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IMAX CORP
Form 10-Q/A
September 13, 2004

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

FORM 10-Q/A

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

For the quarterly period ended June 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
incorporation or organization)

(I.R.S. Employer
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).

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Yes [X] 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 July 31, 2004
----- Common stock, no par value	----- 39,315,491

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IMAX CORPORATION

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IMAX Corporation (the "Company") is filing this amendment no.1 on Form 10-Q/A (the "Form 10-Q/A") to amend and update Item 2 of Part I of its Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, which was originally filed with Securities and Exchange Commission (the "SEC") on August 9, 2004 (the "Form 10-Q"). No other information included in the original Form 10-Q is amended hereby.

The information included in this Form 10-Q/A has not been updated for any events that have occurred subsequent to the originally filed Form 10-Q on August

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9, 2004. For a discussion of events and developments subsequent to June 30, 2004, see the Company's reports filed with the SEC since August 9, 2004.

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 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:

Condensed Consolidated Balance Sheets as at June 30, 2004
and December 31, 2003..... 4

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Condensed Consolidated Statements of Operations for the
three and six month periods ended June 30, 2004 and 2003..... 5

Condensed Consolidated Statements of Cash Flows
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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)

	JUNE 30, 2004	DECEMBER 31, 2003
	-----	-----
	(UNAUDITED)	
ASSETS		
Cash and cash equivalents	\$ 16,951	\$ 47,282
Restricted cash (note 7(b))	--	4,961
Accounts receivable, net of allowance for doubtful accounts of \$7,598 (2003 - \$7,278)	16,054	13,887
Financing receivables (note 3)	56,968	56,742
Inventories (note 4)	26,449	28,218
Prepaid expenses	3,997	1,902
Film assets	1,098	1,568
Fixed assets	33,104	35,818
Other assets	13,554	13,827
Deferred income taxes (note 11)	4,623	3,756
Goodwill	39,027	39,027
Other intangible assets	3,260	3,388
	-----	-----
Total assets	\$ 215,085	\$ 250,376
	=====	=====
LIABILITIES		
Accounts payable	\$ 4,968	\$ 5,780
Accrued liabilities (note 7(c))	49,879	43,794
Deferred revenue	51,223	63,344
New Senior Notes due 2010 (note 5)	160,000	160,000
Old Senior Notes due 2005 (note 6)	--	29,234
	-----	-----
Total liabilities	266,070	302,152
	-----	-----

COMMITMENTS AND CONTINGENCIES (notes 7 and 8)

SHAREHOLDERS' EQUITY (DEFICIT)

Capital stock - no par value. Authorized -

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unlimited number. Issued and outstanding - 39,314,991 (2003 - 39,301,758)	115,652	115,609
Other equity	3,251	3,159
Deficit	(170,533)	(171,189)
Accumulated other comprehensive income	645	645
	-----	-----
Total shareholders' deficit	(50,985)	(51,776)
	-----	-----
Total liabilities and shareholders' equity (deficit)	\$ 215,085	\$ 250,376
	=====	=====

(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 JUNE 30,		SIX MONTHS ENDED JUNE 30,
	2004	2003	2004
	-----	-----	-----
REVENUE			
IMAX systems (note 9(a))	\$ 20,482	\$ 22,143	\$ 36,502
Films	6,600	7,460	11,089
Theater operations	3,771	3,608	7,513
Other	895	1,239	1,524
	-----	-----	-----
	31,748	34,450	56,628
COSTS OF GOODS AND SERVICES	17,139	20,164	29,657
	-----	-----	-----
GROSS MARGIN	14,609	14,286	26,971
Selling, general and administrative expenses (note 9(b))	8,620	8,456	16,954
Research and development	870	1,168	2,015
Amortization of intangibles	154	152	305
Loss (income) from equity-accounted investees	--	14	--
Receivable provisions, net of (recoveries) (note 10)	(69)	75	(967)
	-----	-----	-----
EARNINGS FROM OPERATIONS	5,034	4,421	8,664
Interest income	98	145	225
Interest expense	(4,120)	(4,056)	(8,189)
Loss on retirement of notes (note 6)	--	(187)	(784)
	-----	-----	-----
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS			

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BEFORE INCOME TAXES	1,012	323	(84)
Recovery of income taxes (note 11)	340	700	340
	-----	-----	-----
NET EARNINGS FROM CONTINUING OPERATIONS	1,352	1,023	256
Net earnings (loss) from discontinued operations (note 15)	200	(54)	400
	-----	-----	-----
NET EARNINGS	\$ 1,552	\$ 969	\$ 656
	=====	=====	=====
EARNINGS PER SHARE (note 12): Earnings per share - basic and diluted:			
Net earnings from continuing operations	\$ 0.03	\$ 0.03	\$ 0.01
Net earnings from discontinued operations	\$ 0.01	\$ --	\$ 0.01
	-----	-----	-----
Net earnings	\$ 0.04	\$ 0.03	\$ 0.02
	=====	=====	=====

(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)

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
	-----	-----
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net earnings from continuing operations	\$ 256	\$ 3,541
Items not involving cash:		
Depreciation and amortization	6,556	5,844
Write-downs (recoveries)	(967)	734
Income from equity-accounted investees	--	(273)
Deferred income taxes	(867)	--
Loss on retirement of notes	784	187
Stock and other non-cash compensation	1,377	3,444
Non-cash foreign exchange (gain) loss	324	(629)
Premium on repayment of notes	(576)	--
Payment under certain employment agreements	--	(1,550)
Investment in film assets	(1,416)	(2,020)
Changes in restricted cash	4,961	(772)
Changes in other non-cash operating assets and liabilities	(9,904)	(15,143)
Net cash used in operating activities from		

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discontinued operations	--	(369)
	-----	-----
Net cash provided by (used in) operating activities	528	(7,006)
	-----	-----
INVESTING ACTIVITIES		
Purchase of fixed assets	(589)	(746)
Increase in other assets	(684)	(417)
Increase in other intangible assets	(176)	(291)
Net cash used in investing activities from discontinued operations	--	(21)
	-----	-----
Net cash used in investing activities	(1,449)	(1,475)
	-----	-----
FINANCING ACTIVITIES		
Repayment of Old Senior Notes due 2005	(29,234)	--
Repayment of Subordinated Notes	--	(9,143)
Financing costs related to New Senior Notes due 2010	(564)	--
Common shares issued	43	621
Net cash provided by financing activities from discontinued operations	400	399
	-----	-----
Net cash used in financing activities	(29,355)	(8,123)
	-----	-----
Effects of exchange rate changes on cash	(55)	141
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(30,731)	(16,472)
Increase in cash and cash equivalents from discontinued operations	400	9
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD	(30,331)	(16,463)
	-----	-----
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	47,282	33,801
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 16,951	\$ 17,338
	=====	=====

(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

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The Condensed Consolidated Financial Statements include the accounts of IMAX Corporation together with its wholly-owned subsidiaries (the "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. All such adjustments are of a normal recurring nature, except as discussed in the accompanying notes.

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 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, and as described below, except as described in note 2.

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 six months ended June 30, would have been as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
Net earnings as reported	\$ 1,552	\$ 969	\$ 656	\$ 1,325
Stock based compensation expense, if the methodology prescribed by FAS 123 had been adopted	(1,768)	(2,358)	(3,362)	(2,706)
Adjusted net earnings (loss)	\$ (216)	\$ (1,389)	\$ (2,706)	\$ (1,381)
Earnings per share - basic:				
Net earnings as reported	\$ 0.04	\$ 0.03	\$ 0.02	\$ 0.04
FAS 123 stock based compensation expense	(0.05)	\$ (0.07)	\$ (0.09)	\$ (0.05)
Adjusted net earnings (loss)	\$ (0.01)	\$ (0.04)	\$ (0.07)	\$ (0.01)
Earnings per share - diluted:				
Net earnings as reported	\$ 0.04	\$ 0.03	\$ 0.02	\$ 0.04
FAS 123 stock based compensation expense	(0.05)	\$ (0.07)	\$ (0.09)	\$ (0.05)
Adjusted net earnings (loss)	\$ (0.01)	\$ (0.04)	\$ (0.07)	\$ (0.01)

Of the total stock based compensation expense under FAS 123 for the three

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and six months ended June 30, 2004, \$1,205 and \$2,411, 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.

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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 (cont'd)

The weighted average fair value of common share options granted to employees for the three and six months ended June 30, 2004 at the time of grant was \$2.06 and \$2.07 per share, respectively (2003 - \$2.92 and \$2.35 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 six months ended June 30, 2004, the following assumptions were used: dividend yield of 0% and 0% (three months ended June 30, 2003 - 0%); an average risk free interest rate of 4.87% and 4.86% (three months ended June 30, 2003 - 2.7%); an equity risk premium between 3.82% and 5.53% (three months ended June 30, 2003 - 10.7%); a beta between .95 and 1.03 (three months ended June 30, 2003 - 1.03); expected option life between 2.57 and 5.34 years (three months ended June 30, 2003 - between 3.6 and 5.1 years); an average expected volatility of 62% (three months ended June 30, 2003 - 62%); and an annual termination probability of between 8.06% and 9.62% (three months ended June 30, 2003 - 8.1%). 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

In January 2003, the FASB issued 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.

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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.

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 June 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 an interest in another film production company which is a VIE, however the Company did not consolidate this film entity 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:

	JUNE 30, 2004	DECEMBER 31, 2003
	-----	-----
NET INVESTMENT IN LEASES		
Gross minimum lease amounts receivable	\$ 97,349	\$ 97,408
Residual value of equipment	824	824
Unearned finance income	(39,188)	(38,847)
	-----	-----
Present value of minimum lease amounts receivable	58,985	59,385
Accumulated allowance for uncollectible amounts	(5,116)	(5,840)
	-----	-----
Net investment in leases	53,869	53,545
	-----	-----
Long-term receivables	3,099	3,197
	-----	-----
Total financing receivables	\$ 56,968	\$ 56,742
	=====	=====

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4. INVENTORIES

	JUNE 30, 2004	DECEMBER 31, 2003
	-----	-----
Raw materials	\$ 6,236	\$ 5,868
Work-in-process	5,151	4,327
Finished goods	15,062	18,023
	-----	-----
	\$26,449	\$28,218
	=====	=====

5. NEW SENIOR NOTES DUE 2010

As at June 30, 2004, the Company has \$160.0 million aggregate principal of 9.625% senior notes due December 1, 2010 (the "New Senior Notes"). The Company commenced an exchange offer to exchange all outstanding New Senior Notes for up to \$160.0 million aggregate principal amount of senior notes due December 1, 2010 that will be registered under the U.S. Securities Act of 1933, as amended (the "Registered Notes"). On February 27, 2004, the Company filed a registration statement on Form S-4 in relation to the Registered Notes. The Registered Notes will continue to be unconditionally guaranteed, jointly and severally, by certain of the Company's wholly-owned subsidiaries. After the exchange, the terms of the Registered Notes will be 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 will be registered under U.S. securities laws, will not contain restrictions on transfer or provisions relating to special interest under circumstances related to the timing of the exchange offer, will bear a different CUSIP number from the New Senior Notes and will not entitle their holders to registration rights.

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

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 the 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 private placement (see note 5).

In the first half of 2004, the Company recorded a loss of \$0.8 million

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related to the retirement of the Company's Old Senior Notes. During the same period in 2003 the Company recorded a loss of \$0.2 million from the retirement of \$25.0 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 June 30, 2004 for each of the years ended December 31 are as follows:

2004 (six months remaining)	\$ 2,675
2005	5,923
2006	5,751
2007	5,554
2008	5,340
Thereafter	37,185

	\$ 62,428
	=====

- (b) As at June 30, 2004, the Company has letters of credit of \$3.9 million outstanding of which the entire balance has been issued under the 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 future motion picture title. The Company has expended \$0.1 million of these funds as at June 30, 2004.

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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)

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

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proprietary information. The case is being heard in the U.S. District Court, Southern District of Florida, Miami Division. The Company's motion for a summary judgement on its contract claims against Muvico was heard in September 2003; a decision has not yet been rendered. The Company believes that the allegations made by Muvico in its complaint are entirely without merit and will accordingly defend the claims vigorously. The Company further 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 operation of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

- (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 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 operation 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 High 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
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)

8. CONTINGENCIES (cont'd)

- (d) In May, 2002, the Company filed a complaint with the District Court of

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Nuremberg-Furth, Germany against Siewert Holding in Wurtzburg ("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 the 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. To enforce its judgement against Siewert, the Company filed for the opening of insolvency proceedings with respect to Siewert, which filing was withdrawn following payment by Siewert to the Company. Siewert has filed further proceedings in the District Court, claiming that the majority of its lease obligations to the Company should be invalidated. The Company will vigorously defend such claim and does not believe that the amount of loss, if any, suffered in connection with these proceedings would have a material impact on the financial position or results of operation 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 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. The Company believes that the allegations made by EML in its counterclaim are entirely without merit and has requested that these counterclaims 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 this arbitration would not have a material impact on the financial position or results of operation 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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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

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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 six months ended June 30, 2004 are \$2.2 million and \$6.7 million, respectively (2003 - \$1.5 million, \$4.1 million) for amounts recognized under terminated lease agreements.

- (b) Included in selling, general and administrative expenses for the three and six months ended June 30, 2004 are \$0.2 million and \$0.5 million, respectively (2003 - \$0.6 million gain, \$1.1 million gain) for net foreign exchange losses related to the translation of foreign currency denominated monetary assets, liabilities and integrated subsidiaries.
10. RECEIVABLE PROVISIONS (RECOVERIES), NET

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
Accounts receivable provisions (recoveries), net	\$ (69)	\$ (192)	\$ (242)	\$ 422
Financing receivables provisions (recoveries), net(1)	\$ --	\$ 267	\$ (725)	\$ 267
Receivable provisions (recoveries), net	\$ (69)	\$ 75	\$ (967)	\$ 689
	=====	=====	=====	=====

(1) For the three and six months ended June 30, 2004, the Company recorded a recovery of previously provided amounts of \$nil and \$0.7 million, respectively (2003 - \$0.3 million expense, \$0.3 million expense) as 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 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. In the current quarter the Company recorded a tax recovery of \$0.4 million related to a refund for an applied tax carryback. This benefit has not been previously recorded by the Company.

As at June 30, 2004, the Company has recognized net deferred income tax assets of \$4.6 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 June 30, 2004, the Company had a gross deferred income tax asset of \$50.9 million, against which the Company is carrying a \$46.3 million valuation allowance.

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12. CAPITAL STOCK

(A) STOCK BASED COMPENSATION

In the three and six months ended June 30, 2004, an aggregate of 13,335 and 26,670 options (2003 - 91,723 and 111,724) with an average exercise price of \$5.49 and \$6.30 (2003 - \$7.46 and \$6.78) to purchase the 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 six months ended June 30, 2004 to be \$0.04 million and \$0.1 million (2003 - \$0.3 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 3.8% and 3.3% (2003 - 2.3% and 2.4%); expected option life of 5 years; and an average expected volatility of 62.0%.

There were no warrants issued in the three and six months ended June 30, 2004 (2003 - 550,000 and 550,000). Of the 550,000 warrants issued in 2003, which vest when certain millstones are met, and have an exercise price of \$6.06, the Company believes that only 200,000 will ultimately vest. The warrants generally expire 5 years after the date of grant or vesting. At June 30, 2004, 200,000 warrants were vested and exercisable.

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 six months ended June 30, 2004 (2003 - \$0.03 million, \$0.4 million).

(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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
Net earnings applicable to common shareholders:				
Net earnings	\$ 1,552	\$ 969	\$ 656	\$ 3,392
Weighted average number of common shares (000's):				
Issued and outstanding, beginning of period	39,304	32,973	39,302	32,973
Weighted average number of shares issued during the period	6	1,186	5	593

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Weighted average number of shares used in computing basic earnings per share	39,310	34,159	39,307	33,566
Assumed exercise of stock options, net of shares assumed repurchased	627	1,295	314	798
Weighted average number of shares used in computing diluted earnings per share	39,937	35,454	39,621	34,364

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13. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL INFORMATION

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
Interest paid	\$7,661	\$8,244	\$7,896	\$8,264
Income taxes paid	\$ 352	\$1,242	\$ 928	\$1,776

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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
REVENUE				
IMAX systems	\$ 20,482	\$ 22,143	\$ 36,502	\$ 44,459
Films	6,600	7,460	11,089	14,294
Theater operations	3,771	3,608	7,513	6,775
Other	895	1,239	1,524	2,571

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TOTAL	\$ 31,748 =====	\$ 34,450 =====	\$ 56,628 =====	\$ 68,099 =====
EARNINGS (LOSS) FROM OPERATIONS				
IMAX systems	\$ 11,824	\$ 10,171	\$ 21,546	\$ 20,816
Films	(1,304)	159	(2,407)	789
Theater operations	490	(463)	894	(880)
Other	(371)	(11)	(612)	1,052
Corporate overhead	(5,605)	(5,435)	(10,757)	(10,679)
	-----	-----	-----	-----
TOTAL	\$ 5,034 =====	\$ 4,421 =====	\$ 8,664 =====	\$ 11,098 =====

15. DISCONTINUED OPERATIONS

(A) MIAMI THEATER LLC

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 has accrued \$0.8 million. 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 six months ended June 30, 2004, the Company received \$0.2 million and \$0.4 million in cash towards the repayment of this debt, and has recorded a corresponding gain in net earnings (loss) from discontinued operations (2003 - \$0.2 million, \$0.4 million). As of June 30, 2004, the remaining balance is \$11.5 million, which has been fully provided for.

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

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
Net earnings (loss) from discontinued operations(1)	\$ 200	\$ (54)	\$ 400	\$ (149)
	=====	=====	=====	=====

 (1) Net of income tax provision of \$nil and \$nil in 2004 (2003 - \$nil and \$nil).

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 from age 55 determined as 75% of the member's best average 60 consecutive months of earnings during the 120 months preceding 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 June 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 March 31:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
Service cost	\$ 516	\$ 489	\$1,032	\$ 978
Interest cost	317	272	634	544
Amortization of prior service cost	349	349	698	698
Pension expense	\$1,182	\$1,110	\$2,364	\$2,220
	=====	=====	=====	=====

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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 also requires the Company to maintain a minimum level of earnings before interest, taxes, depreciation and amortization, and cash collections. As at June 30, 2004, the Company has not drawn down on the Credit Facility, however, it has issued letters of credit for \$3.9 million under the Credit Facility arrangement.

18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION

The Company's New Senior 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.

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 June 30, 2004:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ADJ AND E
	-----	-----	-----	-----
ASSETS				
Cash and cash equivalents	\$ 12,257	\$ 4,387	\$ 307	\$
Restricted cash	--	--	--	
Accounts receivable	12,850	2,723	481	
Financing receivables	55,573	1,395	--	
Inventories	26,130	251	68	
Prepaid expenses	3,632	223	142	
Intercompany receivables	14,882	25,596	11,450	
Film assets	816	282	--	
Fixed assets	31,402	1,700	2	
Other assets	13,554	--	--	
Deferred income taxes	4,564	59	--	
Goodwill	39,027	--	--	
Other intangible assets	3,260	--	--	
Investments in subsidiaries	30,443	--	--	
	-----	-----	-----	-----
Total assets	\$ 248,390	\$ 36,616	\$ 12,450	\$
	=====	=====	=====	=====
LIABILITIES				
Accounts payable	3,366	1,602	--	
Accrued liabilities	47,914	1,789	176	
Intercompany payables	43,061	32,009	7,175	
Deferred revenue	45,952	5,062	209	
New Senior Notes due 2010	160,000	--	--	
	-----	-----	-----	-----
Total liabilities	300,293	40,462	7,560	
	-----	-----	-----	-----
SHAREHOLDER'S DEFICIT				
Common stock	115,652	--	117	
Other equity/Additional paid in capital/Contributed surplus	2,217	46,960	--	
Deficit	(171,031)	(50,192)	4,773	
Accumulated other comprehensive income (loss)	1,259	(614)	--	
	-----	-----	-----	-----
Total shareholders' equity (deficit)	\$ (51,903)	\$ (3,846)	\$ 4,890	\$
	-----	-----	-----	-----
Total liabilities & shareholders' equity (deficit)	\$ 248,390	\$ 36,616	\$ 12,450	\$
	=====	=====	=====	=====

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 \$30.4 million as at June 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	ADJUS AND ELI
	-----	-----	-----	-----
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	
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)	--	
	-----	-----	-----	-----

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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 June 30, 2004:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	AD AND
	-----	-----	-----	---
REVENUE				
IMAX systems	\$ 19,870	\$ 356	\$ 337	
Films	6,377	1,306	10	
Theater operations	183	3,622	--	
Other	895	--	--	
	-----	-----	-----	
	27,325	5,284	347	
COST OF GOODS AND SERVICES	13,237	5,007	103	
	-----	-----	-----	
GROSS MARGIN	14,088	277	244	
Selling, general and administrative expenses	8,217	179	224	
Research and development	870	--	--	
Amortization of intangibles	154	--	--	
Loss (income) from equity-accounted investees	(89)	--	--	
Receivable provisions (recoveries), net	(69)	--	--	
	-----	-----	-----	
EARNINGS (LOSS) FROM OPERATIONS	5,005	98	20	
Interest income	98	--	--	
Interest expense	(4,085)	(5)	(30)	
Loss on retirement of notes	--	--	--	
	-----	-----	-----	

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NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,018	93	(10)
Recovery of (provision for) income taxes	340	--	--
	-----	-----	-----
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	1,358	93	(10)
Net earnings from discontinued operations	200	--	--
	-----	-----	-----
NET EARNINGS (LOSS)	\$ 1,558	\$ 93	\$ (10)
	=====	=====	=====

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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

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

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	AD AND
	-----	-----	-----	-----
REVENUE				
IMAX systems	\$ 21,715	\$ 188	\$ 413	
Films	3,453	4,819	3	
Theater Operations	104	3,541	--	
Other	1,228	--	11	
	-----	-----	-----	
	26,500	8,548	427	
COST OF GOODS AND SERVICES	12,615	8,394	200	
	-----	-----	-----	
GROSS MARGIN	13,885	154	227	
Selling, general and administrative expenses	8,217	124	115	
Research and development	1,168	--	--	
Amortization of intangibles	152	--	--	
Loss (income) from equity-accounted investees	(1,171)	(16)	--	
Receivable provisions (recoveries), net	297	(178)	(44)	
	-----	-----	-----	
EARNINGS (LOSS) FROM OPERATIONS	5,222	224	156	
Interest income	145	--	--	
Interest expense	(4,049)	(7)	--	
Loss on retirement of notes	(187)	--	--	
	-----	-----	-----	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,131	217	156	

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Recovery of (provision for) income taxes	(382)	1,074	8
	-----	-----	-----
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	749	1,291	164
Net earnings from discontinued operations	199	(253)	--
	-----	-----	-----
NET EARNINGS (LOSS)	\$ 948	\$ 1,038	\$ 164
	=====	=====	=====

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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Operations for the six months ended June 30, 2004:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	AND
	-----	-----	-----	---
REVENUE				
IMAX systems	\$ 35,406	\$ 626	\$ 659	
Films	10,050	2,784	14	
Theater operations	319	7,245	--	
Other	1,523	--	1	
	-----	-----	-----	
	47,298	10,655	674	
COST OF GOODS AND SERVICES	21,055	10,376	225	
	-----	-----	-----	
GROSS MARGIN	26,243	279	449	
Selling, general and administrative expenses	16,335	316	303	
Research and development	2,015	--	--	
Amortization of intangibles	305	--	--	
Loss (income) from equity-accounted investees	(142)	--	--	
Receivable provisions (recoveries), net	(891)	(76)	--	
	-----	-----	-----	
EARNINGS (LOSS) FROM OPERATIONS	8,621	39	146	
Interest income	225	--	--	
Interest expense	(8,146)	(13)	(30)	
Loss on retirement of notes	(784)	--	--	
	-----	-----	-----	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(84)	26	116	
Recovery of (provision for) income taxes	340	--	--	
	-----	-----	-----	

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NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	256	26	116
Net earnings from discontinued operations	400	--	--
	-----	-----	-----
NET EARNINGS (LOSS)	\$ 656	\$ 26	\$ 116
	=====	=====	=====

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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Operations for the six months ended June 30, 2003:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	AN
	-----	-----	-----	-----
REVENUE				
IMAX systems	\$ 43,576	\$ 2,038	\$ 733	
Films	7,496	8,212	19	
Theater Operations	195	6,652	--	
Other	2,518	--	118	
	-----	-----	-----	
	53,785	16,902	870	
COST OF GOODS AND SERVICES	24,387	16,517	375	
	-----	-----	-----	
GROSS MARGIN	29,398	385	495	
Selling, general and administrative expenses	15,927	401	272	
Research and development	1,881	--	--	
Amortization of intangibles	291	--	--	
Loss (income) from equity-accounted investees	(1,208)	18	--	
Receivable provisions (recoveries), net	911	(178)	(44)	
	-----	-----	-----	
EARNINGS (LOSS) FROM OPERATIONS	11,596	144	267	
Interest income	410	--	--	
Interest expense	(8,327)	(16)	--	
Gain (loss) on retirement of notes	(187)	--	--	
	-----	-----	-----	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,492	128	267	
Recovery of (provision for) income taxes	(507)	1,062	8	
	-----	-----	-----	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	2,985	1,190	275	

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Net earnings from discontinued operations	399	(548)	--
	-----	-----	-----
NET EARNINGS (LOSS)	\$ 3,384	\$ 642	\$ 275
	=====	=====	=====

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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)

Supplemental Consolidating Statements of Cash Flows for the six months ended June 30, 2004:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES
	-----	-----	-----
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net earnings (loss) from continuing operations	\$ 256	\$ 26	\$ 116
Items not involving cash:			
Depreciation and amortization	6,280	275	1
Write-downs (recoveries)	(891)	(76)	--
Loss from equity-accounted investees	(142)	--	--
Deferred income taxes	(859)	(8)	--
Loss on retirement of notes	784	--	--
Stock and other non-cash compensation	1,377	--	--
Non-cash foreign exchange loss	324	--	--
Premium on repayment of notes	(576)	--	--
Investment in film assets	(2,341)	925	--
Changes in restricted cash	4,961	--	--
Changes in other non-cash operating assets and liabilities	(7,408)	(2,418)	(78)
Net cash used in operating activities from discontinued operations	--	--	--
	-----	-----	-----
Net cash provided by (used in) operating activities	1,765	(1,276)	39
	-----	-----	-----
INVESTING ACTIVITIES			
Disposal (purchase) of fixed assets	(532)	(57)	--
Decrease (increase) in other assets	(684)	--	--
Decrease (increase) in other intangible assets	(176)	--	--
	-----	-----	-----
Net cash used in investing activities	(1,392)	(57)	--
	-----	-----	-----

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FINANCING ACTIVITIES			
Repayment of Old Senior Notes due 2005	(29,234)	--	--
Financing costs related to New Senior Notes due 2010	(564)	--	--
Common shares issued	43	--	--
Net cash provided by financing activities from discontinued operations	400	--	--
	-----	-----	-----
Net cash used in financing activities	(29,355)	--	--
	-----	-----	-----
Effects of exchange rate changes on cash	(72)	24	(7)
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(29,454)	(1,309)	32
Increase (decrease) in cash and cash equivalents from discontinued operations	400	--	--
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD	(28,054)	(1,309)	32
Cash and cash equivalents, beginning of period	41,311	5,696	275
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 12,257	\$ 4,387	\$ 307
	=====	=====	=====

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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)

18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Cash Flows for the six months ended June 30, 2003:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	A
	-----	-----	-----	-----
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net earnings (loss) from continuing operations	\$ 2,985	\$ 1,190	\$ 275	
Items not involving cash:				
Depreciation and amortization	5,353	488	3	
Write-downs (recoveries)	911	(133)	(44)	
Loss (income) from equity-accounted				

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investees	(1,208)	18	--
Loss on retirement of notes	187	--	--
Stock and other non-cash compensation	3,444	--	--
Non-cash foreign exchange gain	(629)	--	--
Payment under certain employment agreements	(1,550)	--	--
Investment in film assets	(1,162)	(858)	--
Changes in restricted cash	(772)	--	--
Changes in other non-cash operating assets and liabilities	(14,085)	(986)	(106)
Net cash used in operating activities from discontinued operations	(339)	(30)	--
	-----	-----	-----
Net cash provided by (used in) operating activities	(6,865)	(311)	128
	-----	-----	-----
INVESTING ACTIVITIES			
Purchase of fixed assets	(109)	(595)	--
Increase in other assets	(417)	--	--
Increase in other intangible assets	(291)	--	--
Net cash used in investing activities from discontinued operations	--	(21)	--
	-----	-----	-----
Net cash used in investing activities	(817)	(616)	--
	-----	-----	-----
FINANCING ACTIVITIES			
Repayment of Subordinated Notes	(9,143)	--	--
Common shares issued	621	--	--
Net cash used in financing activities from discontinued operations	399	--	--
	-----	-----	-----
Net cash used in financing activities	(8,123)	--	--
	-----	-----	-----
Effects of exchange rate changes on cash	151	(6)	(4)
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS			
Increase (decrease) in cash and cash equivalents	(15,714)	(882)	124
	-----	-----	-----
from discontinued operations	60	(51)	--
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD			
	(15,654)	(933)	124
	-----	-----	-----
Cash and cash equivalents, beginning of period	27,756	5,695	350
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 12,102	\$ 4,762	\$ 474
	=====	=====	=====

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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

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 INVESTEES

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 six month periods ended June 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 impairment 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 in note 13 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 given 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 six month periods ended June 30, 2003, the U.S. GAAP financial statements included an additional \$nil and \$0.5 million in selling, general and administrative expenses which was recorded in the December 31, 2002 Canadian GAAP financial statements due to the timing of finalization of certain compensation awards.

(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.

(F) PENSION ASSET AND LIABILITIES

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Under U.S. GAAP, included in accrued liabilities, is a minimum pension liability of \$4.8 million as at June 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 difference between Canadian and U.S. GAAP:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS EN JUNE 30,	
	2004	2003	2004	2003
Net earnings in accordance with U.S. GAAP	\$ 1,552	\$ 969	\$ 656	\$ 656
Equity accounted investees(a)	--	(148)	--	--
Depreciation of Fixed assets(b)	(41)	(41)	(82)	(82)
Stock-based compensation(c)	(177)	(137)	(178)	(178)
Timing differences - Selling, general and administrative expenses(d)	--	--	--	--
Interest accretion on Subordinated Notes(e)	--	--	--	--
Net earnings in accordance with Canadian GAAP	<u>\$ 1,334</u>	<u>\$ 643</u>	<u>\$ 396</u>	<u>\$ 396</u>
Earnings (loss) per share (note 12):				
Earnings (loss) per share - basic:				
Net earnings (loss) from continuing operations	\$ 0.03	\$ 0.02	\$ --	\$ --
Net earnings from discontinued operations	\$ --	\$ --	\$ 0.01	\$ 0.01
Net earnings	<u>\$ 0.03</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>

Earnings (loss) per share - diluted:

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Net earnings (loss) from continuing operations	\$ 0.03	\$ 0.02	\$ --	\$
Net earnings from discontinued operations	\$ --	\$ --	\$ 0.01	\$
Net earnings	\$ 0.03	\$ 0.02	\$ 0.01	\$

CONSOLIDATED SHAREHOLDERS' EQUITY (DEFICIT)

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

	JUNE 30, 2004	DECEMBER 2003
Shareholders' equity (deficit) in accordance with U.S. GAAP	\$ (50,985)	\$ (51,
Fixed asset impairments(b)	770	
Shareholders' equity (deficit) in accordance with Canadian GAAP	\$ (50,215)	\$ (50,

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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 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

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Film assets	1,568
Property, plant and equipment	36,670
Other assets	8,297
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
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 OPERATIONS

The following is the Canadian GAAP Consolidated Statement of Operations for the three and six months ended June 30, 2003:

THREE MONTHS ENDED
JUNE 30, 2003

SIX MONTHS ENDED
JUNE 30, 2003

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REVENUE		
IMAX systems	\$ 22,143	\$ 44,459
Films	7,460	14,294
Theater operations	3,609	6,775
Other	2,101	4,180
	-----	-----
	35,313	69,708
COSTS OF GOODS AND SERVICES	21,143	39,800
	-----	-----
GROSS MARGIN	14,170	29,908
Selling, general and administrative expenses	8,593	16,239
Research and development	1,168	1,881
Amortization of intangibles	152	291
Receivable provisions, net of (recoveries)	75	689
	-----	-----
EARNINGS FROM OPERATIONS	4,182	10,808
Interest income	145	410
Interest expense	(4,143)	(8,569)
Gain (loss) on retirement of notes	(187)	(187)
	-----	-----
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS		
BEFORE INCOME TAXES	(3)	2,462
Recovery of income taxes	700	563
	-----	-----
NET EARNINGS FROM CONTINUING OPERATIONS	697	3,025
Net loss from discontinued operations	(54)	(149)
	-----	-----
NET EARNINGS	643	2,876
	=====	=====

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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)
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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 six months ended June 30, 2003:

SIX MONTHS ENDED
JUNE 30,
2003

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CASH PROVIDED BY (USED IN):

OPERATING ACTIVITIES

Net earnings from continuing operations	\$ 3,025
Items not involving cash:	
Depreciation and amortization	6,518
Write-downs	734
Loss on retirement of notes	187
Stock and other non-cash compensation	3,583
Interest related to accretion on Subordinated Notes	48
Non-cash foreign exchange gain	(629)
Payment under certain employment agreements	(1,550)
Investment in film assets	(2,020)
Changes in restricted cash	(772)
Changes in other non-cash operating assets and liabilities	(15,522)
Net cash used in operating activities from discontinued operations	(369)

Net cash used in operating activities	(6,767)

INVESTING ACTIVITIES

Purchase of fixed assets	(765)
Increase in other assets	(417)
Increase in other intangible assets	(291)
Net cash used in investing activities from discontinued operations	(21)

Net cash used in investing activities	(1,494)

FINANCING ACTIVITIES

Repayment of Subordinated Notes	(9,143)
Common shares issued	621
Repayment of long-term debt	(288)
Net cash provided by financing activities from discontinued operations	399

Net cash used in financing activities	(8,411)

Effects of exchange rate changes on cash	141

DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(16,540)
Increase in cash and cash equivalents from discontinued operations	9

DECREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD	(16,531)
--	----------

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	34,380

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 17,849
	=====

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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 240 IMAX theaters operating in 35 countries worldwide as of June 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, 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 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.

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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 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

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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.

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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)

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.

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 June 30, 2004, the Company had net deferred income tax assets of \$4.6 million, comprised of tax credit carryforwards, net operating loss and capital

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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 June 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. As at June 30, 2004, the Company had a gross deferred income tax asset of \$50.9 million, against which the Company is carrying a \$46.3 million valuation allowance.

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

The Company reported net earnings from continuing operations of \$1.4 million or \$0.03 per share on a diluted basis for the second quarter of 2004, compared to net earnings from continuing operations of \$1.0 million or \$0.03 per share on a diluted basis for the second quarter of 2003.

REVENUE

The Company's revenues for the second quarter of 2004 decreased 7.8% to \$31.7 million from \$34.5 million in the same period last year.

IMAX systems revenue decreased approximately 7.5% to \$20.5 million in the second quarter of 2004 from \$22.1 million in the same period last year. The Company recognized revenue on 5 theater systems in the second quarter of 2004, versus 6 theater systems in the second quarter of 2003. The decrease in systems revenue

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from installations over the same period last year was partially offset by higher 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 theater construction included in revenue for the second quarter of 2004 total \$2.2 million compared to \$1.5 million in the corresponding period last year. A significant portion of such revenue in the second quarter of 2004 related to existing customers which restructured their lease agreements in order to obtain the Company's new IMAX(R) MPX(TM) projection system.

Films revenue decreased 11.5% to \$6.6 million in the second quarter of 2004 from \$7.5 million in the same period last year due to several factors. A decline in the Company's film post production revenue was partially offset by an increase in film revenue due to the release of 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 \$3.8 million in the second quarter of 2004 from \$3.6 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 27.8% to \$0.9 million in the second quarter of 2004 from \$1.2 million in the same period last year primarily due to a decline in 2D and 3D camera rentals.

GROSS MARGIN

Gross margin for the second quarter of 2004 was \$14.6 million, or 46.0% of total revenue, compared to \$14.3 million, or 41.5% of total revenue, in the same period last year. The increase in gross margin for 2004 is due in part to \$2.2 million included in IMAX settlement revenues for the second quarter of 2004 (compared to \$1.4 million in the corresponding period last year) for terminated lease agreements with customers, a significant portion of which related to existing customers which 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 revenue from library titles such as Space Station due to the strong comparative performance in the second quarter of 2003 and the decline in the Company's film post production business. Camera margins have also decreased significantly, primarily due to the decrease of 2D and 3D 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.

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RESULTS OF OPERATIONS (cont'd)

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

OTHER

Selling, general and administrative expenses were \$8.6 million in the second quarter of 2004 compared to \$8.5 million in the corresponding period last year. The Company recorded a foreign exchange loss of \$0.2 million in the second quarter of 2004 compared to a gain of \$0.6 million in the second quarter of 2003. The foreign exchange gains and losses resulted primarily from fluctuations in exchange rates on the Canadian dollar, Euro dollar and Japanese Yen denominated net investment in leases. The Company also recorded a recovery in its phantom stock plan expense of \$0.1 million in the second quarter of 2004 due to the decrease in the Company's share price compared to an expense of \$1.2 million in the second quarter of 2003. The Company expensed \$0.2 million for capital taxes paid in the second quarter of 2004 compared to a recovery of \$0.2 million for refunds received in the same quarter 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 \$0.1 million in the second quarter of 2004 compared to a net provision of \$0.1 million in the same period last year. The Company recorded an accounts receivable recovery of \$0.1 million as compared to a recovery of \$0.2 million in the same period last year. There were no provisions in the second quarter of 2004 on financing receivables as compared to a provision of \$0.3 million in the same period last year.

Interest expense remained consistent at \$4.1 million in the second quarter of 2004 and 2003. The Company retired and repaid an aggregate 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 June 30, 2004, the Company had \$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 \$0.2 million in the second quarter of 2004 relating to the New Senior Notes and \$0.2 million for the second 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.

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 quarter is calculated by applying the estimated average annual effective tax rate to quarterly pre-tax income. In the current quarter the Company recorded a tax recovery of \$0.4 million related to a refund for an applied tax carryback. This benefit has not been previously recorded by the Company. As at June 30, 2004, the Company had a gross deferred tax asset of \$50.9 million, against which the Company is carrying a \$46.3 million valuation allowance.

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

RESULTS OF OPERATIONS (cont'd)

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

RESEARCH AND DEVELOPMENT

Research and development expenses were \$0.9 million in the second quarter of 2004 versus \$1.2 million in the same period last year. The lower level of expenses in 2004 primarily reflects research and development activities pertaining to the Company's new IMAX MPX theater projection system which is now substantially completed. 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 second quarter of 2003, the Company recorded a loss of \$0.2 million from the retirement of \$25.0 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 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 has accrued \$0.8 million. As the Company is uncertain as to the outcome of the proceeding, no additional amount has been recorded.

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 second quarter of 2004, the Company received \$0.2 million in cash towards the repayment of this debt, and has recorded a corresponding gain in net earnings (loss) from discontinued operations (2003 - \$0.2 million). As of June 30, 2004, the remaining balance is \$11.5 million, which has been fully provided for.

SIX MONTHS ENDED JUNE 30, 2004 VERSUS SIX MONTHS ENDED JUNE 30, 2003

The Company reported net earnings from continuing operations of \$0.3 million or \$0.01 per share on a diluted basis for the first half of 2004, compared to net earnings from continuing operations of \$3.5 million or \$0.10 per share on a diluted basis for the first half of 2003.

IMAX CORPORATION

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

RESULTS OF OPERATIONS (cont'd)

SIX MONTHS ENDED JUNE 30, 2004 VERSUS SIX MONTHS ENDED JUNE 30, 2003 (cont'd)

REVENUE

The Company's revenues for the first half of 2004 decreased 16.8% to \$56.6 million from \$68.1 million in the same period last year.

IMAX systems revenue decreased approximately 17.9% to \$36.5 million in the first half of 2004 from \$44.5 million in the same period last year. The Company recognized revenue on 7 theater systems in the first half of 2004, versus 14 theater systems in the first half of 2003, one of which was an operating lease. The decrease in systems revenue from installations over the same period last year was partially offset by higher 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 theater construction included in revenue for the first half of 2004 total \$6.7 million compared to \$4.1 million in the corresponding period last year. A significant portion of such revenue in the first half of 2004 related to existing customers which restructured their lease agreements in order to obtain the Company's new IMAX MPX projection system.

Films revenue decreased 22.4% to \$11.1 million in the first half of 2004 from \$14.3 million in the same period last year due to several factors. A decline in the Company's film post production revenue was partially offset by an increase in film revenue due to the release of 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 \$7.5 million in the first half of 2004 from \$6.8 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 40.7% to \$1.5 million in the first half of 2004 from \$2.6 million in the same period last year primarily due to the decrease of 2D and 3D camera rentals in 2004.

GROSS MARGIN

Gross margin for the first half of 2004 was \$27.0 million, or 47.6% of total

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revenue, compared to \$30.3 million, or 44.5% of total revenue, in the same period last year. The decrease in gross margin in dollar terms is due to 7 installations in the first half of 2004 as compared to 14 installations in the first half of 2003, one of which was an operating lease. The decrease in gross margin in dollar terms is also attributed to the decline in film revenue during the first half of 2004 largely due to the strong comparative performance of the Company's library films such as Space Station in the first half of 2003 and the decline in the Company's film post production. Camera margins have also declined, primarily due to the decrease of 2D and 3D camera rentals in 2004. The increase in margin as a percentage of revenue for 2004 is due primarily to \$6.5 million included in IMAX settlement revenues for the first half of 2004 (compared to \$4.0 million in the corresponding period last year) for terminated lease agreements with customers, a significant portion of which related to existing customers which restructured their lease agreements in order to obtain the Company's new IMAX MPX projection system.

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.

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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)

SIX MONTHS ENDED JUNE 30, 2004 VERSUS SIX MONTHS ENDED JUNE 30, 2003 (cont'd)

OTHER

Selling, general and administrative expenses were \$17.0 million in the first half of 2004 compared to \$ 16.6 million in the corresponding period last year. The Company recorded a foreign exchange loss of \$0.5 million in the first half of 2004 compared to a gain of \$1.1 million in the first half of 2003. The foreign exchange gains and losses resulted primarily from fluctuations in exchange rates on the Canadian dollar, Euro dollar and Japanese Yen denominated net investment in leases. The Company also recorded a recovery in its phantom stock plan expense of \$0.4 million in the first half of 2004 due the decrease in the Company's share price compared to an expense of \$1.5 million in the first half of 2003. The Company expensed \$0.4 million for capital taxes paid in the first half of 2004 compared to a recovery of \$0.1 million for refunds received in 2003. The Company has incurred higher professional fees in the amount of \$0.2 million in the period primarily relating to the implementation of certain policies and procedures surrounding the Sarbanes-Oxley regulatory framework.

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 half of 2004 compared to a net provision of \$0.7 million in the same period last year. The Company recorded an accounts receivable recovery of \$0.2 million as compared to a provision of \$0.4 million in the same period last year. There was a net recovery of \$0.8 million in the first half of 2004 on financing receivables as compared to a provision of \$0.3 million in the same period last year due to a favorable outcome on lease amendments.

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Interest income decreased to \$0.2 million in the first half of 2004 from \$0.4 million in the same period last year primarily due to a decrease in the average balance of cash and cash equivalents held.

Interest expense decreased slightly to \$8.2 million in the first half of 2004 from \$8.3 million in the same period last year due largely to lower average debt balances in 2004. 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 June 30, 2004, the Company had \$160.0 million aggregate principal of the New Senior Notes. Included in interest expense is the amortization of deferred finance costs in the amount \$0.4 million in the first half of 2004 and \$0.4 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.

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. The Company recorded an income tax recovery of \$0.4 in the first half of 2004 from \$0.6 million in the same period last year.

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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)

SIX MONTHS ENDED JUNE 30, 2004 VERSUS SIX MONTHS ENDED JUNE 30, 2003 (cont'd)

RESEARCH AND DEVELOPMENT

Research and development expenses were \$2.0 million in the first half of 2004 versus \$1.9 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 half of 2004, the Company recorded a loss of \$0.8 million

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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 half of 2003, the Company recorded a loss of \$0.2 million from the retirement of \$25.0 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 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 has accrued \$0.8 million. As the Company is uncertain as to the outcome of the proceeding, no additional amount has been recorded.

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 half of 2004, the Company received \$0.4 million in cash towards the repayment of this debt, and has recorded a corresponding gain in net earnings (loss) from discontinued operations (2003 - \$0.4 million). As of June 30, 2004, the remaining balance is \$11.5 million, which has been fully provided for.

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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

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 to maintain a minimum level of earnings before interest, taxes, depreciation and

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amortization, and cash collections. As at June 30, 2004, the Company has not drawn down on the Credit Facility, however, it has issued letters of credit for \$3.9 million under the Credit Facility arrangement.

CASH AND CASH EQUIVALENTS

As at June 30, 2004, the Company's principal sources of liquidity included cash and cash equivalents of \$17.0 million, trade accounts receivable of \$16.1 million and net investment in leases due within one year of \$4.2 million. As at June 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.

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 \$0.5 million for the period ended June 30, 2004. Changes in other non-cash operating assets as compared to December 31, 2003 include a decrease of \$1.8 million in inventories, a decrease of \$0.2 million in financing receivables, a \$1.7 million increase in accounts receivable and a \$2.1 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 \$12.1 million, a decrease in accounts payable of \$0.8 million and an increase of \$4.8 million in accrued liabilities. Included in operating activities for the first half of 2004 were \$5.0 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 half 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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IMAX CORPORATION

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

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

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CASH AND CASH EQUIVALENTS (cont'd)

Cash used in investing activities amounted to \$1.4 million in the first half of 2004, which includes purchases of \$0.6 million in fixed assets, an increase in other assets of \$0.7 million and an increase in other intangible assets of \$0.2 million.

Cash used in financing activities in the first half of 2004 amounted to \$29.4 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 \$0.6 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 \$2.0 million for the first half of 2004.

Cash used in operating activities amounted to \$7.0 million in the first half of 2003. Changes in other non-cash operating assets and liabilities included a decrease in deferred revenue of \$19.0 million, and a decrease of \$6.8 million in inventories. Cash used by investing activities in the first half of 2003 amounted to \$1.5 million, primarily consisting of \$0.7 million invested in fixed assets. Cash provided by financing activities in the first half of 2003 amounted to \$8.1 million which included a \$9.1 million repayment of the Company's remaining outstanding Subordinated Notes and 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 \$2.8 million in the first half of 2003.

LETTERS OF CREDIT AND OTHER COMMITMENTS

As at June 30, 2004, the Company has letters of credit of \$3.9 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 \$0.1 million of these funds as at June 30, 2004.

NEW SENIOR NOTES DUE 2010

As at June 30, 2004, the Company has \$160.0 million aggregate principal of 9.625% senior notes due December 1, 2010 (the "New Senior Notes"). The Company commenced an exchange offer to exchange all outstanding New Senior Notes for up to \$160.0 million aggregate principal amount of senior notes due December 1, 2010 that will be registered under the U.S. Securities Act of 1933, as amended (the "Registered Notes"). On February 27, 2004, the Company filed a registration statement on Form S-4 in relation to the Registered Notes. The Registered Notes will continue to be unconditionally guaranteed, jointly and severally, by certain of the Company's wholly-owned subsidiaries. After the exchange, the terms of the Registered Notes will be 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 will be registered under U.S. securities laws, will not contain restrictions on transfer or provisions relating to special interest under circumstances related to the timing of the exchange offer, will bear a different CUSIP number from the New Senior Notes and will 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

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impact on its financial condition or results of operations.

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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)

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 the 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 private placement.

In the first half of 2004, the Company recorded a loss of \$0.8 million related to the retirement of the Company's Old Senior Notes. During the first half of 2003, the Company recorded a loss of \$0.2 million from the retirement of \$25.0 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 June 30, 2004, the Company had an unfunded and accrued projected benefit obligation of approximately \$21.8 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.

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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 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. In the first half of 2004, the Company recorded translation losses of \$0.3 million primarily from the receivables associated with these leases, as the value of the U.S. dollar strengthened in relation to these currencies. 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 (the "SEC") 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. The Company's motion

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for a summary judgement on its contract claims against Muvico was heard in September 2003; a decision has not yet been rendered. The Company believes that the allegations made by Muvico in its complaint are entirely without merit and will accordingly defend the claims vigorously. The Company further 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 operation of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

- (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 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 operation 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 High 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 Wurtzburg ("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

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rejected the defense and awarded judgement in the 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. To enforce its judgement against Siewert, the Company filed for the opening of insolvency proceedings with respect to Siewert, which filing was withdrawn following payment by Siewert to the Company. Siewert has filed further proceedings in the District Court, claiming that the majority of its lease obligations to the Company should be invalidated. The Company will vigorously defend such claim and does not believe that the amount of loss, if any, suffered in connection with these proceedings would have a material impact on the financial position or results of operation 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 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. The Company believes that the allegations made by EML in its counterclaim are entirely without merit and has requested that these counterclaims 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 this arbitration would not have a material impact on the financial position or results of operation 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.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On January 2, 2004, the Company completed the redemption of \$29.2 million of 7.875% senior notes due December 1, 2005 (the "Old Senior Notes"). This transactions had the effect of reducing the principal amount of the Company's outstanding Old Senior Notes to \$nil.

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IMAX CORPORATION

PART II OTHER INFORMATION (cont'd)

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual and Special Meeting of the Company's shareholders held on June 3, 2004, shareholders represented at the meeting: (i) elected Richard L. Gelfond (33,955,350 shares voted for and 288,538 shares

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withheld), Bradley J. Wechsler (33,958,510 shares voted for and 285,378 shares withheld) and Kenneth G. Copland (33,833,414 shares voted for and 410,474 shares withheld) as Class III directors of the Company for a term expiring in 2007; (ii) appointed PricewaterhouseCoopers, LLP as auditors of the Company to hold office until the next annual meeting of shareholders at a remuneration to be fixed by the Board of Directors (34,059,350 shares voted for; 36,962 withheld); (iii) approved amendments to the Articles of Amalgamation of the Company (13,227,835 shares voted for and 679,429 shares voted against); and (iv) approved amendments to By-Law No. 1 of the Company (13,519,768 shares voted for and 368,604 shares voted against). In addition to the foregoing directors, the following directors continued in office: Neil S. Braun, Michael Fuchs, Garth M. Girvan, David W. Leebron and Marc A. Utay.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(B) EXHIBITS

- 3.2 Articles of Amendment of IMAX Corporation, dated June 25, 2004. Incorporated by reference to Exhibit 3.2 to IMAX Corporation's Form 10-Q for the quarter ended June 30, 2004 (File No. 000-24216).
- 3.3 By-Law No.1 of IMAX Corporation enacted on June 3, 2004. Incorporated by reference to Exhibit 3.3 to IMAX Corporation's Form 10-Q for the quarter ended June 30, 2004 (File No. 000-24216).
- 10.18 Amended Employment Agreement, dated June 3, 2004 between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.18 to IMAX Corporation's Form 10-Q for the quarter ended June 30, 2004 (File No. 000-24216).
- 10.19 Amended Employment Agreement, dated June 3, 2004 between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.19 to IMAX Corporation's Form 10-Q for the quarter ended June 30, 2004 (File No. 000-24216).
- 31.1 Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002, dated September 13, 2004, by Bradley J. Wechsler.
- 31.2 Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002, dated September 13, 2004, by Richard L. Gelfond.
- 31.3 Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002, dated September 13, 2004, by Francis T. Joyce.
- 32.1 Certification Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, dated September 13, 2004, by Bradley J. Wechsler.
- 32.2 Certification Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, dated September 13, 2004, by Richard L. Gelfond.
- 32.3 Certification Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, dated September 13, 2004, by Francis T. Joyce

(B) REPORTS ON FORM 8-K

The Company filed a report on Form 8-K on May 6, 2004, pursuant to Item 12 - Results of Operations and Financial Conditions. The Company reported that it had issued a press release announcing the Company's financial and operating results for the quarter ended March 31, 2004.

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: September 13, 2004

By: /s/ Francis T. Joyce

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

Date: September 13, 2004

By: /s/ Kathryn A. Gamble

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