\$	1,385
2005		5,956

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2006	5,765
2007	5,551
2008	5,334
Thereafter	37,171

	\$ 61,162
	=====

- (b) As at September 30, 2004, the Company has letters of credit of \$5.2 million outstanding under the Company's credit facility arrangement (see note 17). As at December 31, 2003, the Company had letters of credit of \$5.0 million outstanding, which had been collateralized by cash deposits.
- (c) In March 2004, the Company received \$5.0 million in cash under a film financing arrangement which is included in accrued liabilities. The Company is required to expend these funds towards the production of a motion picture title. The Company has expended \$0.3 million of these funds as at September 30, 2004.

8. CONTINGENCIES

- (a) In March 2001, a complaint was filed against the Company by Muvico Entertainment, L.L.C. ("Muvico"), alleging misrepresentation and seeking rescission in respect of the system lease agreements between the Company and Muvico. The complaint was subsequently amended to add claims for fraud based upon the same factual allegations underlying its prior claims. The Company filed counterclaims against Muvico for breach of contract, unjust enrichment, unfair competition and/or deceptive trade practices and theft of trade secrets, and brought claims against MegaSystems, Inc. ("MegaSystems"), a large-format theater system manufacturer, for tortious interference and unfair competition and/or deceptive trade practices and to enjoin Muvico and MegaSystems from using the Company's confidential and proprietary information. The case is being heard in the U.S. District Court, Southern District of Florida, Miami Division. On September 27, 2004, the Court granted the Company's motion for summary judgment, awarding the Company judgment as a matter of law on all of the substantive claims asserted by Muvico in the complaint. The Company is awaiting final decision from the Court with regard to its damages claims.

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IMAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
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8. CONTINGENCIES (cont'd)

- (b) In May 2003, the Company filed a Statement of Claim in the Ontario Superior Court of Justice against United Cinemas International Multiplex B.V. ("UCI") for specific performance, or alternatively, damages of \$25.0 million with respect to the breach of a 1999 agreement between the Company and UCI whereby UCI committed to purchase IMAX theater systems from the Company. In August 2003, UCI filed a Statement of Defence denying it is in breach. On December 10, 2003, UCI and its two subsidiaries in the United Kingdom and Japan filed a claim against the Company claiming alleged breaches of the 1999 agreement referred to in the Company's claim against UCI, and repeating allegations contained in UCI's Statement of Defence to the Company's action. The Company believes that the allegations made by

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UCI in its complaint are entirely without merit and will accordingly defend the claims vigorously. The Company believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

- (c) In November 2001, the Company filed a complaint with the District Court of Munich against Big Screen, a German large-screen cinema owner in Berlin ("Big Screen"), demanding payment of rental payments and certain other amounts owed to the Company. Big Screen has raised a defense based on alleged infringement of German antitrust rules, relating mainly to an allegation of excessive pricing. Big Screen had brought a number of motions for restraining orders in this matter relating to the Company's provision of films and maintenance, all of which have been rejected by the courts, including the Berlin Court of Appeals, and for which all appeals have been exhausted. The Company believes that all of the allegations in Big Screen's individual defense are entirely without merit and will accordingly continue to prosecute this matter vigorously. The Company believes that the amount of the loss, if any, suffered in connection with this dispute would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.
- (d) In May, 2002, the Company filed a complaint with the District Court of Nuremberg-Furth, Germany against Siewert Holding in Wuerzburg ("Siewert"), demanding payment of rental obligations and other amounts owed to the Company. Siewert raised a defense based on alleged infringement of German antitrust rules. By judgement of December 20, 2002, the District Court rejected the defense and awarded judgement in documentary proceedings in favor of the Company and added further amounts that had fallen due. Siewert applied for leave to appeal to the German Supreme Court on matters of law, which was rejected by the German Supreme Court in March 2004. Siewert subsequently made a partial payment of amounts awarded to the Company. Siewert has filed follow up proceedings to the documentary proceedings in the District Court, in large part repeating the claims rejected in the documentary proceeding. On September 30, 2004, Siewert filed for insolvency with the Local Court in Wuerzburg. To the extent the lawsuit will be continued following the commencement of the insolvency proceedings, the Company will continue to vigorously pursue its claims and believes that the amount of loss, if any, suffered in connection with these proceedings would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
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8. CONTINGENCIES (cont'd)

- (e) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages of approximately \$3.7 million before the International Court of Arbitration of the International Chambers of Commerce (the "ICC") with respect to the breach by Electronic Media Limited ("EML") of its December 2000 agreement with the Company. In April 2004, EML filed an answer and counterclaim seeking

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the return of funds EML has paid to the Company, incidental expenses and punitive damages. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-CITI Entertainment (I) PVT Limited ("E-Citi"), seeking \$17,777,950 as a result of E-Citi's breach of a September 2000 lease agreement. E-Citi has responded to the arbitration demand and has asserted several defenses, including that the ICC does not have jurisdiction for the arbitration. The Company believes that the allegations made by EML in its counterclaim are entirely without merit and has requested that the counterclaim be dismissed on the basis that EML has recently advised the ICC that it has insufficient funds to pay its share of the arbitration costs. The Company believes that the amount of loss, if any, suffered in connection with the arbitration would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

- (f) In addition to the matters described above, the Company is currently involved in other legal proceedings 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.

9. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS SUPPLEMENTAL INFORMATION

- (a) In the normal course of its business, the Company each year will have customers who, for a number of reasons including the inability to obtain certain consents, approvals or financing, are unable to proceed with theater construction. Once the determination is made that the customer will not proceed with installation, the lease agreement with the customer is generally terminated by the Company. Upon the customer and the Company being released from their future obligations under the agreement, the initial lease payments that the customer previously made to the Company are recognized as revenue. Included in systems revenue for the three and nine months ended September 30, 2004 are \$2.9 million and \$9.5 million, respectively (2003 - \$3.4 million, \$7.6 million) for amounts recognized under terminated lease agreements.
- (b) Included in selling, general and administrative expenses for the three and nine months ended September 30, 2004 are \$0.3 million gain and \$0.1 million loss, respectively (2003 - \$0.2 million gain, \$1.2 million gain) for net foreign exchange related to the translation of foreign currency denominated monetary assets, liabilities and integrated subsidiaries.
- (c) In August 2003, the Company agreed to restructure its 6% Senior Secured Convertible Debenture (the "Debenture") due from Mainframe Entertainment, Inc. ("Mainframe"). Under the terms of the restructuring agreement, the payment terms of the Debenture were revised, while the Company retained its security over all of Mainframe's property and assets for the balance of the payments due. The Company recorded \$0.4 million in income for the three and nine month periods ended September 30, 2003 related to cash received under the debt restructuring agreement.

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IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
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10. RECEIVABLE PROVISIONS (RECOVERIES), NET

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	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTH SEPTEMBER
	2004	2003	2004
Accounts receivable provisions (recoveries), net	\$ 2	\$ 93	\$ (240)
Financing receivables provisions (recoveries), net(1)	\$ --	\$ (518)	\$ (725)
Receivable provisions (recoveries), net	\$ 2	\$ (425)	\$ (965)

(1) For the three and nine months ended September 30, 2004, the Company recorded a recovery of previously provided amounts of \$nil and \$0.7 million, respectively (2003 - \$0.5 million, \$0.3 million) as the collectibility uncertainty associated with certain leases was resolved by amendment or settlement of the leases.

11. INCOME TAXES

The effective tax rate on earnings differs significantly from the Canadian statutory rate due to the effect of permanent differences, income taxed at differing rates in foreign and other provincial jurisdictions, tax recoveries and charges relating to favourable or unfavourable tax examinations, and changes in the Company's valuation allowance on deferred tax assets. The income tax (expense) recovery for the quarter is calculated by applying the estimated average annual effective tax rate to quarterly pre-tax income. The Company recorded within the tax provision in the current quarter a tax recovery of \$0.4 million related to refunds resulting from favourable conclusions to two separate tax examinations and the utilization of previously recorded income tax credits.

As at September 30, 2004, the Company has recognized net deferred income tax assets of \$4.5 million, comprised of tax credit carryforwards, net operating loss and capital loss carryforwards and other deductible temporary differences, which can be utilized to reduce either taxable income or taxes otherwise payable in future years. As of September 30, 2004, the Company had a gross deferred income tax asset of \$50.6 million, against which the Company is carrying a \$46.1 million valuation allowance.

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12. CAPITAL STOCK

(a) STOCK BASED COMPENSATION

In the three and nine months ended September 30, 2004, an aggregate of 13,335 and 40,005 options (2003 - 13,335 and 125,059) with an average exercise price of \$5.27 and \$5.96 (2003 - \$8.20 and \$6.22) to purchase the

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Company's common stock were issued to certain advisors and strategic partners of the Company, respectively. The Company has calculated the fair value of these options on the date of grant for the three and nine months ended September 30, 2004 to be \$0.04 million and \$0.1 million (2003 - \$0.1 million and \$0.4 million), respectively, using a Binomial option-pricing model with the following underlying assumptions: dividend yield of 0%; an average risk free interest rate of 3.49% and 3.37% (2003 - 3.09% and 2.45%), expected option life of 5 years; and an average expected volatility of 62.0%.

The Company has recorded a charge of \$0.04 million and \$0.1 million to costs of goods and services related to the non-employee stock options granted in the three and nine months ended September 30, 2004 (2003 - \$0.1 million, \$0.4 million).

There were no warrants issued in the three and nine months ended September 30, 2004 (2003 - nil and 550,000). 450,000 warrants remain outstanding of the 550,000 warrants issued in 2003, which vest when certain film related milestones are met, and have an exercise price of \$6.06. The warrants generally expire 5 years after the date of grant or vesting. At September 30, 2004, 200,000 warrants were vested and exercisable. The Company believes that no additional warrants will ultimately vest.

(b) EARNINGS (LOSS) PER SHARE

Reconciliations of the numerators and denominators of the basic and diluted per-share computations, are comprised of the following:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,
	2004	2003	2004
Net earnings applicable to common shareholders:			
Net earnings (loss)	\$ 1,800	\$ (2,654)	\$ 2,456
	=====	=====	=====
Weighted average number of common shares (000's):			
Issued and outstanding, beginning of period	39,316	36,426	39,302
Weighted average number of shares issued during the period	--	665	8
	-----	-----	-----
Weighted average number of shares used in computing basic earnings per share	39,316	37,091	39,310
Assumed exercise of stock options, net of shares assumed repurchased	576	--	401
	-----	-----	-----
Weighted average number of shares used in computing diluted earnings per share	39,892	37,091	39,711
	=====	=====	=====

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13. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL INFORMATION

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
Interest paid	\$ 65	\$ 174	\$ 7,961	\$ 8,438
Income taxes paid	\$ 352	\$ 313	\$ 1,280	\$ 2,089

14. SEGMENTED INFORMATION

The Company has four reportable segments: IMAX systems, films, theater operations and other.

There has been no change in the basis of measurement of segment profit or loss from the Company's most recent annual report on form 10-K/A for the year ended December 31, 2003. Inter-segment transactions are not significant.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
REVENUE				
IMAX systems	\$ 21,309	\$ 11,455	\$ 57,811	\$ 55,913
Films	6,076	5,275	17,166	19,570
Theater operations	3,689	3,367	11,203	10,142
Other	753	1,131	2,276	3,702
TOTAL	\$ 31,827	\$ 21,228	\$ 88,456	\$ 89,327
EARNINGS FROM OPERATIONS				
IMAX systems	\$ 11,725	\$ 6,008	\$ 33,271	\$ 26,824
Films	(1,653)	(283)	(4,060)	506
Theater operations	(8)	(466)	886	(1,346)
Other	(58)	635	(670)	1,687
Corporate overhead	(4,383)	(4,949)	(15,140)	(15,629)
TOTAL	\$ 5,623	\$ 945	\$ 14,287	\$ 12,042

15. DISCONTINUED OPERATIONS

(a) MIAMI THEATER LLC

On December 23, 2003, the Company closed its owned and operated Miami IMAX

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theater. The Company completed its abandonment of assets and removal of its projection system from the theater in the first quarter of 2004, with no financial impact. The Company is involved in an arbitration proceeding with the landlord of the theater with respect to the amount owing to the landlord by the Company for lease and guarantee obligations. The amount of loss to the Company has been estimated at between \$0.8 million and \$2.3 million, of which the Company had accrued \$0.8 million as at December 31, 2003. During 2004, the Company paid out \$0.8 million with respect to amounts owing to the landlord. As the Company is uncertain as to the outcome of the proceeding, no additional amount has been recorded.

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15. DISCONTINUED OPERATIONS (cont'd)

(b) DIGITAL PROJECTION INTERNATIONAL

Effective December 11, 2001, the Company completed the sale of its wholly-owned subsidiary, Digital Projection International, including its subsidiaries (collectively "DPI"), to a company owned by members of DPI management.

As part of the transaction, the Company restructured its advances to DPI, releasing DPI from obligations to repay any amounts in excess of \$12.7 million previously advanced by the Company, and reorganized the remaining \$12.7 million of debt owing to the Company into two separate loan agreements. During the three and nine months ended September 30, 2004, the Company recognized \$0.2 million and \$0.6 million in income from discontinued operations for cash ultimately received (2003 - \$0.2 million, \$0.6 million). As of September 30, 2004, the remaining loan receivable balance is \$11.3 million, which has been fully provided for.

(c) CONSOLIDATED STATEMENT OF OPERATIONS FOR MIAMI THEATER AND DPI

The net earnings (loss) from discontinued operations summarized in the Consolidated Statements of Operations, for the periods ended September 30, was comprised of the following:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTH SEPTEMBER
	2004	2003	2004
Net earnings (loss) from discontinued operations	\$ 200	\$ (144)	\$ 600
	=====	=====	=====

16. DEFINED BENEFIT PLAN

The Company has a defined benefit pension plan covering its two Co-Chief Executive Officers. The plan provides for a lifetime retirement benefit

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from age 55 determined as 75% of the member's best average 60 consecutive months of earnings during the 120 months proceeding retirement. Once benefit payments begin, the benefit is indexed annually to the cost of living and further provides for 100% continuance for life to the surviving spouse. The benefits were 50% vested as at July 12, 2000, the plan initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. The vesting percentage of a member whose employment terminates other than by voluntary retirement shall be 100%. Also, upon the occurrence of a change in control of the Company prior to termination of a member's employment, the vesting percentage shall become 100%. As the plan is unfunded, the Company had not paid any contributions in the period ended September 30, 2004 and does not expect to pay any contributions in the remainder of the year. The following table provides disclosure of pension expense for the defined benefit plan for the periods ended September 30:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
Service cost	\$ 516	\$ 489	\$ 1,548	\$ 1,46
Interest cost	317	272	951	81
Amortization of prior service cost	349	349	1,047	1,04
Pension expense	\$ 1,182	\$ 1,110	\$ 3,546	\$ 3,33

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17. CREDIT FACILITY

On February 6, 2004, the Company entered into a loan agreement for a secured revolving credit facility with Congress Financial Corporation (Canada) (the "Credit Facility") The Credit Facility is a three-year revolving credit facility with yearly renewal options thereafter, permitting maximum aggregate borrowings of \$20.0 million, subject to a borrowing base calculation which includes the Company's financing receivables, and certain reserve requirements. The Credit Facility bears interest at Prime + 0.25% per annum or Libor + 2.0% per annum and is collateralized by a first priority security interest in all of the current and future assets of the Company. The Credit Facility contains typical affirmative and negative covenants, including covenants that restrict the Company's ability to: incur certain additional indebtedness; make certain loans, investments or guarantees; pay dividends; make certain asset sales; incur certain liens or other encumbrances; conduct certain transactions with affiliates and enter into certain corporate transactions or dissolve. In addition, the Credit Facility contains customary events of default, including upon an acquisition or a change of control that has a material adverse effect on the Company's financial condition. The Credit Facility

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also requires the Company to maintain a minimum level of earnings before interest, taxes, depreciation and amortization, and cash collections. As at September 30, 2004, the Company has not drawn down on the Credit Facility, however, it has issued letters of credit for \$5.2 million under the Credit Facility arrangement.

18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION

The Company's New Senior Notes and Registered Notes are unconditionally guaranteed, jointly and severally by specific wholly-owned subsidiaries of the Company (the "Guarantor Subsidiaries"). The main Guarantor Subsidiaries are David Keighley Productions 70 MM Inc., Sonics Associates Inc., and the subsidiaries that own and operate certain theaters. These guarantees are full and unconditional. The information under the column headed "Non-Guarantor Subsidiaries" relates to the following subsidiaries of the Company: IMAX Japan Inc., IMAX B.V., and IMAX Entertainment Pte. Inc., (the "Non-Guarantor Subsidiaries") which have not provided any guarantees of the New Senior Notes nor the Registered Notes.

Investments in subsidiaries are accounted for by the equity method for purposes of the supplemental consolidating financial data. Some subsidiaries may be unable to pay dividends due to negative working capital.

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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Balance Sheets as at September 30, 2004:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ADJU ELIM
	-----	-----	-----	-----
ASSETS				
Cash and cash equivalents	\$ 16,181	\$ 4,412	\$ 71	\$
Restricted cash	--	--	--	
Accounts receivable	13,570	3,610	394	
Financing receivables	59,385	1,389	--	
Inventories	27,065	242	67	
Prepaid expenses	3,168	183	129	
Intercompany receivables	12,426	28,970	11,355	
Film assets	714	20	--	
Fixed assets	29,770	1,585	2	
Other assets	13,275	--	--	
Deferred income taxes	4,482	63	--	
Goodwill	39,027	--	--	
Other intangible assets	3,116	--	--	
Investments in subsidiaries	30,392	--	--	
	-----	-----	-----	-----
Total assets	\$ 252,571	\$ 40,474	\$ 12,018	\$

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LIABILITIES				
Accounts payable	2,769	3,864	--	
Accrued liabilities	52,188	1,432	172	
Intercompany payables	42,062	33,952	6,935	
Deferred revenue	45,615	4,867	158	
New Senior Notes due 2010	160,000	--	--	
Total liabilities	302,634	44,115	7,265	
SHAREHOLDER'S DEFICIT				
Common stock	115,653	--	117	
Other equity/Additional paid in capital/Contributed surplus	2,256	46,960	--	
Deficit	(169,231)	(49,987)	4,636	
Accumulated other comprehensive income (loss)	1,259	(614)	--	
Total shareholders' equity (deficit)	\$ (50,063)	\$ (3,641)	\$ 4,753	\$
Total liabilities & shareholders' equity (deficit)	\$ 252,571	\$ 40,474	\$ 12,018	\$

In certain Guarantor Subsidiaries, accumulated losses have exceeded the original investment balance. As a result of applying equity accounting, the parent company has consequently reduced intercompany receivable balances with respect to these Guarantor Subsidiaries in the amounts of \$30.3 million as at September 30, 2004.

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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Balance Sheets as at December 31, 2003:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ADJUSTED ELIMINATION
ASSETS				
Cash and cash equivalents	\$ 41,311	\$ 5,696	\$ 275	\$
Restricted cash	4,961	--	--	
Accounts receivable	9,924	3,468	495	
Financing receivables	55,294	1,407	41	
Inventories	29,775	620	69	
Prepaid expenses	1,098	523	281	
Inter-company receivables	21,203	21,745	15,184	

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Film assets	361	1,207	--	
Fixed assets	33,897	1,918	3	
Other assets	13,827	--	--	
Deferred income taxes	3,705	51	--	
Goodwill	39,027	--	--	
Other intangible assets	3,388	--	--	
Investments in subsidiaries	26,196	--	--	
	-----	-----	-----	-----
Total assets	\$ 283,967	\$ 36,635	\$ 16,348	\$
	=====	=====	=====	=====
 LIABILITIES				
Accounts payable	3,605	2,175	--	
Accrued liabilities	41,618	1,803	373	
Inter-company payables	43,885	31,640	11,065	
Deferred revenue	58,319	4,889	136	
New Senior Notes due 2010	160,000	--	--	
Old Senior Notes due 2005	29,234	--	--	
	-----	-----	-----	-----
Total liabilities	336,661	40,507	11,574	
	-----	-----	-----	-----
 SHAREHOLDER'S DEFICIT				
Common stock	115,609	--	117	
Other equity/Additional paid in capital/Contributed surplus	2,125	46,960	--	
Deficit	(171,687)	(50,218)	4,657	
Accumulated other comprehensive income (loss)	1,259	(614)	--	
	-----	-----	-----	-----
Total shareholders' (deficit)	\$ (52,694)	\$ (3,872)	\$ 4,774	\$
	-----	-----	-----	-----
Total liabilities & shareholders' equity (deficit)	\$ 283,967	\$ 36,635	\$ 16,348	\$
	=====	=====	=====	=====

In certain Guarantor Subsidiaries, accumulated losses have exceeded the original investment balance. As a result of applying equity accounting, the parent company has consequently reduced inter-company receivable balances with respect to these Guarantor Subsidiaries in the amounts of \$26.5 million as at December 31, 2003.

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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Operations for the three months ended September 30, 2004:

IMAX	GUARANTOR	NON-GUARANTOR	ADJU
------	-----------	---------------	------

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	CORPORATION	SUBSIDIARIES	SUBSIDIARIES	ELIM
	-----	-----	-----	-----
REVENUE				
IMAX systems	\$ 21,001	\$ 168	\$ 222	\$
Films	5,159	1,399	3	
Theater operations	136	3,578	--	
Other	753	--	--	
	-----	-----	-----	-----
	27,049	5,145	225	
COST OF GOODS AND SERVICES	13,089	4,710	149	
	-----	-----	-----	-----
GROSS MARGIN	13,960	435	76	
Selling, general and administrative expenses	7,219	221	147	
Research and development	1,019	--	--	
Amortization of intangibles	240	--	--	
Loss (income) from equity-accounted investees	(68)	--	--	
Receivable provisions (recoveries), net	2	--	--	
	-----	-----	-----	-----
EARNINGS (LOSS) FROM OPERATIONS	5,548	214	(71)	
Interest income	439	--	--	
Interest expense	(4,372)	(6)	--	
Loss on retirement of notes	--	--	--	
	-----	-----	-----	-----
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,615	208	(71)	
Provision for income taxes	(17)	--	(67)	
	-----	-----	-----	-----
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	1,598	208	(138)	
Net earnings from discontinued operations	200	--	--	
	-----	-----	-----	-----
NET EARNINGS (LOSS)	\$ 1,798	\$ 208	\$ (138)	\$
	=====	=====	=====	=====

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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Operations for the three months ended September 30, 2003:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ADJ
	-----	-----	-----	-----
REVENUE				

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IMAX systems	\$ 11,118	\$ 221	\$ 328	\$
Films	3,245	2,799	28	
Theater Operations	380	3,025	--	
Other	1,124	--	7	
	-----	-----	-----	-----
	15,867	6,045	363	
COST OF GOODS AND SERVICES	7,051	6,713	120	
	-----	-----	-----	-----
GROSS MARGIN	8,816	(668)	243	
Selling, general and administrative expenses	8,199	129	(63)	
Research and development	952	--	--	
Amortization of intangibles	181	--	--	
Loss (income) from equity-accounted investees	670	82	--	
Receivable provisions (recoveries), net	(426)	1		
	-----	-----	-----	-----
EARNINGS (LOSS) FROM OPERATIONS	(760)	(880)	306	
Interest income	105	--	--	
Interest expense	(3,592)	(14)	--	
Loss on retirement of notes	(146)	--	--	
Recovery on long-term investments	355	--	--	
	-----	-----	-----	-----
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(4,038)	(894)	306	
Recovery of (provision for) income taxes	(125)	15	(53)	
	-----	-----	-----	-----
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(4,163)	(879)	253	
Net earnings from discontinued operations	200	(344)	--	
	-----	-----	-----	-----
NET EARNINGS (LOSS)	\$ (3,963)	\$ (1,223)	\$ 253	\$
	=====	=====	=====	=====

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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Operations for the nine months ended September 30, 2004:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ADJ ELI
	-----	-----	-----	-----
REVENUE				
IMAX systems	\$ 56,408	\$ 793	\$ 881	\$
Films	15,209	4,183	18	

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Theater operations	456	10,823	--	
Other	2,275	--	1	
	74,348	15,799	900	
COST OF GOODS AND SERVICES	34,144	15,087	374	
GROSS MARGIN	40,204	712	526	
Selling, general and administrative expenses	23,554	537	450	
Research and development	3,034	--	--	
Amortization of intangibles	545	--	--	
Loss (income) from equity-accounted investees	(210)	--	--	
Receivable provisions (recoveries), net	(889)	(76)	--	
EARNINGS (LOSS) FROM OPERATIONS	14,170	251	76	
Interest income	664	--	--	
Interest expense	(12,516)	(20)	(30)	
Loss on retirement of notes	(784)	--	--	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,534	231	46	
Recovery of (provision for) income taxes	322	--	(67)	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	1,856	231	(21)	
Net earnings from discontinued operations	600	--	--	
NET EARNINGS (LOSS)	\$ 2,456	\$ 231	\$ (21)	\$

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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Operations for the nine months ended September 30, 2003:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ADJ ELI
REVENUE				
IMAX systems	\$ 54,693	\$ 2,259	\$ 1,061	\$
Films	10,741	11,011	48	
Theater Operations	575	9,677	--	
Other	3,642	--	125	

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	69,651	22,947	1,234	
COST OF GOODS AND SERVICES	31,437	23,231	496	
GROSS MARGIN	38,214	(284)	738	
Selling, general and administrative expenses	24,125	530	209	
Research and development	2,833	--	--	
Amortization of intangibles	473	--	--	
Loss (income) from equity-accounted investees	(539)	101	--	
Receivable provisions (recoveries), net	486	(178)	(44)	
EARNINGS (LOSS) FROM OPERATIONS	10,836	(737)	573	
Interest income	515	--	--	
Interest expense	(11,919)	(30)	--	
Loss on retirement of notes	(333)	--	--	
Recovery of long-term investments	355	--	--	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(546)	(767)	573	
Recovery of (provision for) income taxes	(632)	1,077	(45)	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(1,178)	310	528	
Net earnings (loss) from discontinued operations	599	(891)	--	
NET EARNINGS (LOSS)	\$ (579)	\$ (581)	\$ 528	\$

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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Cash Flows for the nine months ended September 30, 2004:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	E
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net earnings (loss) from continuing operations	\$ 1,856	\$ 231	\$ (21)	\$
Items not involving cash:				
Depreciation and amortization	10,133	403	1	
Write-downs (recoveries)	(887)	(76)	--	
Loss (income) from equity-accounted				

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investees	(210)	--	--
Deferred income taxes	(776)	(12)	--
Loss on retirement of notes	784	--	--
Stock and other non-cash compensation	2,264	--	--
Non-cash foreign exchange gain	(12)	--	--
Premium on repayment of notes	(576)	--	--
Investment in film assets	(3,969)	1,187	--
Changes in restricted cash	4,961	--	--
Changes in other non-cash operating assets and liabilities	(7,497)	(2,931)	(178)
Net cash provided by (used in) operating activities	6,071	(1,198)	(198)
INVESTING ACTIVITIES			
Purchase of fixed assets	(623)	(70)	--
Increase in other assets	(857)	--	--
Increase in other intangible assets	(271)	--	--
Net cash used in investing activities	(1,751)	(70)	--
FINANCING ACTIVITIES			
Repayment of Old Senior Notes due 2005	(29,234)	--	--
Financing costs related to New Senior Notes due 2010	(681)	--	--
Common shares issued	44	--	--
Net cash provided by financing activities from discontinued operations	400	--	--
Net cash used in financing activities	(29,471)	--	--
Effects of exchange rate changes on cash	21	(16)	(6)
DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS			
Increase in cash and cash equivalents from discontinued operations	400	--	--
DECREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD			
Cash and cash equivalents, beginning of period	41,311	5,696	275
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 16,181	\$ 4,412	\$ 71

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IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
(UNAUDITED)

18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

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Supplemental Consolidating Statements of Cash Flows for the nine months ended September 30, 2003:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	E
	-----	-----	-----	-----
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net earnings (loss) from continuing operations	\$ (1,178)	\$ 310	\$ 528	\$
Items not involving cash:				
Depreciation and amortization	7,549	691	3	
Write-downs (recoveries)	348	(44)	(44)	
Loss (income) from equity-accounted investees	(539)	101	--	
Loss on retirement of notes	333	--	--	
Stock and other non-cash compensation	4,103	--	--	
Non-cash foreign exchange gain	(685)	--	--	
Payment under certain employment agreements	(1,550)	--	--	
Investment in film assets	(840)	(268)	--	
Changes in restricted cash	(142)	--	--	
Changes in other non-cash operating assets and liabilities	(10,140)	(2,159)	(568)	
Net cash used in operating activities from discontinued operations	(503)	(70)	--	
	-----	-----	-----	
Net cash provided by (used in) operating activities	(3,244)	(1,439)	(81)	
	-----	-----	-----	
INVESTING ACTIVITIES				
Purchase of fixed assets	(453)	(631)	--	
Increase in other assets	(794)	--	--	
Increase in other intangible assets	(435)	--	--	
Recovery on long-term investments	355	--	--	
Net cash used in investing activities from discontinued operations	--	(11)	--	
	-----	-----	-----	
Net cash used in investing activities	(1,327)	(642)	--	
	-----	-----	-----	
FINANCING ACTIVITIES				
Repayment of Subordinated Notes	(9,143)	--	--	
Common shares issued	1,410	--	--	
Net cash used in financing activities from discontinued operations	599	--	--	
	-----	-----	-----	
Net cash used in financing activities	(7,134)	--	--	
	-----	-----	-----	
Effects of exchange rate changes on cash	163	4	17	
	-----	-----	-----	
DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(11,638)	(1,996)	(64)	
Increase (decrease) in cash and cash equivalents from discontinued operations	96	(81)	--	
	-----	-----	-----	
DECREASE IN CASH AND CASH EQUIVALENTS, DURING				

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THE PERIOD	(11,542)	(2,077)	(64)
Cash and cash equivalents, beginning of period	27,756	5,695	350
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 16,214	\$ 3,618	\$ 286

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IMAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
 (Tabular amounts in thousands of U.S. dollars unless otherwise stated)
 (UNAUDITED)

19. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN THE UNITED STATES AND CANADA

The accounting principles followed by the Company conform with U.S. GAAP. Significant differences affecting the Company between U.S. GAAP and Canadian Generally Accepted Accounting Principles ("Canadian GAAP") are described below.

(a) EQUITY ACCOUNTED INVESTEEES

Canadian GAAP requires the accounts of jointly controlled enterprises to be proportionately consolidated. Under U.S. GAAP, investments in jointly controlled entities are accounted as equity investments. During the three and nine month periods ended September 30, 2004, the Company did not have any investments in jointly controlled entities.

(b) FIXED ASSET IMPAIRMENTS

Fixed asset impairments under U.S. GAAP are calculated based on a discounted future cash flow basis. Under Canadian GAAP, prior to January 1, 2002, impairments were calculated based on an undiscounted future cash flow basis. Any differences resulted in higher depreciation for the remaining useful life of the assets.

(c) STOCK-BASED COMPENSATION

Under U.S GAAP, the Company accounts for stock-based compensation under the intrinsic value method set out in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and its related interpretations, and has made pro forma disclosures of net earnings (loss) and earnings (loss) per share as if the methodology prescribed by FAS 123, had been adopted. Under Canadian GAAP, the Company adopted the fair value provisions of CICA Section 3870, "Stock-based Compensation and Other Stock-based Payments" effective January 1, 2003. As of this date, stock options granted to employees or directors are recorded as an expense in the consolidated statement of operations and credited to other equity.

(d) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In the three and nine month periods ended September 30, 2003, the U.S. GAAP financial statements included an additional \$nil and \$0.5 million in selling, general and administrative expenses which were recorded in the December 31, 2002 Canadian GAAP financial statements due to the timing of finalization of certain compensation awards.

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(e) INTEREST ON CONVERTIBLE SUBORDINATED NOTES

Convertible subordinated notes are carried at face value as a liability under U.S. GAAP. Under Canadian GAAP, the carrying value of the convertible subordinated notes is allocated between debt and equity elements and classified separately in the balance sheet. The debt element was calculated by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability that does not have an associated conversion feature. The accretion of the liability component of the notes is recorded as interest expense in the statement of operations. The debt associated with this interest was settled in April 2003.

(f) PENSION ASSET AND LIABILITIES

Under U.S. GAAP, included in accrued liabilities, is a minimum pension liability of \$4.5 million as at September 30, 2004 and \$5.5 million as at December 31, 2003, representing unrecognized prior service costs. There is an equal amount recorded in other assets. Under Canadian GAAP, a minimum pension liability and corresponding asset are not recorded.

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

19. SUMMARY OF MATERIAL DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN THE UNITED STATES AND CANADA (cont'd)

RECONCILIATION TO CANADIAN GAAP

CONSOLIDATED STATEMENTS OF OPERATIONS

The following is a reconciliation of net earnings (loss) reflecting the differences between U.S. and Canadian GAAP:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE SE
	2004	2003	2004
	----	----	----
Net earnings (loss) in accordance with U.S. GAAP	\$ 1,800	\$ (2,654)	\$ 2,4
Equity accounted investees(a)	--	(499)	
Depreciation of Fixed assets(b)	(40)	(40)	(1
Stock-based compensation(c)	(742)	(102)	(9
Timing differences - Selling, general and administrative expenses(d)	--	--	
Interest accretion on Subordinated Notes(e)	--	--	
	-----	-----	-----
Net earnings (loss) in accordance with Canadian GAAP	\$ 1,018	\$ (3,295)	\$ 1,4
	=====	=====	=====
Earnings (loss) per share (note 12):			

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Earnings (loss) per share - basic and diluted:

Net earnings (loss) from continuing operations	\$ 0.02	\$ (0.09)	\$ 0.
Net earnings (loss) from discontinued operations	\$ 0.01	\$ --	\$ 0.
	-----	-----	-----
Net earnings (loss)	\$ 0.03	\$ (0.09)	\$ 0.
	=====	=====	=====

CONSOLIDATED SHAREHOLDERS' EQUITY (DEFICIT)

The following is a reconciliation of shareholders' equity (deficit) reflecting the difference between Canadian and U.S. GAAP:

	SEPTEMBER 30, 2004 ----	DECEMBER 31, 2003 ----
Shareholders' equity (deficit) in accordance with U.S. GAAP	\$ (49,145)	\$ (51,776)
Fixed asset impairments(b)	730	852
	-----	-----
Shareholders' equity (deficit) in accordance with Canadian GAAP	\$ (48,415)	\$ (50,924)
	=====	=====

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IMAX CORPORATION
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(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
(UNAUDITED)

19. SUMMARY OF MATERIAL DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN THE UNITED STATES AND CANADA (cont'd)

CONSOLIDATED BALANCE SHEET

The following is the Canadian GAAP Consolidated Balance Sheet as at December 31, 2003:

	AS AT DECEMBER 31, 2003 ----
ASSETS	
Cash and cash equivalents	\$ 47,282
Restricted cash	4,961
Accounts receivable	13,887
Financing receivable	56,742
Inventories	28,218
Prepaid expenses	1,902
Film assets	1,568
Property, plant and equipment	36,670
Other assets	8,297

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Future income taxes	3,756
Goodwill	39,027
Other intangible assets	3,388

Total assets	\$ 245,698
	=====
LIABILITIES	
Accounts payable	\$ 5,780
Accrued liabilities	38,264
Deferred revenue	63,344
New Senior Notes due 2010	160,000
Old Senior Notes due 2005	29,234

Total liabilities	296,622

SHAREHOLDERS' EQUITY (DEFICIT)	
Capital stock Common shares. Authorized - unlimited number	
Issued and outstanding - 39,301,758	114,153
Other equity	3,536
Contributed surplus	11,857
Deficit	(182,297)
Cumulative foreign currency translation adjustments	1,827

Total shareholders' equity (deficit)	(50,924)

Total liabilities and shareholders' equity (deficit)	\$ 245,698
	=====

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

19. SUMMARY OF MATERIAL DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN THE UNITED STATES AND CANADA (cont'd)

CONSOLIDATED STATEMENT OF OPERATIONS

The following are the Canadian GAAP Consolidated Statements of Operations for the three and nine months ended September 30, 2003:

	THREE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS ENDED SEPTEMBER 30, 2003
	-----	-----
REVENUE		
IMAX systems	\$ 11,454	\$ 55,913
Films	5,276	19,570
Theater operations	3,367	10,142
Other	1,955	6,135
	-----	-----
	22,052	91,760
COSTS OF GOODS AND SERVICES	12,589	52,389
	-----	-----
GROSS MARGIN	9,463	39,371

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Selling, general and administrative expenses	8,366	24,605
Research and development	952	2,833
Amortization of intangibles	182	473
Receivable provisions, net of (recoveries)	(425)	264
	-----	-----
EARNINGS FROM OPERATIONS	388	11,196
Interest income	105	515
Interest expense	(3,691)	(12,260)
Loss on retirement of notes	(146)	(333)
Recovery on long-term investments	355	355
	-----	-----
NET LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,989)	(527)
Recovery of (provision for) income taxes	(163)	400
	-----	-----
NET LOSS FROM CONTINUING OPERATIONS	(3,152)	(127)
Net loss from discontinued operations	(143)	(292)
	-----	-----
NET LOSS	(3,295)	(419)
	=====	=====

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IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
(UNAUDITED)

19. SUMMARY OF MATERIAL DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN THE UNITED STATES AND CANADA (cont'd)

CONSOLIDATED STATEMENT OF CASH FLOWS

The following is the Canadian GAAP Consolidated Statement of Cash Flows for the nine months ended September 30, 2003:

	NINE MONTHS ENDED SEPTEMBER 30, 2003 ----
CASH PROVIDED BY (USED IN):	
OPERATING ACTIVITIES	
Net earnings from continuing operations	\$ (127)
Items not involving cash:	
Depreciation and amortization	9,255
Write-downs	260
Loss on retirement of notes	333
Stock and other non-cash compensation	4,344
Interest related to accretion on Subordinated Notes	48
Non-cash foreign exchange gain	(685)
Payment under certain employment agreements	(1,550)
Investment in film assets	(1,108)
Changes in restricted cash	(142)

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Changes in other non-cash operating assets and liabilities	(14,461)
Net cash used in operating activities from discontinued operations	(573)

Net cash used in operating activities	(4,406)

INVESTING ACTIVITIES	
Purchase of fixed assets	(1,169)
Increase in other assets	(794)
Increase in other intangible assets	(435)
Recovery on long-term investments	355
Net cash used in investing activities from discontinued operations	(11)

Net cash used in investing activities	(2,054)

FINANCING ACTIVITIES	
Repayment of Subordinated Notes	(9,143)
Common shares issued	1,410
Repayment of long-term debt	(576)
Net cash provided by financing activities from discontinued operations	599

Net cash used in financing activities	(7,710)

Effects of exchange rate changes on cash	184

DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(14,001)
Increase in cash and cash equivalents from discontinued operations	15

DECREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD	(13,986)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	34,380

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 20,394
	=====

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company's principal business is the design, manufacture, sale and lease of projector systems for giant screen theaters for customers including commercial theaters, museums and science centers, and destination entertainment sites. In addition, the Company designs and manufactures high-end sound systems and produces and distributes large format films. There are more than 235 IMAX theaters operating in 35 countries worldwide as of September 30, 2004. IMAX Corporation is a publicly traded company listed on both the TSX and NASDAQ.

ACCOUNTING POLICIES AND ESTIMATES

The Company reports its results under United States Generally Accepted Accounting Principles ("U.S. GAAP"). Significant differences between United States and Canadian Generally Accepted Accounting Principles are described in note 19 of the Consolidated financial statements.

The preparation of these financial statements requires management to make estimates and judgements that affect the reported amounts of assets,

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liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to accounts receivable, net investment in leases, inventories, fixed and film assets, investments, intangible assets, income taxes, contingencies and litigation. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature. The Company's significant accounting policies are discussed in note 2 of the Consolidated Financial Statements in the Company's most recent annual report on Form 10-K/A (amendment No. 2) for the year ended December 31, 2003 and are summarized below.

SIGNIFICANT ACCOUNTING POLICIES

Management considers the following critical accounting policies to have the most significant effect on its estimates, assumptions and judgements:

REVENUE RECOGNITION

SALES-TYPE LEASES OF THEATER SYSTEMS

Theater system leases that transfer substantially all of the benefits and risks of ownership to customers are classified as sales-type leases as a result of meeting the criteria established by FASB Statement of Financial Accounting Standards No. 13, "Accounting for Leases" ("FAS 13"). When revenue is recognized, the initial rental fees due under the contract, along with the present value of minimum ongoing rental payments, are recorded as revenues for the period, and the related theater system costs including installation expenses are recorded as cost of goods and services. Additional ongoing rentals in excess of minimums are recognized as revenue when reported by the theater operator, provided that collection is reasonably assured.

The Company recognizes revenues from sales-type leases generally upon installation of the theater system. Revenue associated with a sales-type lease is recognized when all of the following criteria are met: persuasive evidence of an agreement exists; the price is fixed or determinable; and collection is reasonably assured.

The timing of installation of the theater system is largely dependent on the timing of the construction of the customer's theater. Therefore, while revenue for theater systems is generally predictable on a long-term basis, it can vary from quarter to quarter or year to year depending on the timing of installation.

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

SIGNIFICANT ACCOUNTING POLICIES (cont'd)

REVENUE RECOGNITION (cont'd)

SALES-TYPE LEASES OF THEATER SYSTEMS (cont'd)

The Company monitors the performance of the theaters to which it has leased equipment. When facts and circumstances indicate that it may need to change the terms of a lease, which had previously been recorded as a sales-type lease, the Company evaluates the likely outcome of such negotiations. A provision is

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recorded against the net investment in leases if the Company believes that it is probable that the negotiation will result in a reduction in the minimum lease payments such that the lease will be reclassified as an operating lease. The provision is equal to the excess of the carrying value of the net investment in lease over the fair value of the equipment. Any adjustments which result from a change in classification from a sales-type lease to an operating lease are reported as a charge to income during the period the change occurs.

In the ordinary course of its business, the Company will from time to time determine that a provision it had previously taken against the net investment in leases in connection with a customer's lease agreement should be reversed due to a change in the circumstances that led to the original provision.

In the normal course of its business, the Company each year will have customers who, for a number of reasons including the inability to obtain certain consents, approvals or financing, are unable to proceed with theater construction. In these instances, where customers of the Company are not in compliance with the terms of their leases for theater systems not yet installed, the leases are in default. There is typically deferred revenue associated with these leases, representing initial lease payments collected prior to the default. These initial lease payments are recognized as revenue when the Company exercises its rights to terminate the lease and the Company is released legally and/or by virtue of an agreement with the customer from its obligations under the lease arrangement. When settlements are received, the Company will allocate the total settlement to each of the elements based on their relative fair value.

OPERATING LEASES OF THEATER SYSTEMS

Leases that do not transfer substantially all of the benefits and risks of ownership to the customer are classified as operating leases. For these leases, initial rental fees and minimum lease payments are recognized as revenue on a straight-line basis over the lease term. Additional rentals in excess of minimum annual amounts are recognized as revenue when reported by theater operators, provided that collection is reasonably assured.

ACCOUNTS RECEIVABLE AND FINANCING RECEIVABLES

The allowance for doubtful accounts receivable and provision against the financing receivables are based on the Company's assessment of the collectibility of specific customer balances and the underlying asset value of the equipment under lease where applicable. If there is a deterioration in a customer's credit worthiness or actual defaults under the terms of the leases are higher than the Company's historical experience, the Company's estimates of recoverability for these assets could be adversely affected.

INVENTORIES

In establishing the appropriate provisions for theater systems inventory, management must make estimates of future events and conditions including the anticipated installation dates for the current backlog of theater system contracts, potential future signings, general economic conditions, technology factors, growth prospects within the customers' ultimate marketplace and the market acceptance of the Company's current and pending projection systems and film library. If management estimates of these events and conditions prove to be incorrect, it could result in inventory losses in excess of the provisions determined to be adequate as at the balance sheet date.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

SIGNIFICANT ACCOUNTING POLICIES (cont'd)

GOODWILL

The Company performs an impairment test on at least an annual basis and additionally, whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a discounted cash flows approach. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to measure the amount of impairment loss, if any. Any impairment loss would be expensed in the statement of operations.

FIXED ASSETS

Management reviews the carrying values of its fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. In performing its review for recoverability, management estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of impairment losses is based on the excess of the carrying amount of the asset over the fair value calculated using discounted expected future cash flows. If the actual future cash flows are less than the Company's estimates, future earnings could be adversely affected.

TAX ASSET VALUATION

As at September 30, 2004, the Company had net deferred income tax assets of \$4.5 million, comprised of tax credit carryforwards, net operating loss and capital loss carryforwards and other deductible temporary differences, which can be utilized to reduce either taxable income or taxes otherwise payable in future years. The Company's management assesses realization of these net deferred income tax assets based on all available evidence and has concluded that it is more likely than not that these net deferred income tax assets will be realized. Positive evidence includes, but is not limited to, the Company's historical earnings, projected future earnings, contracted sales backlog at September 30, 2004, and the ability to realize certain deferred income tax assets through loss and tax credit carryback strategies. If and when the Company's operations in some jurisdictions were to reach a requisite level of profitability or where the Company's future profitability estimates increase due to changes in positive evidence, the Company would reduce all or a portion of the applicable valuation allowance in the period when such determination is made. This would result in an increase to reported earnings and a decrease to the Company's effective tax rate in such period. However, if the Company's projected future earnings do not materialize, or if the Company operates at a loss in certain jurisdictions, or if there is a material change in actual effective tax rates or time period within which the Company's underlying temporary differences become taxable or deductible, the Company could be required to increase the valuation allowance against all or a significant portion of the Company's deferred tax assets resulting in a substantial increase to the Company's effective tax rate for the period of the change and a material adverse impact on its operating results for the period.

The Company is subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts tax expense to reflect both favorable and unfavorable examination

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results. The Company's ongoing assessments of the probable outcomes of examinations and related tax positions require judgement and can materially increase or decrease its effective rate as well as impact operating results.

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2004 VERSUS THREE MONTHS ENDED SEPTEMBER 30, 2003

The Company reported net earnings from continuing operations of \$1.6 million or \$0.04 per share on a diluted basis for the third quarter of 2004, compared to net loss from continuing operations of \$2.5 million or \$0.07 per share on a diluted basis for the third quarter of 2003.

REVENUE

The Company's revenues for the third quarter of 2004 increased 49.9% to \$31.8 million from \$21.2 million in the same period last year.

IMAX systems revenue increased approximately 86.0% to \$21.3 million in the third quarter of 2004 from \$11.5 million in the same period last year. The Company recognized revenue on 6 theater systems in the third quarter of 2004, versus 1 theater system in the third quarter of 2003. The increase in systems revenue from installations over the same period last year was partially offset by lower settlement revenue in the period. In the normal course of its business, the Company each year will have customers who, for a number of reasons including the inability to obtain certain consents, approvals or financing, are unable to proceed with theater construction. Once the determination is made that the customer will not proceed with installation, the lease agreement with the customer is generally terminated. Upon the Company being released from its future obligations under the agreement, the initial lease payments that the customer previously made to the Company are recognized as revenue. Settlements relating to terminated lease agreements with customers who were unable to proceed with their theater lease arrangement included in revenue for the third quarter of 2004 total \$2.9 million compared to \$3.4 million in the corresponding period last year. A significant portion of such revenue in the third quarter of 2004 related to existing customers that restructured their lease agreements and obtained an option to order the Company's new IMAX(R) MPX(TM) projection system.

Films revenue increased 15.2% to \$6.1 million in the third quarter of 2004 from \$5.3 million in the same period last year. There was an increase in film revenue primarily due to the release of Spider-Man 2 in July 2004 and due to the release of Harry Potter and the Prisoner of Azkaban: The IMAX Experience in June 2004. The increase was partially offset by a decline in the third party business at the Company's post production unit.

Theater operations revenue increased to \$3.7 million in the third quarter of 2004 from \$3.4 million in the same period last year primarily due to the consolidation of the Company's Tempe theater in 2004 compared to equity-accounting treatment in same period last year when the theater was only 50% owned.

Other revenues decreased 33.4% to \$0.8 million in the third quarter of 2004 from \$1.1 million in the same period last year primarily due to a decline in camera

rentals.

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS (cont'd)

THREE MONTHS ENDED SEPTEMBER 30, 2004 VERSUS THREE MONTHS ENDED SEPTEMBER 30, 2003 (cont'd)

GROSS MARGIN

Gross margin for the third quarter of 2004 was \$14.5 million, or 45.5% of total revenue, compared to \$9.7 million, or 45.6% of total revenue, in the same period last year. The increase in gross margin in dollar terms is due to the installation of 6 theater systems in the third quarter of 2004, compared to 1 theater system installation in the third quarter of 2003. Included in gross margin is \$2.9 million of settlement revenues for the third quarter of 2004 (compared to \$3.4 million of settlement revenue in the corresponding period last year) for terminated lease agreements with customers, a significant portion of which related to existing customers that restructured their lease agreements in order to obtain the Company's new IMAX MPX projection system. Further offsetting the increase in systems gross margin was a decline in film distribution gross margin primarily from costs related to the release of Spider-Man 2. Camera margins have also decreased significantly, primarily due to the decrease of camera rentals in 2004.

The Company improved its gross margin in its owned and operated theater segment due to increased cost efficiencies over the same period last year.

OTHER

Selling, general and administrative expenses were \$7.6 million in the third quarter of 2004 compared to \$8.3 million in the corresponding period last year. The Company incurred lower legal fees and miscellaneous expenses in the amount of \$1.6 million in the third quarter of 2004 versus \$2.4 million in the third quarter of 2003. Partially offsetting the decline was an increase in professional fees relating to the implementation of certain policies and procedures in connection with the Sarbanes-Oxley Act of 2002. The Company also recorded a recovery of \$0.2 million in its phantom stock plan expense in the third quarter of 2003 compared to \$nil in the third quarter of 2004.

The Company no longer has any interests in equity-accounted investees as of December 31, 2003.

Receivable provisions net of recoveries amounted to \$nil in the third quarter of 2004 compared to a net recovery of \$0.4 million in the same period last year.

Interest income increased to \$0.4 million in the third quarter of 2004 from \$0.1 million in the same period last year primarily due to interest received relating to tax refunds from favourable tax examinations paid to the Company in the third quarter. This was partially offset by a slight decrease in the average balance of cash and cash equivalents held.

Interest expense increased to \$4.4 million in the third quarter of 2004 compared to \$3.6 million in the corresponding period last year due to a higher effective interest rate in the current period. The Company retired and repaid an aggregate

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of \$170.8 million of the Company's Old Senior Notes and \$9.1 million of 5.75% convertible subordinated notes due April 1, 2003 (the "Subordinated Notes") throughout 2003. As at September 30, 2004, the Company had outstanding \$160.0 million aggregate principal of 9.625% senior notes due December 1, 2010 (the "New Senior Notes"). Included in interest expense is the amortization of deferred finance costs in the amount \$ 0.3 million in the third quarter of 2004 relating to the New Senior Notes and the Credit Facility and \$0.2 million for the third quarter of 2003 relating to the Old Senior Notes. The Company's policy is to defer and amortize all the costs relating to a debt financing over the life of the debt instrument.

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS (cont'd)

THREE MONTHS ENDED SEPTEMBER 30, 2004 VERSUS THREE MONTHS ENDED SEPTEMBER 30, 2003 (cont'd)

OTHER (cont'd)

In August 2003, the Company agreed to restructure its 6% Senior Secured Convertible Debenture (the "Debenture") due from Mainframe Entertainment, Inc. ("Mainframe"). Under the terms of the restructuring agreement, the payment terms of the Debenture were revised, while the Company retained its security over all of Mainframe's property and assets for the balance of the payments due. The Company recorded \$0.4 million in income for the three month period ended September 30, 2003 related to cash received under the debt restructuring agreement.

The effective tax rate on earnings differs significantly from the statutory rate due to the effect of permanent differences, income taxed at differing rates in foreign and other provincial jurisdictions, tax recoveries and charges relating to favourable or unfavourable tax examinations, and changes in the Company's valuation allowance on deferred tax assets. The income tax (expense) recovery for the quarter is calculated by applying the estimated average annual effective tax rate to quarterly pre-tax income. Included within the tax provision in the current quarter the Company recorded a tax recovery of \$0.4 million related to refunds resulting from favourable conclusions to two separate tax examinations and the utilization of previously recorded income tax credits. As at September 30, 2004, the Company had a gross deferred tax asset of \$50.6 million, against which the Company is carrying a \$46.1 million valuation allowance.

RESEARCH AND DEVELOPMENT

Research and development expenses were \$1.0 million in both the third quarter of 2004 and 2003. The expenses primarily reflect research and development activities pertaining to the Company's new IMAX MPX theater projection system. Through research and development, the Company continues to design and develop cinema-based equipment and software to enhance its product offering. The Company believes that the motion picture industry will be affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production (editing and special effects), digital re-mastering distribution and display. Consequently, the Company has made significant investments in digital technologies, including the development of a proprietary, patent-pending technology to digitally enhance image resolution and quality of 35mm motion picture films, and has a number of patents pending and intellectual

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property rights in these areas. However, there can be no assurance that the Company will be awarded patents covering this technology or that competitors will not develop similar technologies.

LOSS ON RETIREMENT OF NOTES

During the third quarter of 2003, the Company recorded a loss of \$0.1 million from the retirement of \$6.5 million of the Company's Old Senior Notes.

DISCONTINUED OPERATIONS

On December 23, 2003, the Company closed its owned and operated Miami IMAX theater. The Company completed its abandonment of assets and removal of its projection system from the theater in the first quarter of 2004, with no financial impact. The Company is involved in an arbitration proceeding with the landlord of the theater with respect to the amount owing to the landlord by the Company for lease and guarantee obligations. The amount of loss to the Company has been estimated at between \$0.8 million and \$2.3 million, of which the Company had accrued \$0.8 million as at December 31, 2003. During 2004, the Company paid out \$0.8 million with respect to amounts owing to the landlord. As the Company is uncertain as to the outcome of the proceeding, no additional amount has been recorded. The Company recorded \$nil in net earnings from discontinued operations related to Miami IMAX theater in the three months ended September 30, 2004 compared to a loss of \$0.3 million in the same period for 2003.

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS (cont'd)

THREE MONTHS ENDED SEPTEMBER 30, 2004 VERSUS THREE MONTHS ENDED SEPTEMBER 30, 2003 (cont'd)

DISCONTINUED OPERATIONS (cont'd)

Effective December 11, 2001, the Company completed the sale of its wholly-owned subsidiary, Digital Projection International, including its subsidiaries (collectively "DPI"), to a company owned by members of DPI management.

As part of the transaction, the Company restructured its advances to DPI, releasing DPI from obligations to repay any amounts in excess of \$12.7 million previously advanced by the Company, and reorganized the remaining \$12.7 million of debt owing to the Company into two separate loan agreements. During both the third quarters of 2003 and 2004, the Company recognized \$0.2 million in income from discontinued operations for cash ultimately received. As of September 30, 2004, the remaining loan receivable balance is \$11.3 million, which has been fully provided for.

NINE MONTHS ENDED SEPTEMBER 30, 2004 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2003

The Company reported net earnings from continuing operations of \$1.9 million or \$0.05 per share on a diluted basis for the first nine months of 2004, compared to net earnings from continuing operations of \$1.0 million or \$0.03 per share on a diluted basis for the first nine months of 2003.

REVENUE

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The Company's revenues for the first nine months of 2004 decreased 1.0% to \$88.5 million from \$89.3 million in the same period last year.

IMAX systems revenue increased approximately 3.4% to \$57.8 million in the first nine months of 2004 from \$55.9 million in the same period last year. The increase in systems revenue was due in part to higher average revenue per system and higher settlement revenue in the period. In addition, the Company recognized revenue on 13 theater systems in the first nine months of 2004, versus 15 theater systems in the first nine months of 2003, one of which was an operating lease. Average sales and lease revenue increased in 2004 versus 2003 due to the mix of projector systems installed during the year. In the normal course of its business, the Company each year will have customers who, for a number of reasons including the inability to obtain certain consents, approvals or financing, are unable to proceed with theater construction. Once the determination is made that the customer will not proceed with installation, the lease agreement with the customer is generally terminated. Upon the Company being released from its future obligations under the agreement, the initial lease payments that the customer previously made to the Company are recognized as revenue. Settlements relating to terminated lease agreements with customers who were unable to proceed with their theater lease arrangement included in revenue for the first nine months of 2004 total \$9.5 million compared to \$7.6 million in the corresponding period last year. A significant portion of such revenue in the first nine months of 2004 related to existing customers that restructured their lease agreements in order to obtain the Company's new IMAX(R) MPX(TM) projection system.

Films revenue decreased 12.3% to \$17.2 million in the first nine months of 2004 from \$19.6 million in the same period last year. There was a decline in the Company's film post production revenue due to lower third party activity. This was partially offset by an increase in film revenue due to the releases of Spider-Man 2 in July 2004, Harry Potter and the Prisoner of Azkaban: The IMAX Experience in June 2004 and due to the release of NASCAR 3D: The IMAX Experience in March 2004.

Theater operations revenue increased to \$11.2 million in the first nine months of 2004 from \$10.1 million in the same period last year, primarily due to the consolidation of the Company's Tempe theater in 2004 compared to equity-accounting treatment in same period last year when the theater was only 50% owned.

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS (cont'd)

NINE MONTHS ENDED SEPTEMBER 30, 2004 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2003 (cont'd)

REVENUE (cont'd)

Other revenues decreased 38.5% to \$2.3 million in the first nine months of 2004 from \$3.7 million in the same period last year primarily due to the decrease of camera rentals in 2004.

GROSS MARGIN

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Gross margin for the first nine months of 2004 was \$41.4 million, or 46.9% of total revenue, compared to \$40.0 million, or 44.8% of total revenue, in the same period last year. The increase in gross margin in dollar terms is due primarily to increased settlement revenues for the first nine months of 2004 for terminated lease agreements with customers, a significant portion of which related to existing customers that restructured their lease agreements in order to obtain the Company's new IMAX MPX projection system. Partially offsetting the increase in systems gross margin was a decline in film distribution gross margin due largely to the decline in the performance of the Company's film library and expenses incurred in connection with the release of Spider-Man 2. Camera margins have also decreased significantly, primarily due to the decrease of camera rentals in 2004.

The Company significantly improved its gross margin in dollar and percentage terms in its owned and operated theater segment due to increased cost efficiencies over the same period last year.

OTHER

Selling, general and administrative expenses were \$24.5 million in the first nine months of 2004 compared to \$24.9 million in the corresponding period last year. The Company recorded a recovery in its phantom stock plan expense of \$0.4 million in the first nine months of 2004 due the decrease in the Company's share price compared to an expense of \$1.4 million in the first nine months of 2003. The Company incurred lower legal fees and miscellaneous expenses in the amount of \$5.4 million in the first nine months of 2004 compared to \$6.2 million in the first nine months of 2003. Partially offsetting the above was an increase professional fees in the amount of \$0.5 million in the period primarily relating to the implementation of certain policies and procedures in connection with the Sarbanes-Oxley Act of 2002. The Company expensed \$0.5 million for capital taxes paid in the first nine months of 2004 compared to a recovery of \$0.1 million for refunds received in 2003.

The Company no longer has any interests in equity-accounted investees as of December 31, 2003.

Receivable provisions net of recoveries amounted to as a net recovery of \$1.0 million in the first nine months of 2004 compared to a net provision of \$0.3 million in the same period last year. The Company recorded an accounts receivable recovery of \$0.3 million as compared to a provision of \$0.5 million in the same period last year. There was a net recovery of \$0.7 million in the first nine months of 2004 on financing receivables as compared to a net recovery of \$0.3 million in the same period last year due to a favorable outcome on lease amendments.

Interest income increased to \$0.7 million in the first nine months of 2004 from \$0.5 million in the same period last year primarily due to interest received relating to tax refunds received by the Company. This was partially offset by a decrease in the average balance of cash and cash equivalents held.

Interest expense increased slightly to \$12.6 million in the first nine months of 2004 from \$11.9 million in the same period last year due to a higher effective interest rate in the current period. The Company retired and repaid an aggregate of \$170.8 million of the Company's Old Senior Notes throughout 2003 and \$9.1 million of Subordinated Notes on April 1, 2003. As at September 30, 2004, the Company had \$160.0 million aggregate principal of the New Senior Notes outstanding. Included in interest expense is the amortization of deferred finance costs in the amount \$0.8 million in the first nine months of 2004 and \$0.5 million for 2003. The Company's policy is to defer and amortize all the costs relating to a debt financing over the life of the debt instrument.

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS (cont'd)

NINE MONTHS ENDED SEPTEMBER 30, 2004 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2003 (cont'd)

OTHER (cont'd)

In August 2003, the Company agreed to restructure its 6% Senior Secured Convertible Debenture (the "Debenture") due from Mainframe Entertainment, Inc. ("Mainframe"). Under the terms of the restructuring agreement, the payment terms of the Debenture were revised, while the Company retained its security over all of Mainframe's property and assets for the balance of the payments due. The Company recorded \$0.4 million in income for the nine month period ended September 30, 2003 related to cash received under the debt restructuring agreement.

The effective tax rate on earnings differs significantly from the statutory rate due to the effect of permanent differences, income taxed at differing rates in foreign and other provincial jurisdictions and changes in the Company's valuation allowance on deferred tax assets. The income tax expense (recovery) for the period is calculated by applying the estimated average annual effective tax rate to the period pre-tax income. Included within the tax provision, the Company recorded income tax refunds of \$0.8 million in the first nine months of 2004 from \$1.5 million in the same period last year.

RESEARCH AND DEVELOPMENT

Research and development expenses were \$3.0 million in the first nine months of 2004 versus \$2.8 million in the same period last year. The higher level of expenses in 2004 primarily reflects research and development activities pertaining to the Company's new IMAX MPX theater projection system. Through research and development, the Company continues to design and develop cinema-based equipment and software to enhance its product offering. The Company believes that the motion picture industry will be affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production (editing and special effects), digital re-mastering distribution and display. Consequently, the Company has made significant investments in digital technologies, including the development of a proprietary, patent-pending technology to digitally enhance image resolution and quality of 35mm motion picture films, and has a number of patents pending and intellectual property rights in these areas. However, there can be no assurance that the Company will be awarded patents covering this technology or that competitors will not develop similar technologies.

LOSS ON RETIREMENT OF NOTES

During the first nine months of 2004, the Company recorded a loss of \$0.8 million related to costs associated with the redemption of \$29.2 million of the Company's Old Senior Notes. This transaction had the effect of fully extinguishing the Old Senior Notes. During the first nine months of 2003, the Company recorded a loss of \$0.3 million from the retirement of \$31.5 million of the Company's Old Senior Notes.

DISCONTINUED OPERATIONS

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On December 23, 2003, the Company closed its owned and operated Miami IMAX theater. The Company abandoned or removed all of its assets from the theater in the first quarter of 2004. The Company is involved in an arbitration proceeding with the landlord of the theater with respect to the amount owing to the landlord by the Company for lease and guarantee obligations. The amount of loss to the Company has been estimated at between \$0.8 million and \$2.3 million, of which the Company had accrued \$0.8 million as at December 30, 2003. During 2004, the Company paid out \$0.8 million with respect to amounts owing to the landlord. As the Company is uncertain as to the outcome of the proceeding, no additional amount has been recorded. The Company recorded \$nil in net earnings from discontinued operations related to Miami IMAX theater in the nine months ended September 30, 2004 compared to a loss of \$0.9 million in the same period for 2003.

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS (cont'd)

NINE MONTHS ENDED SEPTEMBER 30, 2004 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2003 (cont'd)

DISCONTINUED OPERATIONS (cont'd)

Effective December 11, 2001, the Company completed the sale of its wholly-owned subsidiary, Digital Projection International, including its subsidiaries (collectively "DPI"), to a company owned by members of DPI management. As part of the transaction, the Company restructured its advances to DPI, releasing DPI from obligations to repay any amounts in excess of \$12.7 million previously advanced by the Company, and reorganized the remaining \$12.7 million of debt owing to the Company into two separate loan agreements. During the first nine months of 2003 and 2004, the Company recognized \$0.6 million in income from discontinued operations for cash ultimately received. As of September 30, 2004, the remaining loan receivable balance is \$11.3 million, which has been fully provided for.

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITY

On February 6, 2004, the Company entered into a loan agreement for a secured revolving credit facility with Congress Financial Corporation (Canada) (the "Credit Facility") The Credit Facility is a three-year revolving credit facility with yearly renewal options thereafter, permitting maximum aggregate borrowings of \$20.0 million, subject to a borrowing base calculation which includes the Company's financing receivables, and certain reserve requirements. The Credit Facility bears interest at Prime + 0.25% per annum or Libor + 2.0% per annum and is collateralized by a first priority security interest in all of the current and future assets of the Company. The Credit Facility contains typical affirmative and negative covenants, including covenants that restrict the Company's ability to: incur certain additional indebtedness; make certain loans, investments or guarantees; pay dividends; make certain asset sales; incur certain liens or other encumbrances; conduct certain transactions with affiliates and enter into certain corporate transactions or dissolve. In addition, the Credit Facility contains customary events of default, including upon an acquisition or a change of control that has a material adverse effect on the Company's financial condition. The Credit Facility also requires the Company

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to maintain a minimum level of earnings before interest, taxes, depreciation and amortization, and cash collections. As at September 30, 2004, the Company has not drawn down on the Credit Facility, however, it has issued letters of credit for \$5.2 million under the Credit Facility arrangement.

CASH AND CASH EQUIVALENTS

As at September 30, 2004, the Company's principal sources of liquidity included cash and cash equivalents of \$20.7 million, trade accounts receivable of \$17.6 million and net investment in leases due within one year of \$5.9 million. As at September 30, 2004, the Company had not drawn down any amounts under the Credit Facility. In January 2004, the Company retired the remaining \$29.2 million in Old Senior Notes using existing cash balances.

The Company believes that cash flow from operations together with existing cash and borrowing available under the Credit Facility will be sufficient to meet operating needs for the foreseeable future. However, if management's projections of future signings and installations are not realized, there is no guarantee the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company's typical theater system lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

CASH AND CASH EQUIVALENTS (cont'd)

The Company's net cash provided by (used in) operating activities is impacted by a number of factors, including the proceeds associated with new signings of theater system lease and sale agreements in the year, the box office performance of large format films distributed by the Company and/or exhibited in the Company's theaters, increases or decreases in the Company's operating expenses, and the level of cash collections received from its customers.

Cash provided by operating activities amounted to \$4.7 million for the period ended September 30, 2004. Changes in other non-cash operating assets as compared to December 31, 2003 include a decrease of \$1.3 million in inventories, an increase of \$3.3 million in financing receivables, a \$3.0 million increase in accounts receivable and a \$1.6 million increase in prepaid expenses which relates to prepaid film print costs which will be expensed over the period to be benefited. Changes in other non-cash operating liabilities as compared to December 31, 2003 include a decrease in deferred revenue of \$12.7 million, an increase in accounts payable of \$0.9 million and an increase of \$7.9 million in accrued liabilities. Included in operating activities for the first nine months of 2004 were \$4.7 million in film finance proceeds which are required to be spent on a specific film project, and \$0.6 million in premiums paid to retire \$29.2 million of principal of the Company's remaining Old Senior Notes. Net cash provided by operating activities increased by \$5.0 million in the first nine months of 2004 primarily due to the elimination of the Company's restricted cash balances, which were used as collateral for letters of credit. The Company now secures letters of credit through the Credit Facility, which was entered into in February 2004.

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Cash used in investing activities amounted to \$1.8 million in the first nine months of 2004, which includes purchases of \$0.7 million in fixed assets, an increase in other assets of \$0.9 million and an increase in other intangible assets of \$0.3 million.

Cash used in financing activities in the first nine months of 2004 amounted to \$29.5 million. The Company retired \$29.2 million of principal of the Company's Old Senior Notes. Financing costs related to the New Senior Notes amounted to \$0.7 million. The Company also received \$0.4 million in cash on a note receivable from a discontinued operation.

Capital expenditures including the purchase of fixed assets and investments in film assets were \$3.5 million for the first nine months of 2004.

Cash used in operating activities amounted to \$4.7 million in the first nine months of 2003. Changes in other non-cash operating assets and liabilities included a decrease in deferred revenue of \$18.7 million, and a decrease of \$6.1 million in inventories. Cash used by investing activities in the first nine months of 2003 amounted to \$2.0 million, primarily consisting of \$1.1 million invested in fixed assets. The Company has also recorded \$0.4 million in income related to cash received under a restructuring agreement with Mainframe Entertainment, Inc. Cash used in financing activities in the first nine months of 2003 amounted to \$7.1 million which included a \$9.1 million repayment of the Company's remaining outstanding Subordinated Notes and \$0.6 million from the receipt of a note receivable from a discontinued operation. Capital expenditures including the purchase of fixed assets and investments in film assets were \$2.3 million in the first nine months of 2003.

LETTERS OF CREDIT AND OTHER COMMITMENTS

As at September 30, 2004, the Company has letters of credit of \$5.2 million outstanding of which the entire balance has been secured by the Credit Facility. In addition, the Company is required to expend \$5.0 million towards the production of a future motion picture title. The Company has expended \$0.3 million of these funds as at September 30, 2004.

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IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

NEW SENIOR NOTES DUE 2010

As at September 30, 2004, the Company has \$160.0 million aggregate principal of 9.625% senior notes due December 1, 2010 (the "New Senior Notes"). On October 6, 2004, the Company commenced an offer to exchange up to US\$160,000,000 aggregate principal amount of its outstanding New Senior Notes for a like principal amount of its 9.625% Senior Notes due 2010 (the "Registered Notes"). The Company's registration statement on Form S-4 relating to the Registered Notes was declared effective by the Securities and Exchange Commission on September 30, 2004. The Registered Notes are unconditionally guaranteed, jointly and severally, by certain of the Company's wholly-owned subsidiaries. The terms of the Registered Notes are substantially identical to the terms of the New Senior Notes, and evidence the same indebtedness as the New Senior Notes, except that the Registered Notes are registered under U.S. securities laws, do not contain restrictions on transfer or provisions relating to special interest under

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circumstances related to the timing of the exchange offer, bear a different CUSIP number from the New Senior Notes and do not entitle their holders to registration rights.

The terms of the Company's New Senior Notes impose certain restrictions on its operating and financing activities, including certain restrictions on the Company's ability to: incur additional indebtedness; make distributions or certain other restricted payments; grant liens; create dividend and other payment restrictions affecting the Company's subsidiaries; sell certain assets or merge with or into other companies; and enter into transactions with affiliates. The Company believes these restrictions will not have a material impact on its financial condition or results of operations.

OLD SENIOR NOTES DUE 2005

In December 2003, the Company completed a tender offer and consent solicitation for its remaining \$152.8 million of principal of senior notes due December 1, 2005 bearing interest at a rate of 7.875% per annum (the "Old Senior Notes") that were not retired previously. In December 2003, \$123.6 million in principal of the Old Senior Notes were redeemed pursuant to a tender offer. Notice of Redemption for all remaining outstanding Old Senior Notes was delivered on December 4, 2003 and the remaining \$29.2 of outstanding Old Senior Notes were redeemed on January 2, 2004 using proceeds from the Company's New Senior Notes.

In January 2004, the Company recorded a loss of \$0.8 million related to the retirement of the Company's Old Senior Notes. During the first nine months of 2003, the Company recorded a loss of \$0.3 million from the retirement of \$31.5 million of the Company's Old Senior Notes.

PENSION OBLIGATIONS

The Company has a defined benefit pension plan covering its two Co-Chief Executive Officers. As September 30, 2004, the Company had an unfunded and accrued projected benefit obligation of approximately \$22.6 million (December 31, 2003 - \$20.1 million) in respect of this defined benefit pension plan. The Company intends to use the proceeds of life insurance policies taken on its Co-Chief Executive Officers to satisfy, in whole or in part, certain of the benefits due and payable under the plan, although there can be no assurance that the Company will ultimately do so.

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.

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IMAX CORPORATION

ITEM 3. QUANTITATIVE AND QUALITATIVE FACTORS ABOUT MARKET RISK

The Company is exposed to market risk from changes in foreign currency rates. The Company does not use financial instruments for trading or other speculative purposes.

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 flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In Japan, the Company has ongoing operating expenses related to its operations. Net

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Japanese yen flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Japanese yen, Euros and Canadian dollars. The Company plans to convert Japanese yen and Euros lease cash flows to U.S. dollars through the spot markets on a go-forward basis.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's Co-Chief Executive Officers and Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were adequate and 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 Securities and Exchange Commission's rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As of the end of the period covered by this report there was no change in the Company's internal control over financial reporting that occurred during the period covered by this report that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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IMAX CORPORATION

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

- (a) In March 2001, a complaint was filed against the Company by Muvico Entertainment, L.L.C. ("Muvico"), alleging misrepresentation and seeking rescission in respect of the system lease agreements between the Company and Muvico. The complaint was subsequently amended to add claims for fraud based upon the same factual allegations underlying its prior claims. The Company filed counterclaims against Muvico for breach of contract, unjust enrichment, unfair competition and/or deceptive trade practices and theft of trade secrets, and brought claims against MegaSystems, Inc. ("MegaSystems"), a large-format theater system manufacturer, for tortious interference and unfair competition and/or deceptive trade practices and to enjoin Muvico and MegaSystems from using the Company's confidential and proprietary information. The case is being heard in the U.S. District Court, Southern District of Florida, Miami Division. On September 27, 2004, the Court granted the Company's motion for summary judgment, awarding the Company judgment as a matter of law on all of the substantive claims asserted by Muvico in the complaint. The Company is awaiting final decision from the Court with regard to its damages claims.
- (b) In May 2003, the Company filed a Statement of Claim in the Ontario Superior Court of Justice against United Cinemas International Multiplex B.V. ("UCI") for specific performance, or alternatively, damages of \$25.0 million with respect to the breach of a 1999 agreement between the Company and UCI whereby UCI committed to purchase IMAX theater systems from the Company. In August 2003, UCI filed a Statement of Defence denying it is in

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breach. On December 10, 2003, UCI and its two subsidiaries in the United Kingdom and Japan filed a claim against the Company claiming alleged breaches of the 1999 agreement referred to in the Company's claim against UCI, and repeating allegations contained in UCI's Statement of Defence to the Company's action. The Company believes that the allegations made by UCI in its complaint are entirely without merit and will accordingly defend the claims vigorously. The Company believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

- (c) In November 2001, the Company filed a complaint with the District Court of Munich against Big Screen, a German large-screen cinema owner in Berlin ("Big Screen"), demanding payment of rental payments and certain other amounts owed to the Company. Big Screen has raised a defense based on alleged infringement of German antitrust rules, relating mainly to an allegation of excessive pricing. Big Screen had brought a number of motions for restraining orders in this matter relating to the Company's provision of films and maintenance, all of which have been rejected by the courts, including the Berlin Court of Appeals, and for which all appeals have been exhausted. The Company believes that all of the allegations in Big Screen's individual defense are entirely without merit and will accordingly continue to prosecute this matter vigorously. The Company believes that the amount of the loss, if any, suffered in connection with this dispute would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

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IMAX CORPORATION

PART II OTHER INFORMATION (cont'd)

ITEM 1. LEGAL PROCEEDINGS (cont'd)

- (d) In May, 2002, the Company filed a complaint with the District Court of Nuremberg-Furth, Germany against Siewert Holding in Wuerzburg ("Siewert"), demanding payment of rental obligations and other amounts owed to the Company. Siewert raised a defense based on alleged infringement of German antitrust rules. By judgement of December 20, 2002, the District Court rejected the defense and awarded judgement in documentary proceedings in favor of the Company and added further amounts that had fallen due. Siewert applied for leave to appeal to the German Supreme Court on matters of law, which was rejected by the German Supreme Court in March 2004. Siewert subsequently made a partial payment of amounts awarded to the Company. Siewert has filed follow up proceedings to the documentary proceedings in the District Court, essentially repeating the claims rejected in the documentary proceeding. On September 30, 2004, Siewert filed for insolvency with the Local Court in Wuerzburg. To the extent the lawsuit will be continued following the commencement of the insolvency proceedings, the Company will continue to vigorously pursue its claims and believes that the amount of loss, if any, suffered in connection with these proceedings would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.
- (e) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages of approximately \$3.7 million before the International Court of Arbitration of the

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International Chambers of Commerce (the "ICC") with respect to the breach by Electronic Media Limited ("EML") of its December 2000 agreement with the Company. In April 2004, EML filed an answer and counterclaim seeking the return of funds EML has paid to the Company, incidental expenses and punitive damages. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-CITI Entertainment (I) PVT Limited ("E-Citi"), seeking \$17,777,950 as a result of E-Citi's breach of a September 2000 lease agreement. E-Citi has responded to the arbitration demand and has asserted several defenses, including that the ICC does not have jurisdiction for the arbitration. The Company believes that the allegations made by EML in its counterclaim are entirely without merit and has requested that the counterclaim be dismissed on the basis that EML has recently advised the ICC that it has insufficient funds to pay its share of the arbitration costs. The Company believes that the amount of loss, if any, suffered in connection with the arbitration would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

- (f) In addition to the matters described above, the Company is currently involved in other legal proceedings 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.

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IMAX CORPORATION

PART II OTHER INFORMATION (cont'd)

ITEM 6. EXHIBITS

- (A) EXHIBITS
- 10.1 Stock Option Plan of IMAX Corporation, dated August 12, 2004.
- 31.1 Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002, dated October 28, 2004, by Bradley J. Wechsler.
- 31.2 Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002, dated October 28, 2004, by Richard L. Gelfond.
- 31.3 Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002, dated October 28, 2004, by Francis T. Joyce.
- 32.1 Certification Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, dated October 28, 2004, by Bradley J. Wechsler.
- 32.2 Certification Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, dated October 28, 2004, by Richard L. Gelfond.
- 32.3 Certification Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, dated October 28, 2004, by Francis T. Joyce

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IMAX CORPORATION

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: October 28, 2004

By: /s/ Francis T. Joyce

Francis T. Joyce
Chief Financial Officer
(Principal Financial Officer)

Date: October 28, 2004

By: /s/ Kathryn A. Gamble

Kathryn A. Gamble
Vice President, Finance, Controller
(Principal Accounting Officer)

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