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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
(AMENDMENT NO. 2)

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

For the quarterly period ended March 31, 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 April 30, 2004
----- Common stock, no par value	----- 39,304,991

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IMAX CORPORATION

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IMAX Corporation (the "Company") is filing this amendment no.2 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/A for the quarter ended March 31, 2004, which was originally filed with Securities and Exchange Commission (the "SEC") on July 27, 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 July 27, 2004. For a discussion of events and developments subsequent to March 31, 2004, see the Company's reports filed with the SEC since July 27, 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

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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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ITEM 1. FINANCIAL STATEMENTS	
The following Condensed Consolidated Financial Statements are filed as part of this Report:	
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IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

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IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(in thousands of U.S. dollars)

	MARCH 31, 2004 (UNAUDITED)
ASSETS	
Cash and cash equivalents	\$ 23,18
Restricted cash (note 7(b))	1,22
Accounts receivable, net of allowance for doubtful accounts of \$7,226 (2003 - \$7,278)	16,15
Financing receivables (note 3)	56,80
Inventories (note 4)	27,59
Prepaid expenses	3,39
Film assets	1,22
Fixed assets	34,52
Other assets	13,57
Deferred income taxes (note 11)	3,92
Goodwill	39,02
Other intangible assets	3,27
Total assets	\$ 223,92
LIABILITIES	
Accounts payable	\$ 5,03
Accrued liabilities (note 7(c))	51,38
Deferred revenue	60,10
New Senior Notes due 2010 (note 5)	160,00
Old Senior Notes due 2005 (note 6)	-
Total liabilities	276,53
COMMITMENTS AND CONTINGENCIES (notes 7 and 8)	
SHAREHOLDERS' EQUITY (DEFICIT)	
Capital stock - no par value. Authorized - unlimited number. Issued and outstanding - 39,304,491 (2003 - 39,301,758)	115,62
Other equity	3,21
Deficit	(172,08)
Accumulated other comprehensive income	64
Total shareholders' deficit	(52,61)
Total liabilities and shareholders' equity (deficit)	\$ 223,92

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

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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)

	THRE
	2004
REVENUE	
IMAX systems (note 9(a))	\$ 16,
Films	4,
Theater operations	3,
Other	
	24,
COSTS OF GOODS AND SERVICES	12,
	12,
GROSS MARGIN	12,
Selling, general and administrative expenses (note 9 (b))	8,
Research and development	1,
Amortization of intangibles	
Income from equity-accounted investees	
Receivable provisions, net of (recoveries) (note 10)	(
EARNINGS FROM OPERATIONS	3,
Interest income	
Interest expense	(4,
Loss on retirement of notes (note 6)	(
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(1,
Provision for income taxes (note 11)	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(1,
Net earnings (loss) from discontinued operations (note 15)	
NET EARNINGS (LOSS)	(
EARNINGS (LOSS) PER SHARE (note 12): Earnings (loss) per share - basic and diluted:	
Net earnings (loss) from continuing operations	\$ (
Net earnings (loss) from discontinued operations	\$
Net earnings (loss)	\$ (

(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)

	THREE MONTHS EN
	----- 2004 -----
CASH PROVIDED BY (USED IN):	
OPERATING ACTIVITIES	
Net earnings (loss) from continuing operations	\$ (1,096)
Items not involving cash:	
Depreciation and amortization	2,483
Write-downs (recoveries)	(898)
Income from equity-accounted investees	--
Deferred income taxes	(167)
Loss on retirement of notes	784
Stock and other non-cash compensation	561
Non-cash foreign exchange (gain) loss	165
Premium on repayment of notes	(576)
Investment in film assets	(71)
Changes in restricted cash	3,732
Changes in other non-cash operating assets and liabilities	907
Net cash provided by (used in) operating activities from discontinued Operations	--

Net cash provided by (used in) operating activities	5,824

INVESTING ACTIVITIES	
Purchase of fixed assets	(164)
Increase in other assets	(318)
Increase in other intangible assets	(40)
Net cash used in investing activities from discontinued operations	--

Net cash used in investing activities	(522)

FINANCING ACTIVITIES	
Repayment of Old Senior Notes due 2005	(29,234)
Financing costs related to New Senior Notes due 2010	(347)
Common shares issued	11
Net cash provided by financing activities from discontinued operations	200

Net cash provided by (used in) financing activities	(29,370)

Effects of exchange rate changes on cash	(27)

DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(24,295)
Increase (decrease) in cash and cash equivalents from discontinued operations	200

DECREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD	(24,095)

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CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		47,282

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	23,187
		=====

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

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

1. BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements include the accounts of IMAX Corporation together with its wholly owned subsidiaries (the "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"). The financial statements and results referred herein are reported under 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 FAS 123 had been adopted by the Company, pro forma results for the three months ended March 31, would have been as follows:

		2004

Net earnings (loss) as reported	\$	(896)
Stock based compensation expense, if the methodology		

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prescribed by FAS 123 had been adopted	(1,594)

Adjusted net earnings	\$ (2,490)
	=====
Earnings per share - basic and diluted:	
Net earnings (loss) as reported	\$ (0.02)
FAS 123 stock based compensation expense	(0.04)

Adjusted net earnings (loss)	\$ (0.06)
	=====

Of the total stock based compensation expense under FAS 123 for the three months ended March 31, 2004 of \$1,594, \$1,205 relates 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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IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
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1. BASIS OF PRESENTATION (cont'd)

The weighted average fair value of common share options granted to employees for the three months ended March 31, 2004 at the time of grant was \$2.49 per share (2003 - \$1.55 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 months ended March 31, 2004, the following assumptions were used: dividend yield of 0%; an average risk free interest rate of 3.68%; an equity risk premium between 5.23% and 5.53%; a beta between .95 and 1.03; expected option life between 4.38 and 4.44 years; an average expected volatility of 62%; and an annual termination probability of 9.62%. 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

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of the VIE's expected losses and/or receives a majority of the expected residual returns. The Company has evaluated its various variable interests to determine whether they are in VIE's.

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

The Company has also reviewed its financial arrangements with theaters where it shares in the profit or losses of the theater. The Company has not evaluated 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 \$0.5 million and total liabilities of \$0.6 million as at March 31, 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.

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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:

	MARCH 31, 2004	DEC
	-----	-----
NET INVESTMENT IN LEASES		
Gross minimum lease amounts receivable	\$ 97,248	\$
Residual value of equipment	824	
Unearned finance income	(39,290)	
	-----	-----
Present value of minimum lease amounts receivable	58,782	
Accumulated allowance for uncollectible amounts	(5,115)	
	-----	-----
Net investment in leases	53,667	
	-----	-----
Long-term receivables	3,141	
	-----	-----
Total financing receivables	\$ 56,808	\$

4. INVENTORIES

	MARCH 31, 2004	DE
Raw materials	\$ 5,765	\$
Work-in-process	4,671	
Finished goods	17,163	
	\$ 27,599	\$

5. NEW SENIOR NOTES DUE 2010

As at March 31, 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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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)

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

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(see note 5).

In the first quarter of 2004, the Company recorded a loss of \$0.8 million related to the retirement 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 March 31, 2004 for each of the years ended December 31 are as follows:

2004	\$	4,145
2005		5,827
2006		5,720
2007		5,554
2008		5,339
Thereafter		37,184

	\$	63,769
		=====

- (b) As at March 31, 2004, the Company has letters of credit of \$4.3 million outstanding of which \$1.2 million have been collateralized by cash deposits and the remainder have been issued under the credit facility arrangement (see note 17).
- (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.

8. CONTINGENCIES

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

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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)

8. CONTINGENCIES (cont'd)

- (b) In May 2003, the Company filed a Statement of Claim in the Ontario Superior Court of Justice against United Cinemas International Multiplex B.V. ("UCI") for specific performance, or alternatively, damages of \$25.0 million with respect to the breach of a 1999 agreement between the Company and UCI whereby UCI committed to purchase IMAX theater systems from the Company. In August 2003, UCI filed a Statement of Defence denying it is in breach. On December 10, 2003, UCI and its two subsidiaries in the United Kingdom and Japan filed a claim against the Company claiming alleged breaches of the 1999 agreement referred to in the Company's claim against UCI, and repeating allegations contained in UCI's Statement of Defence to the Company's action. The Company believes that the allegations made by 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.
- (d) In January 2004, the Company and IMAX Theater 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 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 will accordingly defend the claims vigorously. 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.

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- (e) In January 2000, Euromax, an association of European large-screen cinema owners, filed a complaint against the Company with the European Commission based on European Community ("EC") competition rules. The complaint alleged illegal tying and excessive pricing practices. The EC issued a final written decision in rejecting the complaint in its entirety on March 25, 2004.
- (f) In addition to the matters described above, the Company is currently involved in other legal proceedings which, in the opinion of the Company's management, will not materially affect the Company's financial position or future operating results, although no assurance can be given with respect to the ultimate outcome of any such proceedings.

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IMAX CORPORATION
 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)

9. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS SUPPLEMENTAL INFORMATION

- (a) In the normal course of its business, the Company each year will have customers who, for a number of reasons including the inability to obtain certain consents, approvals or financing, are unable to proceed with theater construction. Once the determination is made that the customer will not proceed with installation, the lease agreement with the customer is generally terminated by the Company. Upon the customer and the Company being released from their future obligations under the agreement, the initial lease payments that the customer previously made to the Company are recognized as revenue. Included in systems revenue for the first quarter of 2004 is \$4.5 million (2003 - \$2.6 million) for amounts recognized under terminated lease agreements.
- (b) Included in selling, general and administrative expenses for 2004 is \$0.3 million (2003 - \$0.4 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 MARCH 3
	-----	-----
	2004	-----
	-----	-----
Accounts receivable provisions (recoveries), net	\$ (173)	\$
Financing receivables provisions (recoveries), net(1)	\$ (725)	\$
	-----	-----
Receivable provisions (recoveries), net	\$ (898)	\$
	=====	=====

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- (1) For the quarter ended March 31, 2004, the Company recorded a recovery of previously provided amounts of \$0.7 million (2003 - \$nil) 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. The Company recorded a current tax expense of \$nil in the current quarter (2003 - \$0.1 million).

As at March 31, 2004, the Company has recognized net deferred income tax assets of \$3.9 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 March 31, 2004, the Company had a gross deferred income tax asset of \$50.9 million, against which the Company is carrying a \$47.0 million valuation allowance.

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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)

12. CAPITAL STOCK

(a) STOCK BASED COMPENSATION

In the first quarter of 2004, an aggregate of 13,335 options with an average exercise price of \$7.11 to purchase the Company's common stock were issued to certain advisors and strategic partners of the Company. The Company has calculated the fair value of these options to non-employees on the date of grant for the period ended March 31, 2004 to be \$0.05 million (2003 - \$0.03 million), using a Binomial option-pricing model with the following underlying assumptions: dividend yield of 0%; an average risk free interest rate of 2.92%; expected option life of 5 years; and an average expected volatility of 62.0%.

The Company has recorded a charge of \$0.05 million to film cost of sales related to the non-employee stock options granted in the quarter ended March 31, 2004 (2003 - \$0.03 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

	2004

Net earnings (loss) applicable to common shareholders:	
Net (loss) earnings	\$ (8)
	=====
Weighted average number of common shares (000's):	
Issued and outstanding, beginning of period	39,3
Weighted average number of shares issued during the period	-----
Weighted average number of shares used in computing basic earnings per share	39,3
Assumed exercise of stock options, net of shares assumed	-----
Weighted average number of shares used in computing diluted earnings per share	39,3
	=====

The calculation of diluted earnings (loss) per share for the first quarter of 2004 excludes options to purchase common shares of stock which were outstanding, and for the first quarter of 2003 excludes common shares issuable upon conversion of 5.75% convertible subordinated notes due April 1, 2003 (the "Subordinated Notes") as the impact of these exercises and conversions would be anti-dilutive. The balance of the Company's Subordinated Notes was retired April 1, 2003.

13. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL INFORMATION

	THRE

	2004

Interest paid	\$
Income taxes paid	\$

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)

14. SEGMENTED INFORMATION

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

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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 MO MAR
	2004
REVENUE	
IMAX systems	\$ 16,021
Films	4,489
Theater operations	3,742
Other	629

TOTAL	\$ 24,881
	=====
EARNINGS (LOSS) FROM OPERATIONS	
IMAX systems	\$ 9,722
Films	(1,103)
Theater operations	404
Other	(241)
Corporate overhead	(5,152)

TOTAL	\$ 3,630
	=====

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 minimum amount of loss to the Company has been established at \$0.8 million, which the Company has accrued. As the Company is uncertain as to the outcome of the proceeding no additional amount has been recorded.

(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 first 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

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operations (2003 - \$0.2 million). As of March 31, 2004, the remaining balance is \$11.7 million, which has been fully provided for.

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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)

15. DISCONTINUED OPERATIONS (cont'd)

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

The net earnings (loss) from discontinued operations summarized in the Consolidated Statements of Operations, for the periods ended March 31, was comprised of the following:

	THREE M

	2004

Net earnings (loss) from discontinued operations(1)	\$ 20 =====

(1) Net of income tax provision of \$nil in 2004 (2003 - \$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 proceeding retirement. Once benefit payments begin, the benefit is indexed annually to the cost of living and further provides for 100% continuance for life to the surviving spouse. The benefits were 50% vested as at July 12, 2000, the plan initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. The vesting percentage of a member whose employment terminates other than by voluntary retirement shall be 100%. Also, upon the occurrence of a change in control of the Company prior to termination of a member's employment, the vesting percentage shall become 100%. As the plan is unfunded, the Company had not paid any contributions in the period ended March 31, 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 MON
 MAR

	2004
Service cost	\$ 516
Interest cost	317
Amortization of prior service cost	349
Pension expense	\$ 1,182

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IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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 March 31, 2004, no amount is outstanding on the facility.

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

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subsidiaries may be unable to pay dividends due to negative working capital.

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IMAX CORPORATION
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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Balance Sheets as at March 31, 2004:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ADJ ELI
ASSETS				
Cash and cash equivalents	\$ 12,910	\$ 10,080	\$ 197	\$
Restricted cash	1,229	--	--	
Accounts receivable	12,335	3,412	403	
Financing receivables	55,407	1,401	--	
Inventories	27,269	259	71	
Prepaid expenses	2,964	148	283	
Intercompany receivables	20,267	22,408	17,554	
Film assets	18	1,209	--	
Fixed assets	32,737	1,782	3	
Other assets	13,575	--	--	
Deferred income taxes	3,872	51	--	
Goodwill	39,027	--	--	
Other intangible assets	3,278	--	--	
Investments in subsidiaries	30,390	--	--	
	-----	-----	-----	-----
Total assets	\$ 255,278	\$ 40,750	\$ 18,511	\$
	=====	=====	=====	=====
LIABILITIES				
Accounts payable	2,126	2,908	3	
Accrued liabilities	49,416	1,752	220	
Intercompany payables	42,268	35,045	13,269	
Deferred revenue	54,997	4,988	120	
Senior notes due 2010	160,000	--	--	
	-----	-----	-----	-----
Total liabilities	308,807	44,693	13,612	
	-----	-----	-----	-----
SHAREHOLDER'S DEFICIT				
Common stock	115,620	--	117	
Other equity/Additional paid in capital/Contributed surplus	2,176	46,960	--	
Deficit	(172,584)	(50,289)	4,782	
Accumulated other comprehensive income (loss)	1,259	(614)	--	
	-----	-----	-----	-----
Total shareholders' equity (deficit)	\$ (53,529)	\$ (3,943)	\$ 4,899	\$

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Total liabilities & shareholders' equity	\$ 255,278	\$ 40,750	\$ 18,511	\$
(deficit)				

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 \$30.5 million as at March 31, 2004.

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IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(UNAUDITED)

18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Balance Sheets as at December 31, 2003:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ADJ	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		

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SHAREHOLDER'S DEFICIT				
Common stock	115,609	--	117	
Other equity/Additional paid in capital/Contributed surplus	2,125	46,960	--	
Deficit	(171,687)	(50,218)	4,657	
Accumulated other comprehensive income (loss)	1,259	(614)	--	
Total shareholders' (deficit)	\$ (52,694)	\$ (3,872)	\$ 4,774	\$
Total liabilities & shareholders' equity	\$ 283,967	\$ 36,635	\$ 16,348	\$
(deficit)				

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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IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Operations for the three months ended March 31, 2004:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ADJ
REVENUE				
IMAX systems	\$ 15,537	\$ 270	\$ 322	\$
Films	3,673	1,477	4	
Theater operations	137	3,622	--	
Other	628	--	1	
	19,975	5,369	327	
COST OF GOODS AND SERVICES	7,817	5,369	123	
GROSS MARGIN	12,158	--	204	
Selling, general and administrative expenses	8,118	138	79	
Research and development	1,144	--	--	
Amortization of intangibles	151	--	--	
Loss (income) from equity-accounted investees	(53)	--	--	

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Receivable provisions (recoveries), net	(822)	(76)	--
EARNINGS (LOSS) FROM OPERATIONS	3,620	(62)	125
Interest income	126	--	--
Interest expense	(4,059)	(9)	--
Loss on retirement of notes	(784)	--	--
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(1,097)	(71)	125
Recovery of (provision for) income taxes	--	--	--
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(1,097)	(71)	125
Net earnings from discontinued operations	200	--	--
NET EARNINGS (LOSS)	\$ (897)	\$ (71)	\$ 125

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IMAX CORPORATION
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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Operations for the three months ended March 31, 2003:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ADJ ELI
REVENUE				
IMAX systems	\$ 21,862	\$ 1,850	\$ 318	\$
Films	4,042	3,394	17	
Theater operations	90	3,111	--	
Other	1,291	--	107	
	27,285	8,355	442	
COST OF GOODS AND SERVICES	11,771	8,123	174	
GROSS MARGIN	15,514	232	268	
Selling, general and administrative expenses	7,710	277	157	
Research and development	712	--	--	
Amortization of intangibles	140	--	--	
Loss (income) from equity-accounted investees	(37)	34	--	
Receivable provisions (recoveries), net	614	--	--	
EARNINGS (LOSS) FROM OPERATIONS	6,375	(79)	111	

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Interest income	265	--	--	
Interest expense	(4,279)	(9)	--	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	2,361	(88)	111	
Provision for income taxes	(125)	(12)	--	
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	2,236	(100)	111	
Net earnings from discontinued operations	200	(295)	--	
NET EARNINGS (LOSS)	\$ 2,436	\$ (395)	\$ 111	\$

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IMAX CORPORATION
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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Cash Flows for the three months ended March 31, 2004:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net earnings (loss) from continuing operations	\$ (1,097)	\$ (71)	\$ 125	\$
Items not involving cash:				
Depreciation and amortization	2,338	145	--	
Write-downs (recoveries)	(822)	(76)	--	
Loss from equity-accounted investees	(53)	--	--	
Deferred income taxes	(167)	--	--	
Loss on retirement of notes	784	--	--	
Stock and other non-cash compensation	561	--	--	
Non-cash foreign exchange loss	165	--	--	
Premium on repayment of notes	(576)	--	--	
Investment in film assets	(69)	(2)	--	
Changes in restricted cash	3,732	--	--	
Changes in other non-cash operating assets and liabilities	(3,275)	4,390	(208)	
Net cash used in operating activities from discontinued operations	--	--	--	
Net cash provided by (used in) operating activities	1,521	4,386	(83)	

INVESTING ACTIVITIES

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Disposal (purchase) of fixed assets	(155)	(9)	--
Decrease (increase) in other assets	(318)	--	--
Decrease (increase) in other intangible assets	(40)	--	--
	-----	-----	-----
Net cash used in investing activities	(513)	(9)	--
	-----	-----	-----
FINANCING ACTIVITIES			
Repayment of Old Senior Notes due 2005	(29,234)	--	--
Financing costs related to New Senior Notes due 2010	(347)	--	--
Common shares issued	11	--	--
Net cash provided by financing activities from discontinued operations	200	--	--
	-----	-----	-----
Net cash used in financing activities	(29,370)	--	--
	-----	-----	-----
Effects of exchange rate changes on cash	(39)	7	5
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS			
	(28,601)	4,384	(78)
Increase (decrease) in cash and cash equivalents from discontinued operations	200	--	--
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD			
	(28,401)	4,384	(78)
Cash and cash equivalents, beginning of period	41,311	5,696	275
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 12,910	\$ 10,080	\$ 197
	=====	=====	=====

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IMAX CORPORATION
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18. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION (cont'd)

Supplemental Consolidating Statements of Cash Flows for the three months ended March 31, 2003:

	IMAX CORPORATION	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	A
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net earnings (loss) from continuing operations	\$ 2,236	\$ (100)	\$ 111	\$

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Items not involving cash:				
Depreciation and amortization	2,303	228	2	
Write-downs (recoveries)	614	14	--	
Loss (income) from equity-accounted investees	(37)	34	--	
Stock and other non-cash compensation	1,101	--	--	
Non-cash foreign exchange gain	(205)	--	--	
Investment in film assets	(240)	--	--	
Changes in restricted cash	(998)	--	--	
Changes in other non-cash operating assets and liabilities	(5,132)	(296)	37	
Net cash used in operating activities from discontinued operations	(274)	26	--	
	-----	-----	-----	-----
Net cash provided by (used in) operating activities	(632)	(94)	150	
	-----	-----	-----	-----
INVESTING ACTIVITIES				
Purchase of fixed assets	(69)	(210)	(2)	
Increase in other assets	(195)	--	--	
Increase in other intangible assets	(172)	--	--	
Net cash used in investing activities from discontinued operations	--	(21)	--	
	-----	-----	-----	-----
Net cash used in investing activities	(436)	(231)	(2)	
	-----	-----	-----	-----
FINANCING ACTIVITIES				
Net cash used in financing activities from discontinued operations	200	--	--	
	-----	-----	-----	-----
Net cash used in financing activities	200	--	--	
	-----	-----	-----	-----
Effects of exchange rate changes on cash	44	(22)	2	
	-----	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(750)	(352)	150	
Increase (decrease) in cash and cash equivalents	(74)	5	--	
	-----	-----	-----	-----
from discontinued operations				
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD	(824)	(347)	150	
Cash and cash equivalents, beginning of period	27,756	5,695	350	
	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 26,932	\$ 5,348	\$ 500	\$
	=====	=====	=====	=====

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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

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.

1. EQUITY ACCOUNTED INVESTEEES

Canadian GAAP requires the accounts of jointly controlled enterprises to be proportionately consolidated. Under U.S. GAAP, investments in jointly controlled entities are accounted as equity investments. During the three month period ended March 31, 2004, the Company did not have any investments in jointly controlled entities.

2. 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.

3. 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 FASB Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("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.

4. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In the period ended March 31, 2003, the U.S. GAAP financial statements included an additional \$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.

5. 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.

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

6. PENSION ASSET AND LIABILITIES

Under U.S. GAAP, included in accrued liabilities, is a minimum pension liability of \$5.2 million as at March 31, 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.

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 E
		MARCH 31,
		2004

Net earnings (loss) in accordance with United States GAAP	\$	(896) \$
Equity accounted investees(1)		--
Depreciation of Fixed assets(2)		(41)
Stock-based compensation(3)		(1)
Timing differences - Selling, general and administrative expenses(4)		--
Interest accretion on Subordinated Notes(5)		--

Net earnings in accordance with Canadian GAAP	\$	(938) \$
		=====
Earnings (loss) per share (note 12):		
Earnings (loss) per share - basic and diluted:		
Net earnings (loss) from continuing operations	\$	(0.03) \$
Net earnings from discontinued operations	\$	0.01 \$

Net earnings (loss)	\$	(0.02) \$
		=====

CONSOLIDATED SHAREHOLDERS' EQUITY (DEFICIT)

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

	MARCH 31, 2004	

Shareholders' equity (deficit) in accordance with United States GAAP	\$ (52,610)	\$
Fixed asset impairments(2)	811	

Shareholders' equity (deficit) in accordance with Canadian GAAP	\$ (51,799)	\$
	=====	

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IMAX CORPORATION
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 (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:

	A DECE

ASSETS	
Cash and cash equivalents	\$
Restricted cash	
Accounts receivable	
Financing receivable	
Inventories	
Prepaid expenses	
Film assets	
Property, plant and equipment	
Other assets	
Future income taxes	
Goodwill	
Other intangible assets	

Total assets	\$ =====
LIABILITIES	
Accounts payable	\$
Accrued liabilities	
Deferred revenue	

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New senior notes due 2010
 Old senior notes due 2005

Total liabilities

SHAREHOLDERS' EQUITY (DEFICIT)

Capital stock Common shares. Authorized - unlimited number.

Issued and outstanding - 39,301,758 (2002 - 32,973,366)

Other equity

Contributed surplus

Deficit

Cumulative foreign currency translation adjustments

Total shareholders' equity (deficit)

Total liabilities and shareholders' equity (deficit)

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IMAX CORPORATION
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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 OPERATIONS

The following is the Canadian GAAP Consolidated Statement of Operations for the three months ended March 31, 2003:

	THREE MONTHS MARCH 2003
REVENUE	
IMAX systems	\$
Films	
Theater operations	
Other	

COSTS OF GOODS AND SERVICES	

GROSS MARGIN	
Selling, general and administrative expenses	
Research and development	
Amortization of intangibles	
Receivable provisions, net of (recoveries)	

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EARNINGS FROM OPERATIONS

Interest income
Interest expense

NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES
Provision for income taxes

NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS
Net earnings (loss) from discontinued operations

NET EARNINGS (LOSS)

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

The following is the Canadian GAAP Consolidated Statement of Cash Flows for the three months ended March 31, 2003:

THREE MONTHS
MARCH
2003

CASH PROVIDED BY (USED IN):

OPERATING ACTIVITIES

Net earnings from continuing operations

\$

Items not involving cash:

Depreciation and amortization

Write-downs

Stock and other non-cash compensation

Interest related to accretion on convertible subordinated notes

Non-cash foreign exchange (gain) loss

Recovery (investment) in film assets

Changes in restricted cash

Changes in other non-cash operating assets and liabilities

Net cash provided by (used in) operating activities from discontinued operations

Net cash provided by (used in) operating activities

INVESTING ACTIVITIES

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Purchase of fixed assets
Increase in other assets
Increase in other intangible assets
Net cash used in investing activities from discontinued operations

Net cash used in investing activities

FINANCING ACTIVITIES

Repayment of long-term debt
Net cash provided by financing activities from discontinued operations

Net cash provided by (used in) financing activities

Effects of exchange rate changes on cash

DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS
Increase (decrease) in cash and cash equivalents from discontinued operations

DECREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS, END OF PERIOD

\$

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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, sales and leasing of projector systems for giant screen theaters for customers including commercial theaters, museums and science centers, and destination entertainment sites. In addition, the Company designs and manufactures high-end sound systems and produces and distributes large format films. There are more than 235 IMAX theaters operating in 34 countries worldwide as of March 31, 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"). The financial statements and results referred herein are reported under U.S. GAAP. Significant differences between United States and Canadian Generally Accepted Accounting Principles are described in note 19 of the Consolidated financial statements.

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

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liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to accounts receivable, net investment in leases, inventories, fixed and film assets, investments, intangible assets, income taxes, contingencies and litigation. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature. The Company's significant accounting policies are discussed in note 2 of the Consolidated Financial Statements in the Company's most recent annual report on Form 10-K/A 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 upon installation of the theater system. Revenue associated with a sales-type lease is recognized when all of the following criteria are met: persuasive evidence of an agreement exists; the price is fixed or determinable; and collection is reasonably assured.

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

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IMAX CORPORATION

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

SIGNIFICANT ACCOUNTING POLICIES (cont'd)

REVENUE RECOGNITION (cont'd)

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

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

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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.

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.

If the Company and a lessee agree to change the terms of the lease, other than by renewing the lease or extending its terms, management evaluates whether the new agreement would be classified as a sales-type lease or an operating lease under the provisions of FAS 13. 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 normal course of its business, the Company each year will have customers who, for a number of reasons including the inability to obtain certain consents, approvals or financing, are unable to proceed with theater construction. In these instances, where customers of the Company are not in compliance with the terms of their leases for theater systems not yet installed, the leases are in default. There is typically deferred revenue associated with these leases, representing initial lease payments collected prior to the default. These initial lease payments are recognized as revenue when the Company exercises its rights to terminate the lease and the Company is released legally and/or by virtue of an agreement with the customer from its obligations under the lease arrangement. When settlements are received, the Company will allocate the total settlement to each of the elements based on their relative fair value.

OPERATING LEASES OF THEATER SYSTEMS

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

ACCOUNTS RECEIVABLE AND FINANCING RECEIVABLES

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

IMAX CORPORATION

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

SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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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 March 31, 2004, the Company had net deferred income tax assets of \$3.9 million, comprised of tax credit carryforwards, net operating loss and capital loss carryforwards and other deductible temporary differences, which can be utilized to reduce either taxable income or taxes otherwise payable in future years. The Company's management assesses realization of these net deferred income tax assets based on all available evidence and has concluded that it is more likely than not that these net deferred income tax assets will be realized. Positive evidence includes, but is not limited to, the Company's historical earnings, projected future earnings, contracted sales backlog at March 31, 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

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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 March 31, 2004, the Company had a gross deferred income tax asset of \$50.9 million, against which the Company is carrying a \$47.0 million valuation allowance.

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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)

TAX ASSET VALUATION (cont'd)

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.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2004 VERSUS THREE MONTHS ENDED MARCH 31, 2003

The Company reported net losses from continuing operations of \$1.1 million or \$0.02 per share on a diluted basis for the first quarter of 2004, compared to net earnings from continuing operations of \$2.5 million or \$0.07 per share on a diluted basis for the first quarter of 2003.

REVENUE

The Company's revenues for the first quarter of 2004 decreased 26.1% to \$24.9 million from \$33.6 million in the same period last year.

IMAX systems revenue decreased approximately 28.2% to \$16.0 million in the first quarter of 2004 from \$22.3 million in the same period last year. The decrease in systems revenue was principally due to a decline in system installations over the same period last year. The Company installed 2 theater systems, as scheduled, in the first quarter of 2004, versus 8 theater systems in the first quarter of 2003, one of which was an operating lease. The decrease in systems revenue from fewer installations in the period was partially offset by a \$1.9 million increase in settlement revenue over the same period last year and higher average sales and leases revenue in 2004 due to the installation of three refurbished systems in the same period last year. In the normal course of its business, the Company each year will have customers who, for a number of reasons including the inability to obtain certain consents, approvals or financing, are unable to proceed with theater construction. Once the determination is made that the customer will not proceed with installation, the lease agreement with the customer is generally terminated. Upon the Company being released from its future obligations under the agreement, the initial lease payments that the customer previously made to the Company are recognized as revenue. Settlements relating to terminated lease agreements with customers who were unable to proceed with theater construction included in revenue for the first quarter of 2004 total \$4.5 million compared to \$2.6 million in the corresponding period

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last year. A significant portion of such revenue in the first quarter of 2004 related to an existing customer which restructured its lease agreement and ordered the Company's new IMAX(R) MPX(TM) projection system.

Films revenue decreased 34.3% to \$4.5 million in the first quarter of 2004 from \$6.8 million in the same period last year largely due to the strong comparative performance of the Company's film, Space Station in the first quarter of 2003 as the Company focused its efforts in the quarter on its DMR productions.

Theater operations revenue increased to \$3.7 million in the first quarter of 2004 from \$3.2 million in the same period last year primarily due to the consolidation of the Company's Tempe theater in the first quarter of 2004 compared to equity-accounting treatment in same period last year when the theater was only 50% owned.

Other revenues decreased 52.9% to \$0.6 million in the first quarter of 2004 from \$1.3 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)

THREE MONTHS ENDED MARCH 31, 2004 VERSUS THREE MONTHS ENDED MARCH 31, 2003 (cont'd)

GROSS MARGIN

Gross margin for the first quarter of 2004 was \$12.4 million, or 49.7% of total revenue, compared to \$16.0 million, or 47.6% of total revenue, in the same period last year. The decrease in gross margin in dollar terms is due to the timing of theater system installations which resulted in 2 installations in the first quarter of 2004 as compared to 8 installations in the first quarter of 2003, one of which was an operating lease. The decrease in gross margin is also attributed to the decline in film revenue during the first quarter of 2004 largely due to the strong comparative performance of the Company's film, Space Station in the first quarter of 2003. The increase in margin as a percentage of revenue for 2004 is due primarily to \$4.5 million included in IMAX settlement revenues for the first quarter of 2004 compared to \$2.6 million in the corresponding period last year for terminated lease agreements with customers. A significant portion of such revenue in the first quarter of 2004 related to an existing customer which restructured its lease agreement and ordered the Company's new IMAX MPX projection system.

In addition, the Company improved its gross margin in its owned and operated theater segment due to the higher attendance levels over the same period last year.

OTHER

Selling, general and administrative expenses were \$8.3 million in the first quarter of 2004 compared to \$8.1 million in the corresponding period last year. The Company recorded a foreign exchange loss of \$0.3 million in the first quarter of 2004 compared to a gain of \$0.4 million in the first quarter of 2003. The foreign exchange gains and losses resulted primarily from fluctuations in

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exchange rates on Canadian dollar cash balances and Canadian dollar, Euro dollar and Japanese Yen denominated net investment in leases. The Company also recorded a recovery to stock based compensation of \$0.3 million in the first quarter of 2004 due the decrease in the Company's share price compared to an expense of \$0.3 million in the first quarter of 2003.

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

Amortization of intangibles was \$0.2 million in the first quarter of 2004 compared to \$0.1 million in the same period last year.

Receivable provisions net of recoveries amounted to as a net recovery of \$0.9 million in the first quarter of 2004 compared to a net provision of \$0.6 million in the same period last year. The Company recorded an accounts receivable recovery of \$0.2 million as compared to a provision of \$0.6 million in the same period last year. There was a net recovery of \$0.7 million in the first quarter of 2004 on financing receivables as compared to \$nil in the same period last year due to a favorable outcome on lease amendments.

Interest income decreased to \$0.1 million in the first quarter of 2004 from \$0.3 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 to \$4.1 million in the first quarter of 2004 from \$4.3 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 in December 2003 and \$9.1 million of 5.75% convertible subordinated notes due April 1, 2003 (the "Subordinated Notes"). As at March 31, 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 \$ 0.1 million in the first quarter of 2004 as compared to \$ 0.2 million for 2003. The Company's policy is to defer and amortize all the costs relating to a debt financing over the life of the debt instrument.

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IMAX CORPORATION

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

RESULTS OF OPERATIONS (cont'd)

THREE MONTHS ENDED MARCH 31, 2004 VERSUS THREE MONTHS ENDED MARCH 31, 2003 (cont'd)

OTHER (cont'd)

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. The Company recorded an income tax provision of \$nil in the current quarter from \$0.1 million in the same period last year primarily due to the application of its estimate average annual effective tax rate to the quarterly pre-tax loss. As at March 31, 2004, the

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Company had a gross deferred tax asset of \$50.9 million, against which the Company is carrying a \$47.0 million valuation allowance.

RESEARCH AND DEVELOPMENT

Research and development expenses were \$1.1 million in the first quarter of 2004 versus \$0.7 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 quarter of 2004, the Company recorded a loss of \$0.8 million related to costs associated with the redemption of \$29.2 million of the Company's Old Senior Notes. This transaction had the effect of fully extinguishing the Old Senior Notes.

DISCONTINUED OPERATIONS

On December 23, 2003, the Company closed its owned and operated Miami IMAX theater. The Company abandoned and/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 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 March 31, 2004, the remaining balance is \$11.7 million, which has been fully provided for.

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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 amortization, and cash collections. As at March 31, 2004, no amount is outstanding on the facility.

CASH AND CASH EQUIVALENTS

As at March 31, 2004, the Company's principal sources of liquidity included cash and cash equivalents of \$23.2 million, trade accounts receivable of \$16.2 million and net investment in leases due within one year of \$4.6 million. In February 2004, the Company entered into a loan agreement with Congress Financial Corporation (Canada) for a three-year revolving credit facility (the "Credit Facility") permitting maximum borrowings of \$20.0 million, subject to a borrowing base calculation and reserve requirements. As at March 31, 2004, the Company did not have any borrowings outstanding under the line. 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 \$5.8 million for the period ended March 31, 2004. Changes in other non-cash operating assets as compared to December 31, 2003 include a decrease of \$0.6 million in inventories, a decrease of \$0.5 million in financing receivables, a \$1.8 million increase in accounts receivable and a \$1.5 million increase in prepaid expenses which relates to prepaid film print costs which will be expensed over the period to be benefited.

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Changes in other non-cash operating liabilities as compared to December 31, 2003 include a decrease in deferred revenue of \$3.2 million, a decrease in accounts payable of \$0.8 million and an increase of \$7.1 million in accrued liabilities. Included in operating activities for the first quarter 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 used in operating activities increased by \$3.7 million in the first quarter of 2004 primarily due to a decrease in the Company's restricted cash balances, which are used as collateral for letters of credit. The Company intends to secure future 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)

CASH AND CASH EQUIVALENTS (cont'd)

Cash used in investing activities amounted to \$0.5 million in the first quarter of 2004, which includes purchases of \$0.2 million in fixed assets, an increase in other assets of \$0.3 million and an increase in other intangible assets of less than \$0.1 million.

Cash used in financing activities in the first quarter of 2004 amounted to \$29.4 million. The Company retired \$29.2 million of principal of the Company's Old Senior Notes. The Company also received \$0.2 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 \$0.2 million for the first quarter of 2004.

Cash used in operating activities amounted to \$0.6 million in the first quarter of 2003. Changes in other non-cash operating assets and liabilities included a decrease in deferred revenue of \$9.0 million, and a decrease of \$3.7 million in inventories. Cash used by investing activities in the first quarter of 2003 amounted to \$0.7 million, primarily consisting of \$0.3 million invested in fixed assets. Cash provided by financing activities in the first quarter of 2003 amounted to \$0.2 million from the receipt of a note receivable from a discontinued operation. Capital expenditures including the purchase of fixed assets and investments in film assets were \$0.6 million in the first quarter of 2003.

LETTERS OF CREDIT AND OTHER COMMITMENTS

As at March 31, 2004, the Company has letters of credit of \$4.3 million outstanding of which \$1.2 million have been collateralized by cash deposits and the remainder are 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.

NEW SENIOR NOTES DUE 2010

As at March 31, 2004, the Company has \$160.0 million aggregate principal of 9.625% senior notes due December 1, 2010 (the "New Senior Notes"). The Company

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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 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 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.

In the first quarter of 2004, the Company recorded a loss of \$0.8 million related to the retirement 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 March 31, 2004, the Company had an unfunded and accrued projected benefit obligation of approximately \$20.9 million (December 31, 2003 - \$20.1 million) in respect of this defined benefit pension plan. The Company intends to use the proceeds of life insurance policies taken on its Co-Chief Executive Officers to satisfy, in whole or in part, certain of the benefits due and payable under the plan, although there can be no assurance that the Company will ultimately do so.

OFF-BALANCE SHEET ARRANGEMENTS

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

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IMAX CORPORATION

ITEM 3. QUANTITATIVE AND QUALITATIVE FACTORS ABOUT MARKET RISK

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

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. The Company plans to convert Canadian dollar expenses to U.S. dollars through the spot and forward markets on a go-forward basis. 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 quarter 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 declined 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 SEC's rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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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 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

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Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

- (d) In January 2004, the Company and IMAX Theater 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 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 will accordingly defend the claims vigorously. 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.

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PART II OTHER INFORMATION (cont'd)

ITEM 1. LEGAL PROCEEDINGS (cont'd)

- (e) In January 2000, Euromax, an association of European large-screen cinema owners, filed a complaint against the Company with the European Commission based on European Community ("EC") competition rules. The complaint alleged illegal tying and excessive pricing practices. The EC issued a final written decision in rejecting the complaint in its entirety on March 25, 2004.
- (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.
- (g) The Company has received requests for information from the SEC in connection with an inquiry by the SEC into certain trading in the equity securities of the Company in January 2002. The Company is co-operating fully with the SEC's requests and does not believe that it is a target of the SEC's inquiry or that such inquiry will have a material adverse effect on the Company's business, financial condition or results of operations.

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 "7.875% Senior Notes"). This transactions had the effect of reducing the principal amount of the Company's outstanding 7.875% Senior Notes to \$nil.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) EXHIBITS

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- 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 March 11, 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 year ended December 31, 2003.

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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)

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