
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007
- 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
(State or other jurisdiction of incorporation or organization)

98-0140269
(I.R.S. Employer Identification Number)

**2525 Speakman Drive, Mississauga,
Ontario, Canada**
(Address of principal executive offices)

L5K 1B1
(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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12B-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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

Class	Outstanding as of October 31, 2007
Common stock, no par value	40,338,074

IMAX CORPORATION

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IMAX CORPORATION

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 and technology strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business, operations and technology, plans and references to the future success of IMAX Corporation together with its wholly-owned subsidiaries (the “Company”) and expectations regarding the Company’s future operating 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; U.S. or Canadian regulatory inquiries; conditions in the in-home and out-of-home entertainment industries; changes in laws or regulations; conditions, changes and developments in the commercial exhibition industry; the acceptance of the Company’s new technologies (including in particular its transition to digital projection technology); risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; 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.

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

IMAX CORPORATION

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Page

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

[Condensed Consolidated Balance Sheets as at September 30, 2007 and December 31, 2006](#) 5

[Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2007 and 2006](#) 6

[Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2007 and 2006](#) 7

[Notes to Condensed Consolidated Financial Statements](#) 8

IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
In accordance with United States Generally Accepted Accounting Principles
(in thousands of U.S. dollars)

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
	(unaudited)	As restated (note 3)
ASSETS		
Cash and cash equivalents	\$ 15,981	\$ 25,123
Short-term investments	2,192	2,115
Accounts receivable, net of allowance for doubtful accounts of \$3,747 (2006 — \$3,253)	22,511	26,017
Financing receivables (note 4)	62,214	65,878
Inventories (note 5)	27,106	26,913
Prepaid expenses	3,116	3,432
Film assets	1,832	1,235
Property, plant and equipment	24,000	24,639
Other assets	12,230	10,365
Goodwill	39,027	39,027
Other intangible assets	2,491	2,547
Total assets	<u>\$ 212,700</u>	<u>\$ 227,291</u>
LIABILITIES		
Accounts payable	\$ 8,781	\$ 11,426
Accrued liabilities (notes 9(h), 14(a), 17(a), 17(c))	62,247	58,294
Deferred revenue	58,482	55,803
Senior Notes due 2010 (note 6)	160,000	160,000
Total liabilities	<u>289,510</u>	<u>285,523</u>
Commitments and contingencies (notes 8 and 9)		
Shareholders' equity (deficit)		
Capital stock (note 14) common shares — no par value. Authorized — unlimited number. Issued and outstanding — 40,338,074 (2006 — 40,285,574)	122,172	122,024
Other equity	3,611	2,937
Deficit	(203,265)	(184,375)
Accumulated other comprehensive income	672	1,182
Total shareholders' deficit	<u>(76,810)</u>	<u>(58,232)</u>
Total liabilities and shareholders' equity (deficit)	<u>\$ 212,700</u>	<u>\$ 227,291</u>

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

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
In accordance with United States Generally Accepted Accounting Principles
(in thousands of U.S. dollars, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006 As restated (note 3)	2007	2006 As restated (note 3)
Revenues				
Equipment and product sales	\$ 7,871	\$ 11,785	\$ 21,727	\$ 34,881
Services	17,972	16,331	51,969	49,528
Rentals	2,003	1,615	4,960	4,079
Finance income	1,208	1,252	3,576	3,991
Other	750	—	2,289	—
	<u>29,804</u>	<u>30,983</u>	<u>84,521</u>	<u>92,479</u>
Cost of goods sold, services and rentals				
Equipment and product sales	5,356	5,755	13,113	18,871
Services	14,131	12,532	36,120	36,277
Rentals	613	464	1,904	1,414
Other	31	—	50	—
	<u>20,131</u>	<u>18,751</u>	<u>51,187</u>	<u>56,562</u>
Gross margin	9,673	12,232	33,334	35,917
Selling, general and administrative expenses (note 10)	10,255	9,845	31,725	29,910
Research and development	1,563	878	4,180	2,457
Amortization of intangibles	129	132	406	456
Receivable provisions net of (recoveries) (note 12)	718	359	693	250
Earnings (loss) from operations	(2,992)	1,018	(3,670)	2,844
Interest income	194	227	647	760
Interest expense	(4,341)	(4,181)	(12,965)	(12,580)
Loss from continuing operations before income taxes	(7,139)	(2,936)	(15,988)	(8,976)
Provision for income taxes	(383)	(1,784)	(810)	(90)
Loss from continuing operations	(7,522)	(4,720)	(16,798)	(9,066)
Net earnings (loss) from discontinued operations	—	(875)	—	1,425
Net loss	<u>\$ (7,522)</u>	<u>\$ (5,595)</u>	<u>\$ (16,798)</u>	<u>\$ (7,641)</u>
Loss per share				
Earnings (loss) per share — basic & diluted:				
Net loss from continuing operations	\$ (0.19)	\$ (0.12)	\$ (0.42)	\$ (0.23)
Net earnings (loss) from discontinued operations	\$ —	\$ (0.02)	\$ —	\$ 0.04
Net loss	<u>\$ (0.19)</u>	<u>\$ (0.14)</u>	<u>\$ (0.42)</u>	<u>\$ (0.19)</u>
Other comprehensive loss consists of:				
Prior service costs resulting from amendment (net of tax provision of \$nil)	\$ —	\$ —	\$ (997)	\$ —
Amortization of prior service credits (net of tax provision of \$75 and \$nil for the three months ended September 30, 2007 and 2006, respectively, and \$224 and \$nil for the nine months ended September 30, 2007 and 2006, respectively)	162	—	488	—
	<u>\$ 162</u>	<u>\$ —</u>	<u>\$ (509)</u>	<u>\$ —</u>

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

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
In accordance with United States Generally Accepted Accounting Principles
(in thousands of U.S. dollars)
(unaudited)

	Nine Months Ended September 30,	
	2007	2006 As restated (note 3)
Cash provided by (used in):		
Operating Activities		
Net loss	\$(16,798)	\$ (7,641)
Net earnings from discontinued operations	—	(1,425)
Items not involving cash:		
Depreciation and amortization (note 11)	12,794	12,867
Write-downs (note 11)	693	250
Recovery of deferred income tax valuation allowance	(224)	—
Stock and other non-cash compensation	3,059	2,552
Non-cash foreign exchange gain	(1,125)	(353)
Interest on short-term investments	(68)	(281)
Increase in cash surrender value of life insurance	(202)	(149)
Investment in film assets	(8,165)	(7,733)
Changes in other non-cash operating assets and liabilities (note 11)	5,828	(5,437)
Net cash used in operating activities from discontinued operations (note 16(a))	(775)	(100)
Net cash used in operating activities	<u>(4,983)</u>	<u>(7,450)</u>
Investing Activities		
Purchases of short-term investments	(6,457)	(14,506)
Proceeds from maturities of short-term investments	6,448	18,739
Purchase of property, plant and equipment	(1,333)	(1,712)
Increase in other assets	(561)	(753)
Increase in other intangible assets	(351)	(374)
Net cash provided by investing activities from discontinued operations	—	3,493
Net cash (used in) provided by investing activities	<u>(2,254)</u>	<u>4,887</u>
Financing Activities		
Financing costs related to Senior Notes due 2010	(2,084)	—
Common shares issued	148	286
Net cash (used in) provided by financing activities	<u>(1,936)</u>	<u>286</u>
Effects of exchange rate changes on cash	31	(46)
Decrease in cash and cash equivalents, during the period	<u>(9,142)</u>	<u>(2,323)</u>
Cash and cash equivalents, beginning of period	<u>25,123</u>	<u>24,324</u>
Cash and cash equivalents, end of period	<u><u>\$ 15,981</u></u>	<u><u>\$ 22,001</u></u>

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

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

IMAX Corporation, together with its wholly-owned subsidiaries (the “Company”), reports its results under United States Generally Accepted Accounting Principles (“U.S. GAAP”).

The condensed consolidated financial statements include the accounts of the Company, except subsidiaries which the Company has identified as variable interest entities (“VIEs”) where the Company is not the primary beneficiary. The nature of the Company’s business is such that the results of operations for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations.

The Company has evaluated its various variable interests to determine whether they are VIEs in accordance with Financial Accounting Standards Board (“FASB”) Interpretation No. 46R, “Consolidation of Variable Interest Entities” (“FIN 46R”). The Company has six film production companies that are VIEs. As the Company is exposed to the majority of the expected losses for one of the film production companies, the Company has determined that it is the primary beneficiary of this entity. The Company continues to consolidate this entity, with no material impact on the operating results or financial condition of the Company, as this production company has total assets and total liabilities of \$nil as at September 30, 2007 (December 31, 2006 — \$nil). For the other five film production companies which are VIEs, however, the Company did not consolidate these film entities since it does not bear the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As of September 30, 2007, these five VIEs have total assets of \$0.5 million (December 31, 2006 — \$0.4 million) and total liabilities of \$0.5 million (December 31, 2006 — \$0.4 million).

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

These financial statements should be read in conjunction with the consolidated financial statements included in the Company’s 2006 Amended Annual Report on Form 10-K/A for the year ended December 31, 2006 (the “2006 Form 10-K/A”) 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, 2006, except as noted below.

2. Change in Accounting Policy

Income Taxes

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (an interpretation of FASB Statement No. 109) (“FIN 48”). This interpretation prescribes a more likely than not recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provided guidance on derecognition of a tax position, classification of a liability for unrecognized tax benefits, accounting for interest and penalties, accounting in interim periods, and expanded income tax disclosures. FIN 48 was effective for the Company on January 1, 2007. The cumulative effect of the change in accounting principle recorded in the first quarter of 2007 upon adoption of FIN 48 was an increase to accrued liabilities of \$2.1 million and a charge to opening deficit. For additional information see note 13.

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with U.S. Generally Accepted Accounting Principles

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

(unaudited)

3. Restatement of Previously Issued Financial Statements

The following explains the impact of two restatements the Company effected for its prior period financial results. The information regarding the “First Restatement” and “Second Restatement” are presented below.

a) First Restatement

In 2006, the Company effected a restatement of its prior period financial results due to discovery of certain errors related to: (a) revenue recognition resulting from the Company’s review of its theater system arrangements over the 5 year period ended December 31, 2006 in response to comments received from the staff of both the United States Securities and Exchange Commission (“SEC”) and the Ontario Securities Commission (“OSC”) which indicated insufficient analysis of various sales and lease transactions and the accounting effect of certain contractual provisions within them; and misallocations of consideration to elements within certain multiple element arrangements; (b) capitalization of costs into inventory and film assets and amortization of film assets in accordance with American Institute of Certified Public Accountants Statement of Position 00-2, “Accounting by Producers or Distributors of Films” (“SOP 00-2”); (c) income tax liabilities resulting from failure to make certain tax elections on a timely basis and (d) certain other items described under Other Adjustments in this note. In addition, in the preparation of the consolidated financial statements for the year ended December 31, 2006, the Company recorded other adjustments related to prior periods’ unadjusted differences that had been deemed not to be material and adjustments related to prior periods recorded through 2006 opening shareholders’ deficit.

b) Second Restatement

In October 2007, the Company announced that, after a review of its real estate leases, it had identified certain errors related to its accounting practices as they relate to such leases for certain of the Company’s owned and operated theaters and office facilities. The Company conducted this review after performing an analysis of a rent-abatement agreement initiated in connection with the higher level of Finance Department oversight and awareness contemplated by the Company’s ongoing remediation plan (see Item 4. Controls and Procedures). The review focused on the Company’s historical accounting practice for recording the impact of rent holidays, abatements, escalation clauses and landlord construction allowances. The Company also reviewed its accounting for theater sponsorship revenue at its owned and operated theaters. As a result of this review, the Company concluded that certain of its prior practices were not in accordance with U.S. GAAP and the Company has restated its consolidated financial statements for prior periods. Information on the restatement of the consolidated balance sheet for the year ended December 31, 2006 is included in the consolidated financial statements in Item 8. of the Company’s 2006 Form 10-K/A. The overall net impact of these restatement errors was an increase of \$5.6 million in the September 30, 2007 closing shareholders’ deficit.

Furthermore, the Company identified an error relating to the classification of a theater system arrangement. The arrangement was originally treated as a sale with contingent minimums however, after further review of significant terms in the agreement it was determined that the arrangement should have been treated as an operating lease, the correction of which increased the September 30, 2007 closing shareholders’ deficit by \$0.4 million.

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with U.S. Generally Accepted Accounting Principles

*(Tabular amounts in thousands of U.S. dollars unless otherwise stated)**(unaudited)***c) Impact of the First Restatement****Revenue Recognition — Theater Systems**

The Company's revenue arrangements include multiple elements. In prior years, the Company considered each component of its theater systems to be a separate element. As a result, revenue was recognized when certain components were installed. As part of the review of its revenue recognition policy, the Company concluded its policy for revenue recognition on theater systems should be revised to treat all components of the theater system (including the projector, sound system, and screen system and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and the use of the IMAX brand as a single deliverable and a single unit of accounting, (the "System Deliverable"). In addition, the Company revised its policy to recognize revenue only when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projection training or (b) public opening of the theater. In conjunction with these changes, the Company undertook an extensive review of all of its revenue arrangements for theater systems for the period from 2002 to 2006.

For the three months ended September 30, 2006 (as restated), one transaction which was originally recorded in 2005 (revenue and net earnings impact of \$1.7 million and \$0.9 million, respectively) and five transactions which were originally recorded in the second quarter of 2006 (revenue and net earnings impact of \$8.4 million and \$5.0 million, respectively) were moved to the third quarter of 2006. The net impact of these adjustments was an increase in revenue of \$10.1 million and a decrease to net loss of \$5.9 million, respectively, for the quarter ended September 30, 2006.

For the nine months ended September 30, 2006 (as restated), seven transactions which were originally recorded in 2005 (revenue and net earnings impact of \$12.4 million and \$6.5 million, respectively) were moved to the nine month period ended September 30, 2006. One transaction which was originally recorded in the nine months period ended September 30, 2006 (revenue and net earnings impact of \$1.7 million and \$0.6 million, respectively) was moved to the second quarter of 2007. The net impact of these adjustments was an increase in revenue of \$10.7 million and a decrease in net loss of \$5.9 million for the nine month period ended September 30, 2006.

Revenue Recognition — Other

As a result of the review of the revenue arrangements, the Company identified additional errors including the following:

- Based on an analysis of fair values of elements within its arrangements, the Company determined that the allocations of consideration received and receivable to elements of multiple element arrangements were not updated to reflect the current fair values of particular elements, in particular fair values of maintenance and extended warranty services in the period affected were not in accordance with the accounting guidance in Emerging Issues Task Force ("EITF") Issue 00-21 and other applicable standards. This affected allocations of consideration in various arrangements to the System Deliverable, maintenance and extended warranty services, 3D glasses and film license credits. In addition, in certain arrangements, settlement income was adjusted to reflect the residual amount based on other elements being reflected at their fair values.
- The existence of certain non-standard contractual provisions resulted in: the reclassification of certain sales arrangements to sales-type lease transactions for accounting purposes when the customer was not granted title to the system until all payments were made and certain sales-type leases to operating leases given

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with U.S. Generally Accepted Accounting Principles
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
(unaudited)

substantially all of the benefits and risks of ownership had not passed to the customer; and the timing of recognition of the minimum annual payments under certain arrangements.

- Finance income continued to be recognized when the related financing receivables were impaired. The Company has corrected the error by discontinuing the recognition of finance income until the impairment issues were resolved.

The impact of these adjustments was a decrease to net loss of \$0.2 million and less than \$0.1 million for the three and nine months ended September 30, 2006, respectively.

Inventory Costs

During the period from 2001 to 2006, the Company paid certain fees to a professional services firm to assist the Company in identifying sales opportunities and provide assistance in negotiating and concluding contracts in the developing Asian market. These fees were capitalized and allocated to theater systems inventory for various Asian customers. The Company has determined that these fees were promotional and selling expenses which should have been expensed as incurred as the costs were not direct and incremental costs to a contract. The impact of the adjustments was an increase to net loss of \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2006, respectively.

Film Accounting

The Company has determined that it had misclassified certain costs incurred in respect of co-produced film productions between 2004 and the third quarter of 2006. Marketing and advertising costs were co-mingled with film production costs, and both were capitalized to film assets, and subsequently amortized into the income statement over the estimated total ultimate revenues associated with the film productions. Film exploitation costs, which include marketing and advertising costs, as defined in SOP 00-2, should have been expensed in the period incurred and not capitalized to film assets. In addition, certain costs were accrued by the Company prior to being incurred. These costs have been moved to the period they were incurred. On certain co-produced film productions, the Company received production fees which should have been deferred and recognized over the film ultimates. These production fees were previously recognized when production of the film was complete. The Company also determined that it had not appropriately applied the individual-film-forecast computation method when it amortized its film assets and deferred production fees and accrued its participation liabilities for the periods between 2002 and the third quarter of 2006. SOP 00-2 requires changes in estimates of ultimate revenues used in the individual-film-forecast computation method to be adjusted prospectively from the beginning of the year of the change. The Company had applied changes in estimates on a retroactive basis from the original release date. In addition, the Company adjusted its amortization of prepaid print costs. The impact of the adjustments was \$nil to net earnings for the three months ended September 30, 2006 and an increase to net loss of \$0.1 million for the nine months ended September 30, 2006.

Branch Level Interest Taxes

The Company did not properly account for tax liabilities for branch level interest tax. For the years ended December 31, 2002, 2003 and 2004, the Company failed to make timely tax elections that would have prevented an allocation of the Company's interest expense on its long-term indebtedness to the Company's U.S. branch income tax returns. In 2006, the Company was assessed branch level interest taxes, interest and penalties due to the fact that these tax elections were not filed on a timely basis. The Company has determined that an accrued liability for the tax obligations should have been recorded at the time elections should have been filed and the taxes were due to be paid, which was in the third quarter of each of the years ended December 31, 2003, 2004 and 2005. The impact of the

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with U.S. Generally Accepted Accounting Principles

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

(unaudited)

adjustments was a decrease to net loss of \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2006, respectively.

Other Adjustments

During the preparation of executive compensation information for the 2006 Annual Report on Form 10-K, the Company determined that the two Co-Chief Executive Officers (“Co-CEOs”) were entitled to postretirement health benefits since 2000 for which the obligation had not been included in the prior financial statements as required under SFAS 106, “Employer’s Accounting for Postretirement Benefits Other than Pensions”. As a result the Company should have accrued \$0.2 million in 2000. SG&A has been increased by less than \$0.2 million for the three and nine months ended September 30, 2006.

In addition, the Company had incorrectly accounted for stock options that were granted in excess of the cap limits under the Company’s Stock Option Plan as equity awards during the third quarter of 2006. The Company has determined that such awards should be accounted for as liability awards in accordance with Statement of Financial Accounting Standards No. 123(R), “Share-Based Payment” (“SFAS 123(R)”). The impact of the adjustment was a decrease to net loss of \$0.2 million for the three and nine months ended September 30, 2006.

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with U.S. Generally Accepted Accounting Principles
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
(unaudited)

The following table presents the impact of the First Restatement on the Company's previously issued consolidated statements of operations for the three months ended September 30, 2006:

	As Previously Reported(1)	Revenue Recognition- Theater Systems	Revenue Recognition- Other	Inventory Costs	Film Accounting	Branch Level Interest Taxes	Other Adjustments	As Restated Per 2006 Form 10-K
Revenues								
Equipment and product sales	\$ 1,987	\$ 10,047	\$ (218)	\$ —	\$ —	\$ —	\$ —	\$ 11,816
Services	16,002	—	306	—	41	—	—	16,349
Rentals	1,486	—	64	—	—	—	—	1,550
Finance income	1,251	(22)	23	—	—	—	—	1,252
	20,726	10,025	175	—	41	—	—	30,967
Costs of goods sold, services and rentals								
Equipment and product sales	1,649	4,077	—	29	—	—	—	5,755
Services	12,458	—	1	—	41	—	—	12,500
Rentals	430	1	21	—	—	—	—	452
	14,537	4,078	22	29	41	—	—	18,707
Gross margin								
	6,189	5,947	153	(29)	—	—	—	12,260
Selling, general and administrative expenses	9,998	(2)	—	52	—	—	(182)	9,866
Research and development	878	—	—	—	—	—	—	878
Amortization of intangibles	132	—	—	—	—	—	—	132
Receivable provisions net of (recoveries)	359	—	—	—	—	—	—	359
Earnings from operations	(5,178)	5,949	153	(81)	—	—	182	1,025
Interest income	227	—	—	—	—	—	—	227
Interest expense	(4,379)	—	—	—	—	198	—	(4,181)
Earnings (loss) from continuing operations before income taxes	(9,330)	5,949	153	(81)	—	198	182	(2,929)
Provision for income taxes	(1,784)	—	—	—	—	—	—	(1,784)
Net earnings (loss) from continuing operations	(11,114)	5,949	153	(81)	—	198	182	(4,713)
Net earnings from discontinued operations	(875)	—	—	—	—	—	—	(875)
Net earnings (loss)	\$ (11,989)	\$ 5,949	\$ 153	\$ (81)	\$ —	\$ 198	\$ 182	\$ (5,588)
Earnings (loss) per share								
Earnings (loss) per share — basic and diluted:								
Net earnings (loss) from continuing operations	\$ (0.28)	\$ 0.15	\$ —	\$ —	\$ —	\$ 0.01	\$ —	\$ (0.12)
Net earnings from discontinued operations	\$ (0.02)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (0.02)
Net (loss) earnings	\$ (0.30)	\$ 0.15	\$ —	\$ —	\$ —	\$ 0.01	\$ —	\$ (0.14)

(1) The Company has changed the presentation of revenues and cost of goods sold, services and rentals to conform to the presentation requirements specified in Regulation S-X of the Securities Exchange Act of 1934.

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In accordance with U.S. Generally Accepted Accounting Principles
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The following table presents the impact of the First Restatement on the Company's previously issued consolidated statements of operations for the nine months ended September 30, 2006:

	As Previously Reported(1)	Revenue Recognition- Theater Systems	Revenue Recognition- Other	Inventory Costs	Film Accounting	Branch Level Interest Taxes	Other Adjustments	As Restated Per 2006 Form 10-K
Revenues								
Equipment and product sales	\$ 25,214	\$ 10,757	\$ (977)	\$ —	\$ —	\$ —	\$ —	\$ 34,994
Services	49,548	—	866	—	(922)	—	—	49,491
Rentals	3,693	—	171	—	—	—	—	3,865
Finance income	4,087	(153)	57	—	—	—	—	3,991
	<u>82,542</u>	<u>10,604</u>	<u>117</u>	<u>—</u>	<u>(922)</u>	<u>—</u>	<u>—</u>	<u>92,341</u>
Costs of goods sold, services and rentals								
Equipment and product sales	14,184	4,659	—	29	—	—	—	18,871
Services	36,971	12	8	—	(824)	—	—	36,167
Rentals	1,313	1	63	—	—	—	—	1,378
	<u>52,468</u>	<u>4,672</u>	<u>71</u>	<u>29</u>	<u>(824)</u>	<u>—</u>	<u>—</u>	<u>56,416</u>
Gross margin								
	30,074	5,932	46	(29)	(98)	—	—	35,925
Selling, general and administrative expenses	29,954	29	—	166	—	—	(176)	29,973
Research and development	2,457	—	—	—	—	—	—	2,457
Amortization of intangibles	456	—	—	—	—	—	—	456
Receivable provisions net of (recoveries)	250	—	—	—	—	—	—	250
Earnings (loss) from operations	<u>(3,043)</u>	<u>5,903</u>	<u>46</u>	<u>(195)</u>	<u>(98)</u>	<u>—</u>	<u>176</u>	<u>2,789</u>
Interest income	760	—	—	—	—	—	—	760
Interest expense	(12,784)	—	—	—	—	204	—	(12,580)
Earnings (loss) from continuing operations before income taxes	<u>(15,067)</u>	<u>5,903</u>	<u>46</u>	<u>(195)</u>	<u>(98)</u>	<u>204</u>	<u>176</u>	<u>(9,031)</u>
Recovery of (provision for) income taxes	(634)	—	—	—	—	544	—	(90)
Net earnings (loss) from continuing operations	<u>(15,701)</u>	<u>5,903</u>	<u>46</u>	<u>(195)</u>	<u>(98)</u>	<u>748</u>	<u>176</u>	<u>(9,121)</u>
Net earnings from discontinued operations	1,425	—	—	—	—	—	—	1,425
Net earnings (loss)	<u>\$ (14,276)</u>	<u>\$ 5,903</u>	<u>\$ 46</u>	<u>\$ (195)</u>	<u>\$ (98)</u>	<u>\$ 748</u>	<u>\$ 176</u>	<u>\$ (7,696)</u>
Earnings (loss) per share								
Earnings (loss) per share — basic and diluted:								
Net earnings (loss) from continuing operations	\$ (0.39)	\$ 0.15	\$ (0.01)	\$ —	\$ —	\$ 0.02	\$ —	\$ (0.23)
Net earnings from discontinued operations	\$ 0.04	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.04
Net (loss) earnings	<u>\$ (0.35)</u>	<u>\$ 0.15</u>	<u>\$ (0.01)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.02</u>	<u>\$ —</u>	<u>\$ (0.19)</u>

(1) The Company has changed the presentation of revenues and cost of goods sold, services and rentals to conform to the presentation requirements specified in Regulation S-X of the Securities Exchange Act of 1934.

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d) Impact of the Second Restatement

Operating Leases

FASB Statement No. 13, "Accounting for Leases" ("SFAS 13"), and related interpretations require that rent expense related to operating leases to be recognized on a straight-line basis over the term of the lease commencing when a lessee takes possession of or controls the use of the space. In addition, FASB Technical Bulletin 88-1, "Issues Related to Accounting for Leases", requires lease incentives, such as landlord construction allowances received to defray construction costs incurred by the Company, be reflected as a deferred lease incentive, amortized over the lease term as a reduction to rent expense. Previously, the Company had recognized certain rent reductions and escalation clauses based on the cash payments beginning from the date of occupancy or lease commencement date, which had the effect of excluding any rent expense during the build-out period. In addition, in certain cases, the Company had not recorded certain landlord construction allowances as a deferred lease incentive. The Company has restated the prior years' consolidated financial statements to recognize net rent expense on a straight-line basis over the period from the date the Company obtains possession and control of the property to the end of the lease term. Net rent expense includes payments as required under the lease adjusted for rent holidays, abatements, escalation clauses and construction allowances. In addition, the Company adjusted depreciation and impairment charges to reflect the full cost of the leaseholds acquired. The net impact of these restatement errors on net earnings was a nominal reduction in the loss for the three and nine months ended September 30, 2006.

Sponsorship Revenue

The Company also determined the accounting for theater sponsorship revenue should have been recognized on a straight — line basis over the contractual period of the sponsorship. Previously, the Company recorded these revenues based on cash collections. The net impact of these restatement errors was a nominal reduction in the loss for the three and nine months ended September 30, 2006.

Revenue Recognition

The Company also determined that one theater system revenue transaction had been classified as a sale with contingent minimums, which should have been classified as an operating lease. The Company reached this conclusion after consideration of EITF Issue No. 95-1, "Revenue Recognition on Sales with Guaranteed Minimum Resale Value" and SFAS 13, since the arrangement contained an option, exercisable by the customer, requiring the Company to repurchase the equipment for a fixed amount under certain conditions. The net impact of this restatement was a nominal reduction in the loss for the three and nine months ended September 30, 2006.

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The following table presents the impact of the Second Restatement on the Company's previously issued consolidated statements of operations for the three months ended September 30, 2006:

	As Restated Per 2006 Form 10-K	Second Restatement			As Restated Per 2006 Form 10-K/A
		Real Estate Operating Leases	Sponsorship Revenue	Revenue Recognition	
Revenues					
Equipment and product sales	\$ 11,816	\$ —	\$ —	\$ (31)	\$ 11,785
Services	16,349	—	(18)	—	16,331
Rentals	1,550	—	—	65	1,615
Finance income	1,252	—	—	—	1,252
	<u>30,967</u>	<u>—</u>	<u>(18)</u>	<u>34</u>	<u>30,983</u>
Cost of goods sold, services and rentals					
Equipment and product sales	5,755	—	—	—	5,755
Services	12,500	32	—	—	12,532
Rentals	452	—	—	12	464
	<u>18,707</u>	<u>32</u>	<u>—</u>	<u>12</u>	<u>18,751</u>
Gross margin					
	12,260	(32)	(18)	22	12,232
Selling, general and administrative expenses	9,866	(21)	—	—	9,845
Research and development	878	—	—	—	878
Amortization of intangibles	132	—	—	—	132
Receivable provisions net of (recoveries)	359	—	—	—	359
Earnings (loss) from operations	<u>1,025</u>	<u>(11)</u>	<u>(18)</u>	<u>22</u>	<u>1,018</u>
Interest income	227	—	—	—	227
Interest expense	(4,181)	—	—	—	(4,181)
Earnings (loss) from continuing operations before income taxes					
	(2,929)	(11)	(18)	22	(2,936)
Provision for income taxes	(1,784)	—	—	—	(1,784)
Net earnings (loss) from continuing operations	<u>(4,713)</u>	<u>(11)</u>	<u>(18)</u>	<u>22</u>	<u>(4,720)</u>
Net earnings from discontinued operations	(875)	—	—	—	(875)
Net earnings (loss)	<u>\$ (5,588)</u>	<u>\$ (11)</u>	<u>\$ (18)</u>	<u>\$ 22</u>	<u>\$ (5,595)</u>
Earnings (loss) per share					
Earnings (loss) per share — basic & diluted:					
Net loss from continuing operations	\$ (0.12)	\$ —	\$ —	\$ —	\$ (0.12)
Net earnings from discontinued operations	\$ (0.02)	\$ —	\$ —	\$ —	\$ (0.02)
Net loss	<u>\$ (0.14)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (0.14)</u>

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In accordance with U.S. Generally Accepted Accounting Principles

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

(unaudited)

The following table presents the impact of the Second Restatement on the Company's previously issued consolidated statements of operations for the nine months ended September 30, 2006:

	As Restated Per 2006 Form 10-K	Second Restatement			As Restated Per 2006 Form 10-K/A
		Real Estate Operating Leases	Sponsorship Revenue	Revenue Recognition	
Revenues					
Equipment and product sales	\$ 34,994	\$ —	\$ —	\$ (113)	\$ 34,881
Services	49,491	—	37	—	49,528
Rentals	3,865	—	—	214	4,079
Finance income	3,991	—	—	—	3,991
	<u>92,341</u>	<u>—</u>	<u>37</u>	<u>101</u>	<u>92,479</u>
Cost of goods sold, services and rentals					
Equipment and product sales	18,871	—	—	—	18,871
Services	36,167	110	—	—	36,277
Rentals	1,378	—	—	36	1,414
	<u>56,416</u>	<u>110</u>	<u>—</u>	<u>36</u>	<u>56,562</u>
Gross margin					
	35,925	(110)	37	65	35,917
Selling, general and administrative expenses	29,973	(63)	—	—	29,910
Research and development	2,457	—	—	—	2,457
Amortization of intangibles	456	—	—	—	456
Receivable provisions net of (recoveries)	250	—	—	—	250
Earnings (loss) from operations	<u>2,789</u>	<u>(47)</u>	<u>37</u>	<u>65</u>	<u>2,844</u>
Interest income	760	—	—	—	760
Interest expense	(12,580)	—	—	—	(12,580)
Earnings (loss) from continuing operations before income taxes					
	(9,031)	(47)	37	65	(8,976)
Provision for income taxes	(90)	—	—	—	(90)
Net earnings (loss) from continuing operations	<u>(9,121)</u>	<u>(47)</u>	<u>37</u>	<u>65</u>	<u>(9,066)</u>
Net earnings from discontinued operations	1,425	—	—	—	1,425
Net earnings (loss)	<u>\$ (7,696)</u>	<u>\$ (47)</u>	<u>\$ 37</u>	<u>\$ 65</u>	<u>\$ (7,641)</u>
Earnings (loss) per share					
Earnings (loss) per share — basic & diluted:					
Net loss from continuing operations	\$ (0.23)	\$ —	\$ —	\$ —	\$ (0.23)
Net earnings from discontinued operations	\$ 0.04	\$ —	\$ —	\$ —	\$ 0.04
Net loss	<u>\$ (0.19)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (0.19)</u>

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In accordance with U.S. Generally Accepted Accounting Principles
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e) Consolidated Statements of Cash Flows

As part of the Second Restatement the Company changed the presentation of cash flows from discontinued operations to include cash flows related to operating and investing activities within those respective categories. Previously, the Company presented these cash flows on a net basis as a single caption within the statements of cash flows.

There were no other errors in the cash flows statements other than conforming changes to the components of the reconciliation to net cash provided by or used in operating activities related to the restatement adjustments described above.

4. Financing Receivables

Financing receivables, consisting of net investment in leases and receivables from financed sales of its theater systems, are as follows:

	September 30, 2007	December 31, 2006
Gross minimum lease amounts receivable	\$ 82,206	\$ 89,343
Residual value of equipment	321	368
Unearned finance income	(27,302)	(31,182)
Present value of minimum lease amounts receivable	55,225	58,529
Accumulated allowance for uncollectible amounts	(2,740)	(2,445)
Net investment in leases	52,485	56,084
Gross receivables from financed sales	14,356	14,268
Unearned income	(4,627)	(4,474)
Present value of financed sale receivables	9,729	9,794
Total financing receivables	\$ 62,214	\$ 65,878
Present value of financed sale receivables due within one year	\$ 2,129	\$ 1,886
Present value of financed sale receivables due after one year	\$ 7,600	\$ 7,908

As at September 30, 2007 the financed sale receivables had a weighted average effective interest rate of 9.4% (December 31, 2006 — 8.3%).

5. Inventories

	September 30, 2007	December 31, 2006
Raw materials	\$ 11,208	\$ 11,504
Work-in-process	2,253	2,677
Finished goods	13,645	12,732
	\$ 27,106	\$ 26,913

At September 30, 2007, finished goods inventory for which title had passed to the customer amounted to \$2.6 million (December 31, 2006 — \$0.4 million).

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6. Senior Notes due 2010

As at September 30, 2007, the Company had outstanding \$159.0 million aggregate principal of Registered Senior Notes and \$1.0 million aggregate principal of Unregistered Senior Notes. The Registered Senior Notes and the Unregistered Senior Notes are referred to herein as the “Senior Notes”.

The terms of the Company’s Senior Notes impose certain restrictions on its operating and financing activities, including certain restrictions on the Company’s ability to: incur certain additional indebtedness; make certain distributions or certain other restricted payments; grant liens; create certain dividend and other payment restrictions affecting the Company’s subsidiaries; sell certain assets or merge with or into other companies; and enter into certain transactions with affiliates.

The terms of the Company’s Senior Notes require that annual and quarterly financial statements are filed with the Trustee within 15 days of the required public company filing deadlines. If these financial reporting covenants are breached then this is considered an event of default under the terms of the Senior Notes and the Company has 30 days to cure this default, after which the Senior Notes become due and payable.

In March 2007, the Company delayed the filing of its 2006 Annual Report on Form 10-K for the year ended December 31, 2006 beyond the required public company filing deadline due to the discovery of certain accounting errors, broadened its accounting review to include certain other accounting matters based on comments received by the Company from the SEC and OSC, and ultimately restated financial statements for certain periods during those years. The filing delay resulted in the Company being in default of a financial reporting covenant under the indenture dated as of December 4, 2003, and as thereafter amended and supplemented (the “Indenture”), governing the Company’s Senior Notes.

On April 16, 2007 the Company completed a consent solicitation, receiving consents from holders of approximate 60% aggregate principal amount of the Senior Notes (the “Consenting Holders”) to execute a ninth supplemental indenture (the “Supplemental Indenture”) to the Indenture with the Guarantors named therein and U.S. Bank National Association. The Supplemental Indenture waived any defaults existing at such time arising from a failure by the Company to comply with the reporting covenant and extended until May 31, 2007, or at the Company’s election until June 30, 2007 (the “Covenant Reversion Date”), the date by which the Company’s failure to comply with the reporting covenant shall constitute a default, or be the basis for an event of default under the Indenture. The Company paid consent fees of \$1.0 million to the Consenting Holders. On May 30, 2007, the Company provided notice to the holders of the Senior Notes of its election to extend the Covenant Reversion Date to June 30, 2007. The Company paid additional consent fees of \$0.4 million to the Consenting Holders. In accordance with Emerging Issues Task Force Abstract 96-16 “Debtor’s Accounting for a Modification or Exchange of Debt Instruments”, the Company concluded that the payment of these fees did not result in an extinguishment of the debt and accordingly has capitalized these costs as deferred financing costs and is amortizing them, utilizing the effective interest method, as an adjustment of interest expense over the remaining term of the Senior Notes. Because the Company did not file its Annual Report on Form 10-K for the year ended December 31, 2006 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 by June 30, 2007, it was in default of the reporting covenant under the Indenture on July 1, 2007, and received notice of such default on July 2, 2007. The Company cured such default under the Indenture by filing its 2006 Annual Report on Form 10-K and first quarter 2007 Form 10-Q on July 20, 2007, within the applicable grace period. See note 9(f) for more information.

7. Credit Facility

Under the Indenture governing the Company’s Senior Notes, the Company is permitted to incur indebtedness on a secured basis pursuant to a credit agreement, or the refinancing or replacement of a credit facility, provided that

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the aggregate principal amount of indebtedness thereunder outstanding at any time does not exceed the greater of a) \$30,000,000 minus the amount of any such indebtedness retired with the proceeds of an Asset Sale and (b) 15% of Total Assets, as defined in the Indenture, of the Company. The Indenture also permits the Company to incur indebtedness solely in respect of performances, surety or appeal bonds, letters of credit and letters of guarantee as required in the ordinary course of business in accordance with customary industry practices. On February 6, 2004, the Company entered into a Loan Agreement for a secured revolving credit facility as amended on June 30, 2005 and as further amended by the Second Amendment to the Loan Agreement which was entered into with effect from May 16, 2006 (the "Credit Facility"). The Credit Facility is a revolving credit facility expiring on October 31, 2009 with an optional one year renewal thereafter contingent upon approval by the lender, permitting maximum aggregate borrowings equal to the lesser of (i) \$40.0 million, (ii) a collateral calculation based on percentages of the book values for the Company's net investment in sales-type leases, financing receivables, finished goods inventory allocated to backlog contracts and the appraised values of the expected future cash flows related to operating leases and of the Company's owned real property, reduced by certain accruals and accounts payable and (iii) a minimum level of trailing cash collections in the preceding twenty — six week period (\$58.6 million as of September 30, 2007), and is subject to certain limitations under the Company's Senior Notes and is reduced for outstanding letters of credit. As at September 30, 2007, the Company's current borrowing capacity under such calculation is \$27.7 million after deduction for outstanding letters of credit of \$9.8 million. The Credit Facility bears interest at the applicable prime rate per annum or LIBOR plus a margin as specified therein 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. In addition, the Credit Facility agreement contains customary events of default, including upon an acquisition or a change of control that may have a material adverse effect on the Company or a guarantor. The Credit Facility also requires the Company to maintain, over a period of time, a minimum level of adjusted earnings before interest, taxes, depreciation and amortization including film asset amortization, stock and other non-cash compensation, write downs (recoveries), and asset impairment charges, and other non-cash uses of funds on a trailing four quarter basis calculated quarterly, of not less than \$20.0 million (the "EBITDA Requirement"). On November 7, 2007 the Company entered into the Third Amendment to the Credit Facility whereby the EBITDA Requirement was reduced to \$17.0 million for the four quarters ended September 30, 2007 and \$15.0 million for the four quarters ending December 31, 2007. In the event that the Company's available borrowing base falls below the amount borrowed against the Credit Facility, the excess above the available borrowing base becomes due upon demand by the lender. If the Credit Facility were to be terminated by either the Company or the lender, the Company would have the ability to pursue another source of secured financing pursuant to the terms of the Indenture.

Under the terms of the Credit Facility, the Company has to comply with several reporting requirements including the delivery of audited consolidated financial statements within 120 days of the end of the fiscal year.

In March 2007, the Company delayed the filing of its 2006 Annual Report on Form 10-K for the year ended December 31, 2006 beyond the filing deadline in order to restate financial statements for certain periods during the fiscal years 2002 — 2006. On March 27, 2007, the Credit Facility lender waived the requirement for the Company to deliver audited consolidated financial statements within 120 days of the end of the fiscal year ended December 31, 2006, provided such statements and documents were delivered on or before June 30, 2007. On June 27, 2007, the Credit Facility lender agreed that an event of default would not be deemed to have occurred unless the Company's 2006 Form 10-K filing did not occur by July 31, 2007 or upon the occurrence and continuance of an event of default under the Company's Indenture governing its Senior Notes which had not been cured within the applicable grace

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period. The Company cured such default under the Indenture by filing its 2006 Form 10-K and first quarter 2007 Form 10-Q on July 20, 2007, within the applicable grace period.

8. Commitments

(a) The Company's lease commitments consist of rent and equipment under operating lease. The Company accounts for any incentives provided over the term of the lease. Total minimum annual rental payments to be made by the Company under operating leases for premises and equipment as of September 30, 2007 for each of the years ended December 31, are as follows:

2007 (three months remaining)	\$ 1,660
2008	6,182
2009	5,755
2010	5,861
2011	6,010
Thereafter	14,100
	<u>\$39,568</u>

Recorded in accrued liabilities balance as at September 30, 2007 is \$9.3 million (December 31, 2006 — \$9.6 million) related to rent expense recognized in excess of rental payments made and landlord incentives.

(b) As at September 30, 2007, the Company has letters of credit of \$9.8 million (December 31, 2006 — \$9.4 million) outstanding under the Company's credit facility arrangement (see note 7). In addition, as at September 30, 2007, the Company has performance security guarantees of \$nil (December 31, 2006 — \$0.6 million) outstanding that have been guaranteed through Export Development Canada.

(c) The Company compensates its sales force with both fixed and variable compensation. Commissions on the sale or lease of the Company's theater system components are due in graduated amounts from the time of collection of the customer's first payment to the Company up to the collection of the customer's last initial payment. At September 30, 2007, \$0.2 million (December 31, 2006 — \$0.3 million) of commissions will be payable in future periods if the Company collects its initial payments as anticipated.

9. Contingencies and Guarantees

The Company is involved in lawsuits, claims, and proceedings, including those identified below, which arise in the ordinary course of business. In accordance with SFAS No. 5, "Accounting for Contingencies", the Company will make a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company believes it has adequate provisions for any such matters. The Company reviews these provisions in conjunction with any related provisions on assets related to the claims at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other pertinent information related to the case. Should developments in any of these matters outlined below cause a change in the Company's determination as to an unfavorable outcome and result in the need to recognize a material provision, or, should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on the Company's results of operations, cash flows, and financial position in the period or periods in which such a change in determination, settlement or judgment occurs.

The Company expenses legal costs relating to its lawsuits, claims and proceedings as incurred.

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(unaudited)

(a) In March 2005, the Company, together with Three-Dimensional Media Group, Ltd. (“3DMG”), filed a complaint in the U.S. District Court for the Central District of California, Western Division, against In-Three, Inc. (“In-Three”) alleging patent infringement. On March 10, 2006, the Company and In-Three entered into a settlement agreement settling the dispute between the Company and In-Three. On June 12, 2006, the U.S. District Court for the Central District of California, Western Division, entered a stay in the proceedings against In-Three pending the arbitration of disputes between the Company and 3DMG. Arbitration was initiated by the Company against 3DMG on May 15, 2006 before the International Centre for Dispute Resolution in New York, alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties’ license agreement. On June 21, 2007, the Arbitration Panel unanimously denied 3DMG’s Motion for Summary Judgment filed on April 11, 2007 concerning the Company’s claims and 3DMG’s counterclaims. On October 5, 2007, 3DMG amended its counterclaims and added counterclaims from UNIPAT.ORG relating to fees allegedly owed to UNIPAT.ORG by the Company. An evidentiary hearing on liability issues has been set for January 2008 with further proceedings on damages issues to be scheduled if and when necessary. The Company will continue to pursue its claims vigorously and believes that all allegations made by 3DMG are without merit. The Company further believes that the amount of loss, if any, suffered in connection with the counterclaims would not have a material impact on the financial position or operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration.

(b) 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 (the “ICC”) with respect to the breach by Electronic Media Limited (“EML”) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML’s affiliate, E-CITI Entertainment (I) PVT Limited (“E-Citi”), seeking \$17.8 million in damages as a result of E-Citi’s breach of a September 2000 lease agreement. The damages sought against E-Citi included the original claim sought against EML. An arbitration hearing took place in November 2005 against E-Citi, which included all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company’s favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of \$9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company’s theater system contract. The Company has now submitted its application to the arbitration panel for interest and costs and is awaiting the Panel’s decision on that issue.

(c) In June 2004, Robots of Mars, Inc. (“Robots”) initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to an arbitration provision in a 1994 film production agreement between Robots’ predecessor-in-interest and a subsidiary of the Company, asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with contract. Robots is seeking an accounting of the Company’s revenues and an award of all sums alleged to be due to Robots under the production agreement, as well as punitive damages. The Company intends to vigorously defend the arbitration proceeding and believes the amount of the loss, if any, that may be suffered in connection with this proceeding will 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 such arbitration.

(d) The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York. On January 18, 2007, the Court consolidated all eight class action lawsuits and appointed Westchester Capital Management, Inc. as

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the lead plaintiff and Abbey Spanier Rodd Abrams & Paradis LLP as lead plaintiff's counsel. On October 2, 2007, plaintiffs filed a consolidated amended class action complaint. The amended complaint, brought on behalf of shareholders who purchased the Company's common stock between February 27, 2003 through July 30, 2007, alleges primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company's revenue recognition of theater system installations, and failing to disclose material information concerning the Company's revenue recognition practices. The amended complaint also adds PricewaterhouseCoopers LLP, the Company's auditors, as a defendant. The lawsuit seeks unspecified compensatory damages, costs, and expenses. The lawsuit is at a very early stage and as a result the Company is not able to estimate a potential loss exposure. The Company believes the allegations made against it in the amended complaint are meritless and will vigorously defend the matter, although no assurances can be given with respect to the outcome of such proceedings. The Company's directors and officers insurance policy provides for reimbursement for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles. The deadline for defendants to respond to the amended complaint is currently December 3, 2007.

(e) A class action lawsuit was filed on September 20, 2006 in the Ontario Superior Court of Justice against the Company and certain of its officers and directors, alleging violations of Canadian securities laws. This lawsuit was brought on behalf of shareholders who acquired the Company's securities between February 17, 2006 and August 9, 2006. The lawsuit is in a very early stage and seeks unspecified compensatory and punitive damages, as well as costs and expenses. As a result, the Company is unable to estimate a potential loss exposure. The Company believes the allegations made against it in the statement of claim are meritless and will vigorously defend the matter, although no assurance can be given with respect to the ultimate outcome of such proceedings. The Company's directors and officers insurance policy provides for reimbursement for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

(f) On September 7, 2007, Catalyst Fund Limited Partnership II, a holder of the Company's Senior Notes ("Catalyst"), commenced an application against the Company in the Ontario Superior Court of Justice for a declaration of oppression pursuant to s. 229 and 241 of the Canada Business Corporations Act ("CBCA") and for a declaration that the Company is in default of the Indenture governing its Senior Notes. The allegations of oppression are substantially the same as allegations Catalyst made in a May 10, 2007 complaint filed against the Company in the Supreme Court of the State of New York, and subsequently withdrawn on October 12, 2007, wherein Catalyst challenged the validity of the consent solicitation through which the Company requested and obtained a waiver of any and all defaults arising from a failure to comply with the reporting covenant under the Indenture and alleged common law fraud. Catalyst has also requested the appointment of an inspector and an order that an investigation be carried out pursuant to s. 229 of the CBCA. In addition, between March 2007 and October 2007, Catalyst has sent the Company eight purported notices of default or acceleration under the Indenture. It is the Company's position that no default or event of default (as those terms are defined in the Indenture) has occurred or is continuing under the Indenture and, accordingly, that Catalyst's purported acceleration notice is of no force or effect. The Company is in the process of responding to the Ontario application and a hearing is scheduled to take place on January 15 and 16, 2008. The litigation is at a preliminary stage and as a result, the Company is not able to estimate a potential loss exposure. The Company believes this application is entirely without merit and plans to contest it vigorously and seek costs from Catalyst, although no assurances can be given with respect to the outcome of the proceedings. The Company's directors and officers insurance policy provides for reimbursement for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

(g) 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

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future operating results, although no assurance can be given with respect to the ultimate outcome of any such proceedings.

(h) In the normal course of business, the Company enters into agreements that may contain features that meet the FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”) definition of a guarantee. FIN 45 defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments (either in cash, financial instruments, other assets, shares of its stock or provision of services) to a third party based on (a) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (b) failure of another party to perform under an obligating agreement or (c) failure of another third party to pay its indebtedness when due.

Financial Guarantees

The Company has provided no significant financial guarantees to third parties.

Product Warranties

The following summarizes the accrual for product warranties that was recorded as part of accrued liabilities in the consolidated balance sheets as of September 30, 2007:

Balance as at December 31, 2006	\$ 38
Payments	(137)
Warranties provision	78
Revisions	24
Balance as of September 30, 2007	<u>\$ 3</u>

Director/Officer Indemnification

The Company’s General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors’ and officers’ liability insurance. No amount has been accrued in the consolidated balance sheet as of September 30, 2007, with respect to this indemnity.

Other Indemnification Agreements

In the normal course of the Company’s operations, it provides indemnifications to counterparties in transactions such as: theater system lease and sale agreements and the supervision of installation or servicing of the theater systems; film production, exhibition and distribution agreements; real property lease agreements; and employment agreements. These indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of litigation claims that may be suffered by the counterparty as a consequence of the transaction or the Company’s breach or non-performance under these agreements. While the terms of these indemnification agreements vary based upon the contract, they normally extend for the life of the agreements. A

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small number of agreements do not provide for any limit on the maximum potential amount of indemnification, however virtually all of the Company's system lease and sale agreements limit such maximum potential liability to the purchase price of the system. The fact that the maximum potential amount of indemnification required by the Company is not specified in some cases prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Company has not made any significant payments under such indemnifications and no amount has been accrued in the accompanying condensed consolidated financial statements with respect to the contingent aspect of these indemnities.

10. Condensed Consolidated Statements of Operations Supplemental Information

Included in selling, general and administrative expenses for both the three and nine months ended September 30, 2007 is a gain of \$0.9 million and \$1.5 million, respectively (2006 — loss of \$0.1 million and a gain of \$0.3 million, respectively), for net foreign exchange gains or losses related to the translation of foreign currency denominated monetary assets, liabilities and integrated subsidiaries.

11. Consolidated Statements of Cash Flows

(a) Changes in other non-cash operating assets and liabilities are comprised of the following:

	Nine Months Ended September 30,	
	2007	2006 As restated
Decrease (increase) in:		
Accounts receivable	\$ 3,051	\$ (8,262)
Financing receivables	4,518	(2,035)
Inventories	(2,121)	(1,462)
Prepaid expenses	316	(1,047)
Commissions and other deferred selling expenses	(589)	(54)
Increase (decrease) in:		
Accounts payable	(2,644)	2,064
Accrued liabilities	618	4,655
Deferred revenue	2,679	704
	<u>\$ 5,828</u>	<u>\$ (5,437)</u>

(b) Cash payments made during the year on account of

	Nine Months Ended September 30,	
	2007	2006
Income taxes	<u>\$ 670</u>	<u>\$1,224</u>
Interest	<u>\$8,138</u>	<u>\$7,862</u>

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(c) Depreciation and amortization are comprised of the following:

	Nine Months Ended September 30,	
	2007	2006
Film assets	\$ 7,567	\$ 7,811
Property, plant and equipment	3,902	3,503
Other assets	—	233
Other intangible assets	406	456
Deferred financing costs	919	864
	<u>\$12,794</u>	<u>\$12,867</u>

(d) Write-downs (recoveries) are comprised of the following:

	Nine Months Ended September 30,	
	2007	2006
Accounts receivable	\$455	\$ 734
Financing receivables	238	(484)
	<u>\$693</u>	<u>\$ 250</u>

12. Receivable Provisions, Net of (Recoveries)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Accounts receivable provisions, net of (recoveries)	\$ 513	\$ 450	\$455	\$ 734
Financing receivables, net of (recoveries)	205	(91)	238	(484)
Receivable provisions, net of (recoveries)	<u>\$ 718</u>	<u>\$ 359</u>	<u>\$693</u>	<u>\$ 250</u>

13. Income Taxes

The Company's effective tax rate differs from the statutory tax rate and will vary from year to year primarily as a result of numerous permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted Statutory tax rate increases or reductions in the year, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favourable or unfavourable resolution of various tax examinations. There was no change in the Company's estimates of projected future earnings and the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence.

As at September 30, 2007, the Company has net deferred income tax assets of \$nil (December 31, 2006 — \$nil). As of September 30, 2007, the Company had a gross deferred income tax asset of \$59.6 million, against which the Company is carrying a \$59.6 million valuation allowance.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income

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Taxes". This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In connection with the Company's adoption of FIN 48, as of January 1, 2007, the Company recorded a net increase to deficit of \$2.1 million (including approximately \$0.9 million related to accrued interest and penalties) related to the measurement of potential international withholding tax requirements and a decrease in reserves for income taxes. As of September 30, 2007 and January 1, 2007, the Company had total unrecognized tax benefits of \$4.4 million and \$3.7 million comprised of (i) \$4.1 million and \$3.5 million for international withholding taxes, respectively, and (ii) \$0.3 million and \$0.2 million related to Large Corporations' Tax, respectively. All of the unrecognized tax benefits could impact the Company's effective tax rate if recognized. While the Company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could differ from the Company's accrued position. Accordingly, additional provisions on federal and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its Consolidated Statements of Operations rather than income tax expense. In conjunction with the adoption of FIN 48, the Company recognized approximately \$0.1 million and \$0.2 million in potential interest and penalties associated with uncertain tax positions for the three and nine months ended September 30, 2007, respectively.

14. Capital Stock

(a) Stock-Based Compensation

The Company has four stock-based compensation plans that are described below. The compensation costs recorded in the statement of operations for these plans was \$0.5 million and a \$1.5 million expense for the three and nine months ended September 30, 2007, respectively (2006 — \$0.4 million recovery and \$1.0 million expense). No income tax benefit is recorded in the consolidated statement of operations for these costs.

Stock Option Plan

The Company's Stock Option Plan, which is shareholder approved, permits the grant of options to employees, directors and consultants.

The Company's policy is to issue new shares from treasury to satisfy stock options which are exercised.

The weighted average fair value of all common share options granted to employees for the three and nine months ended September 30, 2007 at the date of grant was \$1.44 and \$1.64 per share, respectively (2006 — \$3.27)

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and \$3.35 per share). The Company utilizes a Binomial Model to determine the fair value of common share options at the grant date. The following assumptions were used:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Average risk-free interest rate	4.48%	4.96%	4.60%	4.92%
Market risk premium	5.16%	5.35%	5.16 - 5.73%	5.35 - 5.60%
Beta	0.71 - 0.78	0.99	0.71 - 0.94	0.99 - 1.28
Expected option life (in years)	2.74 - 5.44	4.45 - 5.46	2.74 - 5.44	2.47 - 5.46
Expected volatility	61%	60%	61%	60%
Annual termination probability	9.52 - 11.87%	8.06%	9.52 - 11.87%	8.06%
Dividend yield	0%	0%	0%	0%

As the Company stratifies its employees into two groups in order to calculate fair value under the Binomial Model, ranges of assumptions used are presented for market risk premium, Beta, expected option life and annual termination probability. The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected volatility rate is estimated based on the Company's historical share-price volatility. The market risk premium reflects the amount by which the return on the market portfolio exceeds the risk-free rate, where the return on the market portfolio is based on the Standard and Poors 500 index. The Company utilizes an expected term method to determine expected option life based on such data as vesting periods of awards, historical data that includes past exercise and post-vesting cancellations and stock price history.

As at September 30, 2007, the Company has reserved a total of 6,922,157 (December 31, 2006 — 6,974,657) common shares for future issuance under the Stock Option Plan, of which options in respect of 5,698,580 common shares are outstanding at September 30, 2007. Options are granted with an exercise price equal to the market value of the Company's stock at the grant date. The options vest within five years and expire 10 years or less from the date granted. The Plan provides that vesting will be accelerated if there is a change of control, as defined in the plan. At September 30, 2007, options in respect of 4,566,568 common shares were vested and exercisable.

The following table summarizes certain information in respect of option activity under the Stock Option Plan for the periods ended September 30:

	Number of Shares		Weighted Average Exercise Price per Share	
	2007	2006	2007	2006
Options outstanding, beginning of year	5,100,995	5,262,824	\$ 7.12	\$ 7.16
Granted	754,861	123,319	4.21	8.57
Exercised	(52,500)	(72,032)	2.82	3.96
Forfeited	(35,525)	(87,768)	7.79	8.01
Expired	(28,000)	(35,600)	18.45	16.08
Cancelled	(41,251)	(15,833)	16.00	21.33
Options outstanding, end of period	<u>5,698,580</u>	<u>5,174,910</u>	6.65	7.12
Options exercisable, end of period	<u>4,566,568</u>	<u>4,492,006</u>	6.93	7.07

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In the nine months ended September 30, 2007, the Company cancelled 41,251 stock options from its Stock Option Plan (2006 — 15,833) surrendered by Company employees for \$nil consideration.

As at September 30, 2007, 5,413,358 options are fully vested or are expected to vest with a weighted average exercise price of \$6.72, aggregate intrinsic value of \$0.6 million and weighted average remaining contractual life of 4.1 years. As at September 30, 2007, options that are exercisable have an intrinsic value of \$0.6 million and a weighted average remaining contractual life of 3.9 years. The intrinsic value of options exercised in the nine months ended September 30, 2007 was \$0.1 million (2006 — \$0.5 million).

In the fourth quarter of 2006, the Company determined it had exceeded, by approximately 1.6% (of which nil were granted in the third quarter of 2006), certain cap limits for grants set by its Stock Option Plan. The options issued in excess of the cap limits were treated as liability-based awards commencing in the third quarter of 2006 as the Company determined it intended to settle the options in cash. The fair value of the options was recalculated each period. For purposes of calculating the fair value of the liability awards in the first quarter of 2007, the Company accelerated the accounting vesting period to March 31, 2007 in order to align with the expected service period of the options. Immediately before the settlement date, the Company had accrued a liability of \$0.7 million. In June 2007, 195,286 options were voluntarily surrendered by the Co-CEOs and members of the Board of Directors for no consideration, as a result \$0.2 million in accrued liabilities was credited to Other Equity and the Company settled the remaining options for cash in an amount of \$0.5 million.

Options to Non-Employees

In the three and nine months ended September 30, 2007, an aggregate of nil and 129,145, respectively (2006 — 13,335 and 63,319) options to purchase the Company's common stock with an average exercise price of \$nil and \$4.53, respectively (2006 — \$6.61 and \$8.55) were granted to certain advisors and strategic partners of the Company. These options have a maximum contractual life of seven years. Certain of these options vest immediately and others upon the occurrence of certain events. These options were granted under the Stock Option Plan.

The Company has calculated the fair value of these options to non-employees for the three and nine months ended September 30, 2007 to be less than \$0.1 million and \$0.1 million, respectively (2006 — less than \$0.1 million and \$0.3 million), using a Binomial option-pricing model with the following underlying assumptions for periods ended:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Average risk-free interest rate	n/a	4.90%	4.97%	4.84%
Contractual option life	n/a	5 years	6 years	5-7 years
Average expected volatility	n/a	60%	61%	60%
Dividend yield	n/a	0%	0%	0%

For the three and nine months ended September 30, 2007, the Company has recorded a charge of less than \$0.1 million and \$0.1 million, respectively (2006 — less than \$0.1 million and \$0.3 million) to film cost of sales related to the non-employee stock options.

As at September 30, 2007, non-employee options outstanding amounted to 245,804 options (2006 — 103,324) with a weighted-average exercise price of \$6.43 (2006 — \$9.10). 142,249 options (2006 — 93,324) were exercisable with an average weighted exercise price of \$7.49 (2006 — \$9.12) and the vested options have an aggregate intrinsic value of less than \$0.1 million.

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Under the terms of certain employment agreements dated July 12, 2000, the Company is required to issue either 160,000 restricted common shares or pay their cash equivalent. The restricted shares are required to be issued, or payment of their cash equivalent, upon request by the employees at any time. The aggregate intrinsic value of the awards outstanding is \$0.7 million. The Company accounts for the obligation as a liability, which is classified within accrued liabilities. The Company has recorded a less than \$0.1 million recovery and \$0.1 million expense for the three and nine months ended September 30, 2007, respectively (2006 — \$0.7 million recovery and \$0.3 million recovery), due to the changes in the Company's stock price during the period.

Stock Appreciation Rights

On February 15, 2007, 600,000 stock appreciation rights with an exercise price of \$4.34 per right were granted to Company executives. Half of the rights were vested upon issuance and were exercisable immediately and the other 300,000 rights will vest and be exercisable by the end of 2007. The rights were measured at fair value at the date of grant and are remeasured each period until settled. At September 30, 2007, the unvested rights had a fair value of \$1.00 per right and the vested rights had a fair value of \$0.95 per right. The rights have an intrinsic value of \$nil per right as the exercise price of the rights is greater than the Company's stock price at September 30, 2007. The Company accounts for the obligation of these rights as a liability, which is classified within accrued liabilities. The Company has recorded a \$0.3 million charge and a \$0.5 million charge for the three and nine months ended September 30, 2007, respectively to SG&A related to these rights. The following assumptions were used at September 30, 2007 for measuring the fair value of the rights:

Risk-free interest rate	4.70%
Market risk premium	5.16%
Beta	0.79
Expected option life (in years)	0.93 - 0.99
Expected volatility	61%
Annual termination probability	0%
Dividend yield	0%

Warrants to Non-Employees

There were no warrants issued during the three and nine months ended or outstanding as of September 30, 2007 and 2006.

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(b) *Earnings (Loss) per Share*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006 As restated	2007	2006 As restated
Net loss from continuing operations applicable to common shareholders	\$ (7,522)	\$ (5,595)	\$ (16,798)	\$ (7,641)
<i>Weighted average number of common shares (000's):</i>				
Issued and outstanding, beginning of period	40,288	40,286	40,286	40,213
Weighted average number of shares issued during the period	22	—	8	52
Weighted average number of shares used in computing basic earnings per share	40,310	40,286	40,294	40,265
Assumed exercise of stock options, net of shares assumed repurchased	—	—	—	—
Weighted average number of shares used in computing diluted earnings per share	40,310	42,286	40,294	40,265

The calculation of diluted earnings per share for the three and nine months ended September 30, 2007 excludes all shares that are issuable upon exercise of options as the impact of these exercises would be antidilutive.

(c) *Shareholders' Deficit*

The following summarizes the movement of Shareholders' Deficit for the nine months ended September 30, 2007:

Balance as of December 31, 2006 (as restated)	\$ (58,232)
Issuance of common shares	148
Net loss	(16,798)
Adjustment to other equity for employee stock options granted	396
Adjustment to other equity capital for non-employee stock options granted	108
Adjustment to other equity capital for employee stock options cancelled	170
Adjustment to deficit on adoption of FIN 48	(2,093)
Adjustments to accumulated other comprehensive income to amortize the prior service credits related to pensions and record the prior service cost	(509)
Balance as of September 30, 2007	\$ (76,810)

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15. Segmented Information

The Company has six reportable segments identified by category of product sold or service provided: IMAX systems; film production and IMAX DMR; film distribution; film post-production; theater operations; and other. The IMAX systems segment designs, manufactures, sells or leases and maintains IMAX theater projection system equipment. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The theater operations segment owns and operates certain IMAX theaters. The other segment includes camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2006 Form 10-K/A.

Transactions between the film production and IMAX DMR segment and the film post-production segment are valued at exchange value. Inter-segment profits are eliminated upon consolidation, as well as for the disclosures below.

Transactions between the other segments are not significant.

The Company's Chief Operating Design Makers ("CODM") as defined in Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise Related Information" ("SFAS 131"), assess segment performance based on segment gross margins. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), interest revenue, interest expense and tax provision (recovery) are not allocated to the segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006 As restated	2007	2006 As restated
Revenue				
IMAX systems	\$ 14,940	\$ 17,553	\$42,042	\$ 51,472
Films				
Production and IMAX DMR	6,246	3,403	14,640	8,563
Distribution	2,548	3,559	8,649	11,622
Post-production	744	749	3,290	5,273
Theater operations	4,368	4,709	13,434	12,472
Other	958	1,010	2,466	3,077
Total	<u>\$ 29,804</u>	<u>\$ 30,983</u>	<u>\$84,521</u>	<u>\$ 92,479</u>
Gross margins				
IMAX systems	\$ 7,265	\$ 10,108	\$22,907	\$ 28,532
Films				
Production and IMAX DMR	290	(920)	4,218	(214)
Distribution	1,223	1,337	3,521	3,441
Post-production	295	948	1,529	2,386
Theater operations	262	408	914	1,559
Other	338	351	245	213
Total	<u>\$ 9,673</u>	<u>\$ 12,232</u>	<u>\$33,334</u>	<u>\$ 35,917</u>

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with U.S. Generally Accepted Accounting Principles

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

(unaudited)

16. 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 was 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 had been estimated as between \$0.9 million and \$2.3 million. Prior to 2006, the Company paid out \$0.8 million with respect to amounts owing to the landlord. The Company paid out an additional \$0.1 million and also accrued \$0.8 million in net loss from discontinued operations related to Miami IMAX Theater in the third quarter of 2006. On January 4, 2007, as a result of a settlement negotiated between both parties, the Company paid out a final \$0.8 million, extinguishing its obligations to the landlord.

(b) Digital Projection International

On December 29, 2005, the Company and a previously wholly-owned subsidiary, Digital Projection International, entered into an agreement to settle its loan agreements in exchange for a payment of \$3.5 million. During the nine months ended September 30, 2006, the Company recognized \$2.3 million in income from discontinued operations as a result of this settlement. The other \$1.2 million was recognized in 2005.

17. Employees Pension and Postretirement Benefits

(a) Defined Benefit Plan

The Company has an unfunded U.S. defined benefit pension plan, the Supplemental Executive Retirement Plan (the "SERP"), covering its two Co-CEOs. The SERP provides for a lifetime retirement benefit from age 55 determined as 75% of the member's best average 60 consecutive months of earnings during the 120 months preceding retirement.

Under the original terms of the SERP, 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. On March 8, 2006, the Company and the Co-CEOs negotiated an amendment to the SERP which reduced the related pension expense to the Company. Under the terms of the SERP amendment, to reduce ongoing costs to the Company, the cost of living adjustment and surviving spouse benefits previously owed to the Co-CEOs are each reduced by 50%, subject to a recoupment of a percentage of such benefits upon a change of control of the Company, and the net present value of the reduced pension benefit payments is accelerated and paid out upon a change of control of the Company. The amendment resulted in reduction of the accrued pension liability by \$6.2 million, a reduction in other assets of \$3.4 million and a past services credit of \$2.8 million. The benefits were 50% vested as of July 2000, the SERP 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 or upon a change in control shall be 100%.

On May 4, 2007, the Company amended the SERP to provide for the determination of benefits to be 75% of the member's best average 60 consecutive months of earnings over the member's employment history. The actuarial liability was remeasured to reflect this amendment. The amendment resulted in a \$1.0 million increase to the pension liability and a corresponding \$1.0 million change to other comprehensive income. As of September 30, 2007, one of the Co-CEO's benefits was 100% vested and the other Co-CEO's benefits were approximately 85.5% vested.

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The amount accrued for the SERP is determined as follows:

	<u>Nine Months Ended September 30, 2007</u>
Projected benefit obligation:	
Obligation, beginning of period	\$ 26,109
Service cost	518
Interest cost	1,050
Prior service cost resulting from the amendment	997
Amortization of prior service credit	(712)
Obligation, end of period	<u>\$ 27,962</u>
Unfunded status:	
Obligation, end of period	<u>\$ 27,962</u>
Accrued pension liability	<u>\$ 27,962</u>

The following table provides disclosure of pension expense for the SERP for periods ended September 30:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service cost	\$ 172	\$ 364	\$ 518	\$ 821
Interest cost	372	297	1,050	659
Amortization of prior service credits	—	(237)	—	(83)
Pension expense	<u>\$ 544</u>	<u>\$ 424</u>	<u>\$ 1,568</u>	<u>\$ 1,397</u>

The accumulated benefit obligation for the SERP was \$28.0 million at September 30, 2007 and \$26.1 million at December 31, 2006. No contributions are expected to be made for the SERP during 2007.

As a result of the SERP amendment, in the first quarter of 2006, an adjustment to the unrecognized actuarial losses of \$2.8 million and unrecognized prior service cost of \$3.4 million was recorded in comprehensive income (loss) and other assets.

The following benefit payments are expected to be made as per the current SERP assumptions and the terms of the SERP in each of the next five years, and in the aggregate over the five years thereafter:

2007	\$ —
2008	1,045
2009	1,058
2010	32,496
2011 to 2016	—

At the time the Company established the SERP, it also took out life insurance policies on its two Co-CEOs with coverage amounts of \$21.5 million in aggregate. The Company intends to use the cash surrender value proceeds of life insurance policies taken on its Co-CEOs to be applied towards the benefits due and payable under the SERP, although there can be no assurance that the Company will ultimately do so. At September 30, 2007, the cash surrender value of the insurance policies is \$5.0 million (December 31, 2006 — \$4.3 million) and has been included in other assets.

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In accordance with U.S. Generally Accepted Accounting Principles

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(unaudited)

(b) Defined Contribution Plan

The Company also maintains defined contribution pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and nine months ended September 30, 2007, the Company contributed and expensed an aggregate of \$0.2 million and \$0.6 million, respectively (2006 — \$0.2 million and \$0.6 million), to its Canadian plan and an aggregate of less than \$0.1 million and \$0.1 million, respectively (2006 — less than \$0.1 million and \$0.1 million), to its defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

(c) Postretirement Benefits

The Company has an unfunded postretirement plan covering its two Co-CEOs. The plan provides that the Company will maintain health benefits for the Co-CEOs until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by the Co-CEO. The postretirement benefits obligation as of September 30, 2007 is \$0.4 million (2006 — \$0.4 million). The Company has expensed less than \$0.1 million for the three and nine months ended September 30, 2007 with respect to this obligation (2006 — less than \$0.1 million).

18. Impact of Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements”, which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company is currently evaluating the potential impact of this statement.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statements No. 115” (“SFAS 159”). SFAS 159 allows the irrevocable election of fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities and other items on an instrument-by-instrument basis. Changes in fair value would be reflected in earnings as they occur. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The Company is currently evaluating if it will elect the fair value option for any of its eligible financial instruments and other items.

19. Supplemental Consolidating Financial Information

The Company’s Senior Notes are fully and unconditionally guaranteed, jointly and severally by specific wholly-owned subsidiaries of the Company (the “Guarantor Subsidiaries”). The main Guarantor Subsidiaries are David Keighley Productions 70MM 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. and IMAX B.V. (the “Non-Guarantor Subsidiaries”) which have not provided any guarantees of the Senior Notes.

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

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Supplemental consolidating balance sheets as at September 30, 2007:

	IMAX Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Adjustments and Eliminations	Consolidated Total
Assets					
Cash and cash equivalents	\$ 8,852	\$ 6,750	\$ 379	\$ —	\$ 15,981
Short-term investments	2,192	—	—	—	2,192
Accounts receivable	18,135	4,026	350	—	22,511
Financing receivables	61,542	672	—	—	62,214
Inventories	26,790	234	82	—	27,106
Prepaid expenses	2,480	614	22	—	3,116
Intercompany receivables	24,961	45,877	11,602	(82,440)	—
Film assets	1,832	—	—	—	1,832
Property, plant and equipment	22,962	1,037	1	—	24,000
Other assets	12,230	—	—	—	12,230
Goodwill	39,027	—	—	—	39,027
Other intangible assets	2,491	—	—	—	2,491
Investments in subsidiaries	31,216	—	—	(31,216)	—
Total assets	<u>\$ 254,710</u>	<u>\$ 59,210</u>	<u>\$ 12,436</u>	<u>\$ (113,656)</u>	<u>\$ 212,700</u>
Liabilities					
Accounts payable	\$ 4,497	\$ 4,284	\$ —	\$ —	\$ 8,781
Accrued liabilities	54,616	7,393	238	—	62,247
Intercompany payables	57,484	47,325	6,801	(111,610)	—
Deferred revenue	55,343	3,027	112	—	58,482
Senior Notes due 2010	160,000	—	—	—	160,000
Total liabilities	<u>331,940</u>	<u>62,029</u>	<u>7,151</u>	<u>(111,610)</u>	<u>289,510</u>
Shareholder's deficit					
Capital stock	122,172	—	117	(117)	122,172
Other equity/additional paid in capital/contributed surplus	2,577	46,960	—	(45,926)	3,611
Deficit	(203,265)	(49,165)	5,168	43,997	(203,265)
Accumulated other comprehensive income (loss)	1,286	(614)	—	—	672
Total shareholders' equity (deficit)	<u>(77,230)</u>	<u>(2,819)</u>	<u>5,285</u>	<u>(2,046)</u>	<u>(76,810)</u>
Total liabilities & shareholders' equity (deficit)	<u>\$ 254,710</u>	<u>\$ 59,210</u>	<u>\$ 12,436</u>	<u>\$ (113,656)</u>	<u>\$ 212,700</u>

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 \$29.8 million as at September 30, 2007.

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Supplemental consolidating balance sheets as at December 31, 2006:

	IMAX Corporation As restated	Guarantor Subsidiaries As restated	Non- Guarantor Subsidiaries As restated	Adjustments and Eliminations As restated	Consolidated Total As restated
Assets					
Cash and cash equivalents	\$ 16,402	\$ 8,556	\$ 165	\$ —	\$ 25,123
Short-term investments	2,115	—	—	—	2,115
Accounts receivable	23,902	1,866	249	—	26,017
Financing receivables	63,831	2,047	—	—	65,878
Inventories	26,592	237	84	—	26,913
Prepaid expenses	3,098	312	22	—	3,432
Intercompany receivables	25,799	36,182	11,164	(73,145)	—
Film assets	1,235	—	—	—	1,235
Property, plant and equipment	23,412	1,212	15	—	24,639
Other assets	10,365	—	—	—	10,365
Goodwill	39,027	—	—	—	39,027
Other intangible assets	2,547	—	—	—	2,547
Investments in subsidiaries	29,543	—	—	(29,543)	—
Total assets	<u>\$ 267,868</u>	<u>\$ 50,412</u>	<u>\$ 11,699</u>	<u>\$ (102,688)</u>	<u>\$ 227,291</u>
Liabilities					
Accounts payable	\$ 4,259	\$ 7,164	\$ 3	\$ —	\$ 11,426
Accrued liabilities	49,792	8,293	209	—	58,294
Intercompany payables	60,049	35,601	6,306	(101,956)	—
Deferred revenue	52,420	3,261	122	—	55,803
Senior Notes due 2010	160,000	—	—	—	160,000
Total liabilities	<u>326,520</u>	<u>54,319</u>	<u>6,640</u>	<u>(101,956)</u>	<u>285,523</u>
Shareholder's deficit					
Capital stock	122,024	—	117	(117)	122,024
Other equity	1,903	46,960	—	(45,926)	2,937
Deficit	(184,375)	(50,253)	4,942	45,311	(184,375)
Accumulated other comprehensive income (loss)	1,796	(614)	—	—	1,182
Total shareholders' equity (deficit)	<u>(58,652)</u>	<u>(3,907)</u>	<u>5,059</u>	<u>(732)</u>	<u>(58,232)</u>
Total liabilities & shareholders' equity (deficit)	<u>\$ 267,868</u>	<u>\$ 50,412</u>	<u>\$ 11,699</u>	<u>\$ (102,688)</u>	<u>\$ 227,291</u>

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 \$29.4 million.

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with U.S. Generally Accepted Accounting Principles

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

Supplemental consolidating statements of operations for the three months ended September 30, 2007:

	<u>IMAX Corporation</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Adjustments and Eliminations</u>	<u>Consolidated Total</u>
Revenues					
Equipment and product sales	\$ 7,873	\$ —	\$ 7	\$ (9)	\$ 7,871
Services	12,986	5,269	164	(447)	17,972
Rentals	2,009	(15)	9	—	2,003
Finance income	1,194	14	—	—	1,208
Other revenues	750	—	—	—	750
	<u>24,812</u>	<u>5,268</u>	<u>180</u>	<u>(456)</u>	<u>29,804</u>
Cost of goods sold, services and rentals					
Equipment and product sales	5,360	—	5	(9)	5,356
Services	9,469	5,021	88	(447)	14,131
Rentals	613	—	—	—	613
Other	31	—	—	—	31
	<u>15,473</u>	<u>5,021</u>	<u>93</u>	<u>(456)</u>	<u>20,131</u>
Gross margin					
Selling, general and administrative expenses	9,339	247	87	—	9,673
Research and development	10,143	262	(150)	—	10,255
Research and development	1,563	—	—	—	1,563
Amortization of intangibles	129	—	—	—	129
Loss (income) from equity-accounted investees	(219)	—	—	219	—
Receivable provisions, net of (recoveries)	718	—	—	—	718
Earnings (loss) from operations	<u>(2,995)</u>	<u>(15)</u>	<u>237</u>	<u>(219)</u>	<u>(2,992)</u>
Interest income	194	—	—	—	194
Interest expense	(4,342)	1	—	—	(4,341)
Net earnings (loss) from continuing operations					
before income taxes	(7,143)	(14)	237	(219)	(7,139)
(Provision for) recovery of income taxes	(379)	(4)	—	—	(383)
Net earnings (loss)	<u>\$ (7,522)</u>	<u>\$ (18)</u>	<u>\$ 237</u>	<u>\$ (219)</u>	<u>\$ (7,522)</u>

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with U.S. Generally Accepted Accounting Principles

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

Supplemental consolidating statements of operations for the nine months ended September 30, 2007:

	IMAX Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Adjustments and Eliminations	Consolidated Total
Revenues					
Equipment and product sales	\$ 21,696	\$ 627	\$ 11	\$ (607)	\$ 21,727
Services	35,550	17,870	489	(1,940)	51,969
Rentals	4,868	70	22	—	4,960
Finance income	3,499	77	—	—	3,576
Other revenues	2,289	—	—	—	2,289
	<u>67,902</u>	<u>18,644</u>	<u>522</u>	<u>(2,547)</u>	<u>84,521</u>
Cost of goods sold, services and rentals					
Equipment and product sales	13,113	598	9	(607)	13,113
Services	21,605	16,245	210	(1,940)	36,120
Rentals	1,904	—	—	—	1,904
Other	50	—	—	—	50
	<u>36,672</u>	<u>16,843</u>	<u>219</u>	<u>(2,547)</u>	<u>51,187</u>
Gross margin					
	31,230	1,801	303	—	33,334
Selling, general and administrative expenses	30,897	751	77	—	31,725
Research and development	4,180	—	—	—	4,180
Amortization of intangibles	406	—	—	—	406
Loss (income) from equity-accounted investees	(1,314)	—	—	1,314	—
Receivable provisions, net of (recoveries)	695	(2)	—	—	693
Earnings (loss) from operations	<u>(3,634)</u>	<u>1,052</u>	<u>226</u>	<u>(1,314)</u>	<u>(3,670)</u>
Interest income	599	48	—	—	647
Interest expense	(12,966)	1	—	—	(12,965)
Net earnings (loss) from continuing operations before income taxes					
	(16,001)	1,101	226	(1,314)	(15,988)
(Provision for) recovery of income taxes	(797)	(13)	—	—	(810)
Net earnings (loss)	<u>\$ (16,798)</u>	<u>\$ 1,088</u>	<u>\$ 226</u>	<u>\$ (1,314)</u>	<u>\$ (16,798)</u>

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Supplemental consolidating statements of operations for the three months ended September 30, 2006:

	<u>IMAX Corporation</u> As restated	<u>Guarantor Subsidiaries</u> As restated	<u>Non- Guarantor Subsidiaries</u> As restated	<u>Adjustments and Eliminations</u> As restated	<u>Consolidated Total</u> As restated
Revenues					
Equipment and product sales	\$ 11,821	\$ —	\$ 8	\$ (44)	\$ 11,785
Services	11,147	5,735	161	(712)	16,331
Rentals	1,552	51	12	—	1,615
Finance income	1,198	54	—	—	1,252
	<u>25,718</u>	<u>5,840</u>	<u>181</u>	<u>(756)</u>	<u>30,983</u>
Cost of goods sold, services and rentals					
Equipment and product sales	5,798	—	1	(44)	5,755
Services	8,304	4,861	79	(712)	12,532
Rentals	464	—	—	—	464
	<u>14,566</u>	<u>4,861</u>	<u>80</u>	<u>(756)</u>	<u>18,751</u>
Gross margin	11,152	979	101	—	12,232
Selling, general and administrative expenses	9,493	224	128	—	9,845
Research and development	878	—	—	—	878
Amortization of intangibles	132	—	—	—	132
Loss (income) from equity-accounted investees	146	—	—	(146)	—
Receivable provisions, net of (recoveries)	359	—	—	—	359
Earnings (loss) from operations	144	755	(27)	146	1,018
Interest income	227	—	—	—	227
Interest expense	(4,182)	1	—	—	(4,181)
Net earnings (loss) from continuing operations					
before income taxes	(3,811)	756	(27)	146	(2,936)
(Provision for) recovery of income taxes	(1,784)	—	—	—	(1,784)
Net earnings (loss) from continuing operations	(5,595)	756	(27)	146	(4,720)
Net earnings from discontinued operations	—	(875)	—	—	(875)
Net earnings (loss)	<u>\$ (5,595)</u>	<u>\$ (119)</u>	<u>\$ (27)</u>	<u>\$ 146</u>	<u>\$ (5,595)</u>

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Supplemental consolidating statements of operations for the nine months ended September 30, 2006:

	<u>IMAX Corporation</u> As restated	<u>Guarantor Subsidiaries</u> As restated	<u>Non- Guarantor Subsidiaries</u> As restated	<u>Adjustments and Eliminations</u> As restated	<u>Consolidated Total</u> As restated
Revenues					
Equipment and product sales	\$ 34,912	\$ —	\$ 13	\$ (44)	\$ 34,881
Services	32,972	18,711	527	(2,682)	49,528
Rentals	3,893	162	24	—	4,079
Finance income	3,828	163	—	—	3,991
	<u>75,605</u>	<u>19,036</u>	<u>564</u>	<u>(2,726)</u>	<u>92,479</u>
Cost of goods sold, services and rentals					
Equipment and product sales	18,909	—	6	(44)	18,871
Services	22,215	16,507	237	(2,682)	36,277
Rentals	1,414	—	—	—	1,414
	<u>42,538</u>	<u>16,507</u>	<u>243</u>	<u>(2,726)</u>	<u>56,562</u>
Gross margin	33,067	2,529	321	—	35,917
Selling, general and administrative expenses	29,076	626	208	—	29,910
Research and development	2,457	—	—	—	2,457
Amortization of intangibles	456	—	—	—	456
Loss (income) from equity-accounted investees	(1,138)	—	—	1,138	—
Receivable provisions, net of (recoveries)	250	—	—	—	250
Earnings (loss) from operations	1,966	1,903	113	(1,138)	2,844
Interest income	760	—	—	—	760
Interest expense	(12,578)	(2)	—	—	(12,580)
Net earnings (loss) from continuing operations before income taxes	(9,852)	1,901	113	(1,138)	(8,976)
(Provision for) recovery of income taxes	(89)	—	(1)	—	(90)
Net earnings (loss) from continuing operations	(9,941)	1,901	112	(1,138)	(9,066)
Net earnings from discontinued operations	2,300	(875)	—	—	1,425
Net earnings (loss)	<u>\$ (7,641)</u>	<u>\$ 1,026</u>	<u>\$ 112</u>	<u>\$ (1,138)</u>	<u>\$ (7,641)</u>

IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
In accordance with U.S. Generally Accepted Accounting Principles
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(unaudited)

Supplemental consolidating statements of cash flows for the nine months ended September 30, 2007:

	<u>IMAX Corporation</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Adjustments and Eliminations</u>	<u>Consolidated Total</u>
Cash provided by (used in):					
Operating Activities					
Net earnings (loss)	\$ (16,798)	\$ 1,088	\$ 226	\$ (1,314)	\$ (16,798)
Items not involving cash:					
Depreciation and amortization	12,468	310	16	—	12,794
Write-downs (recoveries)	695	(2)	—	—	693
Loss (income) from equity-accounted investees	(1,314)	—	—	1,314	—
Change in deferred income tax valuation allowance	(224)	—	—	—	(224)
Stock and other non-cash compensation	3,059	—	—	—	3,059
Non-cash foreign exchange gain	(1,125)	—	—	—	(1,125)
Interest on short-term investments	(68)	—	—	—	(68)
Increase in cash surrender value of life insurance	(202)	—	—	—	(202)
Investment in film assets	(8,165)	—	—	—	(8,165)
Changes in other non-cash operating assets and liabilities	8,131	(2,274)	(29)	—	5,828
Net cash used in operating activities from discontinued operations	—	(775)	—	—	(775)
Net cash provided by (used in) operating activities	<u>(3,543)</u>	<u>(1,653)</u>	<u>213</u>	<u>—</u>	<u>(4,983)</u>
Investing Activities					
Purchases of short-term investments	(6,457)	—	—	—	(6,457)
Proceeds from maturities of short-term investments	6,448	—	—	—	6,448
Purchase of fixed assets	(1,196)	(135)	(2)	—	(1,333)
Increase in other assets	(561)	—	—	—	(561)
Increase in other intangible assets	(351)	—	—	—	(351)
Net cash used in investing activities	<u>(2,117)</u>	<u>(135)</u>	<u>(2)</u>	<u>—</u>	<u>(2,254)</u>
Financing Activities					
Financing costs related to Senior Notes due 2010	(2,084)	—	—	—	(2,084)
Common shares issued	148	—	—	—	148
Net cash used in financing activities	<u>(1,936)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,936)</u>
Effects of exchange rate changes on cash	46	(18)	3	—	31
Increase (decrease) in cash and cash equivalents, during the period	(7,550)	(1,806)	214	—	(9,142)
Cash and cash equivalents, beginning of period	16,402	8,556	165	—	25,123
Cash and cash equivalents, end of period	\$ 8,852	\$ 6,750	\$ 379	\$ —	\$ 15,981

IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
In accordance with U.S. Generally Accepted Accounting Principles
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
(unaudited)

Supplemental consolidating statements of cash flows for the nine months ended September 30, 2006:

	<u>IMAX Corporation</u> As restated	<u>Guarantor Subsidiaries</u> As restated	<u>Non- Guarantor Subsidiaries</u> As restated	<u>Adjustments and Eliminations</u> As restated	<u>Consolidated Total</u> As restated
Cash provided by (used in):					
Operating Activities					
Net earnings (loss)	\$ (7,641)	\$ 1,026	\$ 112	\$ (1,138)	\$ (7,641)
Net (earnings) from discontinued operations	(2,300)	875	—	—	(1,425)
Items not involving cash:					
Depreciation and amortization	12,464	402	1	—	12,867
Write-downs	250	—	—	—	250
Loss (income) from equity-accounted investees	(1,138)	—	—	1,138	—
Change in deferred income tax valuation allowance	8	(8)	—	—	—
Stock and other non-cash compensation	2,552	—	—	—	2,552
Unrealized foreign exchange loss	(353)	—	—	—	(353)
Interest on short-term investments	(281)	—	—	—	(281)
(Increase)/decrease in cash surrender value of life insurance	(149)	—	—	—	(149)
Investment in film assets	(7,733)	—	—	—	(7,733)
Changes in other non-cash operating assets and liabilities	(5,096)	(163)	(178)	—	(5,437)
Net cash used in operating activities from discontinued operations	—	(100)	—	—	(100)
Net cash provided by (used in) operating activities	<u>(9,417)</u>	<u>2,032</u>	<u>(65)</u>	<u>—</u>	<u>(7,450)</u>
Investing Activities					
Purchases of short-term investments	(14,506)	—	—	—	(14,506)
Proceeds from maturities of short-term investments	18,739	—	—	—	18,739
Purchase of fixed assets	(1,423)	(273)	(16)	—	(1,712)
Increase in other assets	(753)	—	—	—	(753)
Increase in other intangible assets	(374)	—	—	—	(374)
Net cash provided by investing activities from discontinued operations	3,493	—	—	—	3,493
Net cash used in investing activities	<u>5,176</u>	<u>(273)</u>	<u>(16)</u>	<u>—</u>	<u>4,887</u>
Financing Activities					
Common shares issued	286	—	—	—	286
Net cash provided by financing activities	286	—	—	—	286
Effects of exchange rate changes on cash	(47)	12	(11)	—	(46)
Increase (decrease) in cash and cash equivalents, during the period					
	(4,002)	1,771	(92)	—	(2,323)
Cash and cash equivalents, beginning of period	17,402	6,728	194	—	24,324
Cash and cash equivalents, end of period	<u>\$ 13,400</u>	<u>\$ 8,499</u>	<u>\$ 102</u>	<u>\$ —</u>	<u>\$ 22,001</u>

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

OVERVIEW

The principal business of IMAX Corporation together with its wholly-owned subsidiaries (the "Company") is the design, manufacture, sale or lease of theater systems for large-format theaters including commercial theaters, museums and science centers, and destination entertainment sites. In addition, the Company specializes in digital and film based motion picture technologies, designs and manufactures high-end sound systems and produces, remasters and distributes large-format films. At September 30, 2007, there were 296 IMAX theaters operating in 40 countries.

The Company derives revenue principally from the sale or long-term lease of its theater systems and associated maintenance and extended warranty services, the provision of film production and digital re-mastering services, the distribution of certain films, and the provision of post-production services. The Company also derives revenue from the operation of its own theaters, camera rentals and the provision of aftermarket parts for its system components.

Important factors that the Company's Co-Chief Executive Officers ("Co-CEOs") use in assessing the Company's business and prospects include the signing of new theater systems arrangements, revenue, gross margins from the Company's operating segments, earnings from operations as adjusted for unusual items that the Company views as non-recurring and the success of strategic initiatives such as the securing of new film projects, particularly IMAX DMR films, the signing and financial performance of joint revenue sharing arrangements and the progress of the Company's development of a digital projector and related technologies.

Accounting Policies and Estimates

The Company reports its results under United States Generally Accepted Accounting Principles ("U.S. GAAP").

The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to accounts receivable, net investment in leases, inventories, property, plant and equipment, film assets, investments, other assets, 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 condensed consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and the differences may be material. The Company's significant accounting policies are discussed in note 2 to its audited consolidated financial statements in the Company's 2006 Amended Annual Report on Form 10-K/A for the year ended December 31, 2006 (the "2006 Form 10-K/A"), and are summarized below.

Restatement of Previously Issued Financial Statements

In October 2007, the Company announced that, after a review of its real estate leases, it had identified certain errors related to its accounting practices as they relate to the Company's owned and operated theaters and office facilities. The Company conducted this review after performing an analysis of a rent-abatement agreement initiated in connection with the higher level of Finance Department oversight and awareness contemplated by the Company's ongoing remediation plan (see Item 4. Controls Procedures). The review focused on the Company's historical accounting practice for recording the impact of rent holidays, abatements, escalation clauses and landlord construction allowances. The Company also reviewed its accounting for theater sponsorship revenue at its owned and operated theaters. As a result of this review, the Company concluded that certain of its prior practices were not in accordance with U.S. GAAP. In addition, the Company identified an error relating to revenue recognition, resulting from the Company's review of one theater system arrangement which occurred in 2002, in response to comments received from the Staff of the Division of Corporate Finance of the Securities and Exchange Commission (the "SEC"). As a result of these errors, the Company has restated its condensed consolidated financial statements for the three and nine months ended September 30, 2006.

In 2006, the Company has identified certain errors related to: (a) revenue recognition resulting from the Company's review of its theater system arrangements over the past 5 year period ended December 31, 2006 in response to comments received from the staff of both the SEC and the Ontario Securities Commission ("OSC") which indicated insufficient analysis of various sales and lease transactions and the accounting effect of certain contractual provisions within them; and misallocations of consideration to elements within certain multiple element arrangements; (b) capitalization of costs into inventory and films assets and amortization of film assets in accordance with Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2"); (c) income tax liabilities resulting from failure to make certain tax elections on a timely basis and (d) certain other items in note 3 of the condensed consolidated financial statements (referred to as the "First Restatement"). In addition, in the preparation of the consolidated financial statements for the year ended December 31, 2006, the Company recorded other adjustments related to prior periods' unadjusted differences that had been deemed not to be material and adjustments related to prior periods recorded through 2006 opening shareholders' deficit. The condensed consolidated financial statements for the three and nine months ended September 30, 2006 have been restated to reflect these error corrections under U.S. GAAP.

See note 3 to the condensed consolidated financial statements for additional details.

Critical Accounting Policies

The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to fair values associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; provisions for inventory obsolescence; ultimate revenues for film assets; estimates of fair values for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post-retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historic experience, future expectations and other assumptions that are believed to be reasonable at the date of the condensed consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and the differences may be material. The Company's significant accounting policies are discussed in note 2 to the audited consolidated financial statements included in the Company's 2006 Form 10-K/A.

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

Revenue Recognition

The Company generates revenue from various sources as follows:

- Design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 40 countries as of September 30, 2007;
- Production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;
- Operation of certain IMAX theaters primarily in the United States and Canada;
- Provision of other services to the IMAX theater network including ongoing maintenance and extended warranty services for IMAX theater systems; and
- Other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

Multiple Element Arrangements

The Company's revenue arrangements with certain customers may involve multiple elements consisting of a theater system (projector, sound system, and screen system and, if applicable, a 3D glasses cleaning machine);

services associated with the theater system including theater design support, supervision of installation, and projectionist training; a license to use of the IMAX brand; 3D glasses; maintenance and extended warranty services; and licensing of films. The Company evaluates all elements in an arrangement to determine what are considered typical deliverables for accounting purposes and which of the deliverables represent separate units of accounting based on the applicable accounting guidance in Statement of Financial Accounting Standards No. 13, "Accounting for Leases" ("SFAS 13"); Financial Accounting Standards Board ("FASB") Technical Bulletin No. 90-1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts" ("FTB 90-1"); American Institute of Certified Public Accountants Statement of Position 00-2, "Accounting by Producers or Distributors of Films"; and Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). If separate units of accounting are either required under the relevant accounting standards or determined to be applicable under EITF 00-21, the total consideration received or receivable in the arrangement is allocated based on the applicable guidance in the above noted standards.

Theater Systems

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

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

Sales Arrangements

For arrangements qualifying as sales, the revenue allocated to the System Deliverable is recognized in accordance with the SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"), when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided there is persuasive evidence of an arrangement, the price is fixed or determinable and collectibility is reasonably assured.

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

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

Lease Arrangements

The Company uses the guidance in EITF Issue No. 01-8, “Determining Whether an Arrangement Contains a Lease” (“EITF 01-8”), to evaluate whether an arrangement is a lease within the scope of SFAS 13. Arrangements not within the scope of SFAS 13 are accounted for either as a sales or services arrangement, as applicable.

For lease arrangements, the Company determines the classification of the lease in accordance with SFAS 13. A lease arrangement that transfers substantially all of the benefits and risks incident to ownership of the equipment is classified as a sales-type lease based on the criteria established by SFAS 13; otherwise the lease is classified as an operating lease. Prior to commencement of the lease term for the equipment, the Company may modify certain payment terms or make concessions. If these circumstances occur, the Company reassesses the classification of the lease based on the modified terms and conditions.

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

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

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

Joint Revenue Sharing Arrangements

For joint revenue sharing arrangements, where the Company receives a portion of the a theater’s box-office and concession revenue in exchange for placing a theater system at the theater operator’s venue, revenue is recognized when reported by the theater operator, provided that collection is reasonably assured. Revenue recognized related to these arrangements for the three and nine months ended September 30, 2007 included in rental revenues was \$0.6 million and \$1.6 million, respectively (2006 — \$0.2 million and \$0.6 million).

The Company believes that its joint revenue sharing arrangements represent an effective way for it to deploy capital, add incremental theater growth and realize the benefits of network economics more quickly. The Company believes that by contributing the theater system, with the exhibitor responsible for the theater retrofit costs, it significantly lowers the capital cost for exhibitors to deploy an IMAX theater, which, in turn, expands the IMAX network more rapidly and provides the Company with an increasingly significant portion of the IMAX box office from its licensed theaters, as well as a continuing portion of the IMAX DMR film revenue from the film studio.

Terminations and Consensual Buyouts

The Company enters into theater system arrangements with customers that contain customer payment obligations prior to the scheduled installation of the theater system. During the period of time between signing and the installation of the theater system, which may extend several years, certain customers may be unable to, or elect not to, proceed with the theater system installation for a number of reasons including business considerations, or the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer

will not proceed with installation, the arrangement may be terminated under the default provisions of the arrangement or by mutual agreement between the Company and the customer (a “consensual buyout”). Terminations by default are situations when a customer does not meet the payment obligations under an arrangement and the Company retains the amounts paid by the customer which are recorded in Other revenues. Under a consensual buyout, the Company and the customer agree, in writing, to a settlement and to release each other of any further obligations under the arrangement or an arbitrated settlement is reached. Any initial payments retained or additional payments received by the Company are recognized as revenue when the settlement arrangements are executed and the cash is received, respectively. These termination and consensual buyout amounts are recognized in Other revenues.

In addition, since the introduction of IMAX MPX theater system components in 2003, the Company has agreed with several customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX MPX theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new arrangement for the IMAX MPX theater system. The Company continues to defer an amount of any initial fees received from the customer such that aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the fair value of the IMAX MPX theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the IMAX MPX theater system arrangement is signed.

The Company may offer certain incentives to customers to complete theater system transactions including payment concessions or free services and products such as film licenses or 3D glasses. The payment concessions are generally not so significant as to impact the classification of leases. Reductions in, and deferral, of payments are taken into account in determining the sales price either by a direct reduction in the sales price or a reduction of payments to be discounted in accordance with SFAS 13 or Accounting Principle Board Opinion No. 21, “Interest on Receivables and Payables” (“APB 21”). Free or discounted products and services are accounted for as separate units of accounting.

Maintenance and Extended Warranty Services

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

Film Production and IMAX DMR Services

In certain film arrangements, the Company produces a film financed by third parties, whereby the third party retains the copyright and the Company obtains exclusive distribution rights. Under these arrangements, the Company is entitled to a fixed fee or retains as a fee the excess of funding over cost of production (the “production fee”). The third parties receive a portion of the revenues received by the Company on distributing the film, which is charged to costs of revenue. The production fees are deferred and recognized as a rebate of the cost of the film based on the ratio of the Company’s distribution revenues recognized in the current period to the ultimate distribution revenues expected from the film.

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

Revenues from digitally re-mastering (IMAX DMR) film where third parties own or hold the copyrights and the rights to distribute the film are derived in the form of processing fees and recoupments calculated as a percentage of box-office receipts generated from the re-mastered films. Processing fees are recognized as revenues when the

performance of the related re-mastering service is completed, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured. Recoupments calculated as a percentage of box-office receipts are recognized as revenue when reported by the third party that owns or holds the related film right, provided that collection is reasonably assured.

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

Film Distribution

Revenue from the licensing of films is recognized when a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed and determinable and collection is reasonably assured. When license fees are based on a percentage of box-office receipts, revenue is recognized when reported by exhibitor, provided that collection is reasonably assured.

Film Post-Production Services

Revenues from post-production film services are recognized when performance of the contracted services is complete.

Theater Operations Revenue

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

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

Other

Revenues on camera rentals are recognized over the rental period.

Revenue from the sale of 3D glasses is recognized when the 3D glasses have been delivered to the customer.

Other service revenues are recognized when the performance of contracted services is complete or over the period the services are provided, as appropriate.

Allowances for Accounts Receivable and Financing Receivables

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

The Company monitors the performance of the theaters to which it has leased or sold theater systems which are subject to ongoing payments. When facts and circumstances indicate that there is a potential impairment in the net investment in lease or a financing receivable, the Company will evaluate the potential outcome of either renegotiations involving changes in the terms of the receivable or defaults on the existing lease or financed sale agreements. The Company will record a provision if it is considered probable that the Company will be unable to collect all amounts due under the contractual terms of the arrangement or a renegotiated lease amount will cause a reclassification of the sales-type lease to an operating lease. When the net investment in lease or the financing receivable is impaired, the Company will recognize a valuation allowance for the difference between the carrying value in the investment and the present value of expected future cash flows discounted using the effective interest rate for the net investment in the lease or the financing receivable. If the Company expects to recover the theater system, the provision is equal to the excess of the carrying value of the investment over the fair value of the

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

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

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

Inventory

In establishing the appropriate provisions for theater system and parts inventory, the Company makes estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, potential future signings, technology factors, growth prospects within the customers' ultimate marketplace and the market acceptance of the Company's current and pending theater system configurations and film library. If the Company's 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.

The Company has, on occasion, reclaimed theater systems from customers who have not fulfilled their contractual obligations. The valuation of returned theater systems is an area where significant estimates are made by the Company. The Company considers the configuration of theater systems returned and its current and anticipated future backlog in determining the fair value of the returned theater systems. Returned systems from lease arrangements are valued in inventory at the lower of original cost carrying value or fair value. Returned systems from sales arrangements are valued in inventory at the lower of carrying cost and fair value.

Asset Impairments

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

Goodwill impairment is assessed at the reporting unit level by comparing the unit's carrying value, including goodwill, to the fair value of the unit. Significant estimates are involved in the impairment test. The carrying values of each unit are subject to allocations of certain assets and liabilities that the Company has applied in a systematic and rationale manner. The fair value of the Company's units is assessed using a discounted cash flow model. The model is constructed using the Company's budget and long-range plan as a base. The Company's estimates of future cash flows involve anticipating future revenue streams, which contain many assumptions that are subject to variability, as well as estimates for future cash outlays, the amounts of which, and the timing of which are both uncertain. Actual results that differ from the Company's budget and long-range plan could result in a significantly different result to an impairment test, which could impact earnings.

Long-lived asset impairment is performed at the lowest identifiable level of cash flows. For a significant portion of long-lived assets, this is the reporting segment unit level used for goodwill testing.

Pension Plan and Postretirement Benefit Obligations Assumptions

The Company's pension plan and postretirement benefit obligations and related costs are calculated using actuarial concepts, within the framework of SFAS No. 87, "Employer's Accounting for Pensions" and SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pension". A critical assumption to this accounting is the discount rate. The Company evaluates this critical assumption annually or when otherwise required to by accounting standards. Other assumptions include factors such as expected retirement, mortality, rate of compensation increase, and estimates of inflation.

The discount rate enables the Company to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower

discount rate increases the present value of benefit obligations and increases pension expense. The Company's discount rate was determined by considering the average of pension yield curves constructed of a large population of high-quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

Deferred Tax Asset Valuation

As at September 30, 2007, the Company had net deferred income tax assets of \$nil. The Company's management assesses realization of its deferred tax assets based on all available evidence in order to conclude whether it is more likely than not that the deferred tax assets will be realized. Available evidence considered by the Company includes, but is not limited to, the Company's historic operation results, projected future operating earnings results, reversing temporary differences, contracted sales backlog at September 30, 2007, changing business circumstances, and the ability to realize certain deferred tax assets through loss and tax credit carryback strategies. At September 30, 2007, the Company has determined that based on the weight of the available evidence, positive and negative, a full valuation allowance for the net deferred tax assets was required.

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

Tax Exposures

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 outcomes of examinations and related tax positions require judgment and can materially increase or decrease its effective rate as well as impact operating results. The Company compiles these assessments using the guidance of the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (an interpretation of FASB Statement No. 109), ("FIN 48"), as discussed below.

Impact of Recently Issued Accounting Pronouncements

In June 2006, the FASB issued FIN 48, which clarifies the relevant criteria and approach for the recognition, de-recognition and measurement of uncertain tax positions. FIN 48 was effective for the Company beginning January 1, 2007. The Company has assessed the effects of the provisions of FIN 48. The cumulative effect of the change in accounting principle recorded as of January 1, 2007 was \$2.1 million.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements", which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company is currently evaluating the potential impact of this statement.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statements No. 115" ("SFAS 159"). SFAS 159 allows the irrevocable election of fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities and other items on an instrument-by-instrument basis. Changes in fair value would be reflected in earnings as they occur. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The Company is currently evaluating if it will elect the fair value option for any of its eligible financial instruments and other items.

RESULTS OF OPERATIONS

As identified in note 15 to the condensed consolidated financial statements, the Company has six reportable segments identified by category of product sold or service provided: IMAX systems; film production and IMAX DMR; film distribution; film post-production; theater operations; and other. The IMAX systems segment designs, manufactures, sells or leases and maintains IMAX theater projection system equipment. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The theater operations segment owns and operates certain IMAX theaters. The other segment includes camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2006 Form 10-K/A.

The Company's Management's Discussion and Analysis of Financial Condition and Results of Operations have been organized and discussed with respect to the above stated segments. Management feels that a discussion and analysis based on its segments is significantly more relevant as the Company's consolidated statements of operations caption combines results from several segments.

Three Months Ended September 30, 2007 Versus Three Months Ended September 30, 2006

The Company reported a net loss from continuing operations before income taxes of \$7.1 million or \$0.18 per share on a diluted basis and a net loss from continuing operations after taxes of \$7.5 million or \$0.19 per share on a diluted basis for the third quarter of 2007. For the third quarter of 2006, the Company reported a net loss from continuing operations before income taxes of \$2.9 million or \$0.07 per share on a diluted basis and net loss from continuing operations after taxes of \$4.7 million or \$0.12 per share on diluted basis.

Revenue

The Company's revenues for the third quarter of 2007 decreased by 3.8% to \$29.8 million from \$31.0 million in the same period last year.

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

(In thousands of U.S. dollars)	Three Months Ended September 30,	
	2007	2006 As restated
IMAX Systems Revenue		
Sales and sales-type leases ⁽¹⁾	\$ 7,755	\$ 10,861
Ongoing rent ⁽²⁾ and finance income	3,120	2,781
Maintenance	4,065	3,911
	<u>14,940</u>	<u>17,553</u>
Films Revenue		
Production and IMAX DMR	6,246	3,403
Distribution	2,548	3,559
Post-production	744	749
	<u>9,538</u>	<u>7,711</u>
Theater Operations	<u>4,368</u>	<u>4,709</u>
Other Revenue	958	1,010
	<u>\$29,804</u>	<u>\$ 30,983</u>

(1) Includes initial rents and fees and the present value of fixed minimum rents and fees from equipment, sales and sales-type lease transactions.

(2) Includes rental income from operating leases, revenues from joint revenue sharing arrangements, contingent rents from sales-type leases and contingent fees from sales arrangements.

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IMAX systems revenue decreased to \$14.9 million in the third quarter of 2007 from \$17.6 million in the third quarter of 2006, a decrease of 14.9%. Revenue from sales and sales-type leases decreased to \$7.8 million in the third quarter of 2007 from \$10.9 million in the third quarter of 2006, a decrease of 28.6%, mainly due to a lower number of theater system recognitions in 2007 versus 2006 (5 in 2007 versus 7 in 2006) and also due to one theater system recognition in the third quarter of 2007 where the Company did not recognize revenues to the extent of the present value of future payments since it did not consider them fixed and determinable. This decrease was partially offset by \$0.8 million in settlement revenues from termination of agreements recognized during of the third quarter of 2007 versus \$nil in 2006.

The Company recognized revenue on five theater systems which qualified as either sales or sales-type leases in the third quarter of 2007 versus seven in the third quarter of 2006. There were five new theater systems with a value of \$6.8 million recognized into revenue in the third quarter of 2007 compared to five new theater systems with a total value of \$8.8 million recognized in the third quarter of 2006. None of the theater systems recognized in the third quarter of 2007 were used theater systems while two theater systems in the third quarter of 2006 were used systems with an aggregate sales value of \$1.9 million.

Average revenue per sales and sales-type lease systems remained constant at \$1.6 million for the three months ended September 30, 2007 compared to the same period of 2006.

The table below illustrates the mix of theater systems recognized in the third quarter of 2007 compared to the same period in 2006.

	Three Months Ended September 30,	
	2007	2006 As restated
Sales and Sales-type lease systems recognized		
IMAX 2D GT	—	1
IMAX 3D GT	1	1
IMAX 3D SR	1	4
IMAX 3D MPX	3	1
	<u>5</u>	<u>7</u>

The table above excludes one transaction for a theater system installed during the third quarter which is subject to an upgrade to the Company's digital projection system, at a discounted price. Since the Company has not yet established fair value for this element of the arrangement, revenues for this transaction have been deferred until such time as fair value for the upgrade has been established. Had the transaction not contained this digital upgrade clause, the Company would have recognized \$1.5 million in revenue and \$0.9 million in gross margin. However, the Company expects that once the fair value for the upgrade is established, the Company will allocate total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a fair value basis and recognize the revenue allocated to the delivered elements with their associated costs. The Company currently estimates that its cost to provide an upgrade will be approximately \$0.3 million.

Ongoing rent revenue increased to \$3.1 million in the third quarter of 2007 from \$2.8 million in 2006, an increase of 12.2%. Revenues from joint revenue sharing arrangements, included in ongoing rent, increased from \$0.2 million in the third quarter of 2006 to \$0.6 million in the third quarter of 2007. The Company installed one new joint revenue sharing theater in the third quarter of 2007, for a total of 9 to date. Maintenance revenue for the quarter was \$4.1 million as compared to \$3.9 million in the prior year.

Film segment revenues increased to \$9.5 million in the third quarter of 2007 from \$7.7 million in the third quarter of 2006. Film production and IMAX DMR revenues increased to \$6.2 million in the third quarter of 2007 from \$3.4 million in the third quarter of 2006. The increase in film production and IMAX DMR revenues was due primarily to higher IMAX DMR revenues from *Harry Potter and the Order of the Phoenix: An IMAX 3D Experience* compared to *Superman Returns: An IMAX Experience*, which was in the later weeks of its release in the third quarter of 2006, and *The Ant Bully: An IMAX Experience* released in July 2006. Film distribution revenues decreased to \$2.5 million in the third quarter of 2007 from \$3.6 million in the third quarter of 2006, a decrease of

30.6%, due to stronger performances of *Magnificent Desolation* and *Deep Sea 3D* in the third quarter of 2006 compared to 2007. Film post-production revenues remained constant at \$0.7 million in the third quarter of 2007 from \$0.7 million in the third quarter of 2006.

Theater operations revenue decreased to \$4.4 million in the third quarter of 2007 from \$4.7 million in the third quarter of 2006, due to a decrease in attendance in the third quarter of 2007 compared to the third quarter of 2006.

Other revenue remained constant at \$1.0 million in the third quarter of 2007 compared to \$1.0 million in the same period in 2006. Other revenue primarily includes revenue generated from the Company's camera and rental business and after market sales of projection system parts.

Outlook

Theater system installations slip from period to period in the course of the Company's business, and the Company has seen a significant number of theater system installations originally anticipated for the third and fourth quarters of 2006 move to anticipated installations for 2007 and beyond. The Company currently has 7 complete theater systems in its existing backlog that it anticipates will be installed in the remainder of 2007, however, it cautions that slippages remain a recurring and unpredictable part of its business. In addition, due to potential digital upgrade clauses in certain theater system arrangements, revenues on certain system installations may be deferred to a future period.

The Company has signed agreements with Sony Pictures and WB respectively, for the release of IMAX DMR versions of *Spider Man 3: The IMAX Experience* which was released in May 2007, with Warner Bros. Pictures ("WB") for the releases of IMAX DMR versions of *300: The IMAX Experience* in March 2007 and *Harry Potter and the Order of the Phoenix: An IMAX 3D Experience* in July of 2007, and with DreamWorks Pictures and Paramount Pictures ("Paramount"), for the release of an IMAX DMR version of *Transformers: The IMAX Experience* in September 2007. In November 2007, the Company in conjunction with Paramount Pictures, Shangri-La Entertainment and WB will release *Beowulf: An IMAX 3D Experience*. In December 2007, the Company and WB will release *I am Legend: The IMAX Experience*. The Company, in connection with Paramount, has announced that it will release an IMAX DMR version of *The Spiderwick Chronicles: The IMAX Experience* in February 2008. The Company, in conjunction with Paramount Pictures, Shangri-La Entertainment and Concert Productions International, has announced that it will release an IMAX DMR version of the Rolling Stones concert film, directed by Academy Award-winning filmmaker Martin Scorsese, *Shine A Light: The IMAX Experience* simultaneously with the film's wide release in April 2008. The Company has announced that it will release an IMAX DMR version of *The Dark Knight: The IMAX Experience*, the next installment of WB's highly-popular Batman franchise, in July 2008, and that, in conjunction with WB, it has commenced production on a third original IMAX 3D co-production for the release to IMAX theaters in 2009 of a sequel to *Deep Sea 3D*. The Company, in conjunction with WB and the National Aeronautics and Space Administration (NASA), also announced the next IMAX 3D space film which will chronicle the Hubble Space Telescope in IMAX 3D, set for the release to IMAX theaters in early 2010.

The Company supplements its sale and lease of theater systems by offering clients joint revenue sharing arrangements, whereby the Company contributes its theater systems, accounted for at its manufactured cost for manufactured components and at the Company's cost for purchased components. Under some arrangements, the client contributes its retrofitted auditorium and there is a negotiated split of box-office revenues and concession revenues. The Company believes that, by offering such arrangements where exhibitors do not need to pay the initial capital required in a lease or a sale, the Company's theater network can be expanded more rapidly and provide the Company with a significant portion of the IMAX box-office receipts from its theaters, as well as greater revenue from the studios releasing IMAX DMR films, for which the Company typically receives a percentage of the studio's box-office receipts. In addition to the 8 joint revenue sharing arrangements in operation at the end of the second quarter 2007, the Company installed one additional joint revenue sharing theater and signed agreement for five joint revenue sharing theaters during the third quarter of 2007.

The Company believes that digital technology has evolved sufficiently that it can develop an IMAX digital projection system that delivers high quality imagery consistent with the Company's brand to deliver to theaters by the middle of 2008. The Company believes that the dramatic print cost savings that would result from an IMAX

digital system could lead to more profitability for the Company by increasing the number of films released to the IMAX network, which in turn could result in more theaters in the Company's network, more profits per theater and more profits for studios amortizing their films over the network. In October 2007, the Company announced that it was accelerating its anticipated launch of its digital projector from its originally scheduled period of late 2008 to mid 2009. There are a number of risks inherent in the Company's digital strategy including the risk of exhibitors delaying theater system purchases during the Company's transition period to digital, and the need to finance the Company's investments necessary for implementing this strategy. In addition, the Company's theater system contracts are increasingly including provisions providing for customer upgrades to digital systems, at discounted prices, when available. The accounting impact of such provisions may include the deferral of some or all of the revenue (though not the cash) associated with such system since the Company has not yet established fair value for this element of the arrangement until the time of such digital upgrade. Such deferral could result in a significant increase in the Company's deferred revenue accounts and a significant decrease in the Company's reported profits prior to the delivery of the digital upgrade. Through the first three quarters of 2007 the Company installed two theater systems under sales or sales-type lease arrangements that are subject to such provisions. Had the transaction not contained this digital upgrade clause, the Company would have recognized \$3.0 million in revenue and \$1.8 million in gross margin related to these sales. However, the Company expects that once fair value for the upgrade is established, the Company will allocate total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a fair value basis and recognize the revenue allocated to the delivered elements with their associated costs. The Company's anticipates that its digital product will provide a differentiated experience to moviegoers that is consistent with what they have come to expect from the IMAX brand. The Company believes that transitioning from a film-based platform to a digital platform for a large portion of its customer base is compelling for a number of reasons. The savings to the studios as a result of eliminating film prints are considerable, as the typical cost of an IMAX film print ranges from \$22,500 per 2D print to \$45,000 per 3D print. Removing those costs will significantly increase the profit of an IMAX release for a studio which, the Company believes, provides more incentive for studios to release their films to IMAX theaters. The Company similarly believes that economics change favorably for its exhibition clients as a result of a digital transition, since lower print costs and the increased programming flexibility that digital delivery provides should allow theaters to program three to four additional IMAX DMR films per year, thereby increasing both customer choice and total box-office revenue. Finally, digital transmission allows for the opportunity to show attractive alternate programming, such as live events like the Super Bowl or World Cup, in the immersive environment of an IMAX theater. The Company has a prototype digital system operating near its corporate headquarters in Mississauga, Ontario, and believes that the feedback it has received from third parties regarding the quality of the presentation produced by the prototype system has been extremely positive.

Gross Margin

The gross margin across all segments in the third quarter of 2007 was \$9.7 million, or 32.5% of total revenue, compared to \$12.2 million, or 39.5% of total revenue in the third quarter of 2006.

IMAX theater systems margin, excluding the impact of settlement revenues from termination of arrangements, was 46.1% in the third quarter of 2007, compared to 57.6% in the third quarter of 2006. Gross margins on sale of new systems were 44.0% in the third quarter of 2007 compared to 58.1% in the prior year quarter due mainly to the product mix sold. Gross margins were also impacted by one theater system recognition in the third quarter of 2007 where the Company did not recognize revenues to the extent of the present value of future payments since it did not consider them fixed and determinable. Gross margins on the sale of 2 used systems recognized in the prior year quarter were 37.2%. There were no used system sales in the third quarter of 2007.

The Company's gross margin from its film segment increased in the third quarter of 2007 by \$0.4 million over the third quarter of 2006. Film production and IMAX DMR gross margin increased by \$1.2 million due primarily to the improved margins from the successful release of *Harry Potter and the Order of the Phoenix: An IMAX 3D Experience* versus the films released in the third quarter of 2006. Film distribution margin decreased by \$0.1 million in 2007 versus 2006. Film post-production gross margin decreased by \$0.7 million primarily due to a reduction in third party business.

Theater operations margin decreased \$0.1 million in the third quarter of 2007 as compared to third quarter of 2006 primarily due to higher film rentals fees partially offset by the impact of higher revenues.

Other gross margin remained constant \$0.3 million in the third quarter of 2007 and 2006.

Other

Selling, general and administrative expenses were \$10.3 million in the third quarter of 2007 as compared to \$9.9 million in 2006. This \$0.4 million increase in expenses includes an increase in compensation expenses of \$0.7 million in the third quarter of 2007 over 2006 due to higher salary costs driven by a stronger Canadian dollar compared to the third quarter of 2006, an increase in non-cash stock-based compensation including stock options, stock appreciation rights and restricted shares issued to employees of \$1.0 million compared to 2006 partially offset by a capital tax recovery of \$0.1 million in 2007 as compared to a charge of \$0.2 million in 2006 and a foreign exchange gain of \$0.9 million in the third quarter of 2007, compared to a loss of \$0.1 million in the third quarter of 2006. The Company records foreign exchange translation gains and losses primarily on a portion of its financing receivable balances which are denominated in Canadian dollars, Euros and Japanese Yen. Included within expenses for the third quarter of 2007 were legal, accounting and professional fees in the amount of \$2.7 million.

Receivable provisions net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.7 million in the third quarter of 2007, compared to a net provision of \$0.4 million in the third quarter of 2006.

Interest income remained constant at \$0.2 million in the third quarter of 2007 compared to the third quarter of 2006.

Interest expense increased slightly to \$4.3 million in the third quarter of 2007 compared to \$4.2 million in the third quarter of 2006. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.3 million and \$0.2 million in the third quarter of 2007 and 2006, respectively, relating to the Company's 9.625% Senior Notes due 2010 (the "Senior Notes"). The Company's policy is to defer and amortize all the costs relating to a debt financing over the life of the debt instrument. Finance costs increased during the three months ended September 30, 2007 due to fees associated with and amortized in conjunction with the Company's amendment of its Senior Notes Indenture.

Income Taxes

The Company's effective tax rate differs from the statutory tax rate and will vary from year to year primarily as a result of numerous permanent differences, investments and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. As of September 30, 2007, the Company had a gross deferred income tax asset of \$59.6 million, against which the Company is carrying a \$59.6 million valuation allowance.

Research and Development

Research and development expenses amounted to \$1.6 million in the third quarter of 2007 compared to \$0.9 million in 2006. The expenses primarily reflect research and development activities pertaining to a new digitally-based theater projector, the anticipated launch of which the Company recently moved up to the middle of 2008. Through research and development, the Company continues to design and develop cinema-based equipment, software and other technologies 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), distribution and display. Consequently, the Company has made significant investments in digital technologies, including the development of proprietary, patent-pending technology related to a digitally-based projector, as well as technologies to digitally enhance image resolution and quality of motion picture films, and convert monoscopic (2D) to stereoscopic (3D) images. The Company also holds a number of patents, patents pending and intellectual property rights in these areas.

The motion picture industry is in the early stages of transitioning from film projection to digital projection, and the Company is developing a digitally-based projector that it anticipates launching in the middle of 2008. In recent years, a number of companies have introduced digital 3D projection technology and a small number of Hollywood features have been exhibited in 3D using these technologies. The Company believes that its many competitive strengths, including the IMAX® brand name, the quality and immersiveness of *The IMAX Experience*, its IMAX DMR technology and its patented theater geometry significantly differentiate the Company's 3D presentations from any other 3D presentations.

Discontinued Operations

On December 23, 2003, the Company closed its owned and operated Miami IMAX theater. The Company completed its abandonment of assets and removal of its projection system from the theater in the first quarter of 2004, with no financial impact. The Company was 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 had been estimated as between \$0.9 million and \$2.3 million. Prior to 2006, the Company paid out \$0.8 million with respect to amounts owing to the landlord. The Company paid out an additional \$0.1 million and also accrued \$0.8 million in net loss from discontinued operations related to Miami IMAX Theater in the third quarter of 2006. On January 4, 2007, as a result of a settlement negotiated between both parties, the Company paid out a final \$0.8 million, extinguishing its obligations to the landlord.

Nine Months Ended September 30, 2007 Versus Nine Months Ended September 30, 2006

The Company reported a net loss from continuing operations before income taxes of \$16.0 million or \$0.40 per share on a diluted basis and a net loss from continuing operations after taxes of \$16.8 million or \$0.42 per share on a diluted basis for the nine months ended September 30, 2007. For the nine months ended September 30, 2006, the Company reported a net loss from continuing operations before income taxes of \$9.0 million or \$0.22 per share on a diluted basis and net loss from continuing operations after taxes of \$9.1 million or \$0.23 per share on diluted basis.

Revenue

The Company's revenues for the nine months ended September 30, 2007 decreased 8.6% to \$84.5 million from \$92.5 million in the same period last year.

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

	Nine Months Ended September 30,	
	2007	2006 As restated
(In thousands of U.S. dollars)		
IMAX Systems Revenue		
Sales and sales-type leases ⁽¹⁾	\$ 21,488	\$ 31,886
Ongoing rent ⁽²⁾ and finance income	8,598	7,989
Maintenance	11,956	11,597
	<u>42,042</u>	<u>51,472</u>
Films Revenue		
Production and IMAX DMR	14,640	8,563
Distribution	8,649	11,622
Post-production	3,290	5,273
	<u>26,579</u>	<u>25,458</u>
Theater Operations	<u>13,434</u>	<u>12,472</u>
Other Revenue	<u>2,466</u>	<u>3,077</u>
	<u>\$ 84,521</u>	<u>\$ 92,479</u>

(1) Includes initial rents and fees and the present value of fixed minimum rents and fees from equipment, sales and sales-type lease transactions.

(2) Includes rental income from operating leases, revenues from joint revenue sharing arrangements, contingent rents from sales-type leases and contingent fees from sales arrangements.

IMAX systems revenue decreased to \$42.0 million in the nine months ended September 30, 2007 from \$51.5 million in the nine months ended September 30, 2006, a decrease of 18.3%. Revenue from sales and sales-type leases decreased to \$21.5 million in the nine months ended September 30, 2007 from \$31.9 million in the nine months ended September 30, 2006, a decrease of 32.6%, mainly due to a lower number of theater system recognitions (14 in 2007 versus 21 in 2006) in the period and also due to one theater system recognition in the third quarter of 2007 where the Company did not recognize revenues to the extent of the present value of future payments since it did not consider them fixed and determinable. The Company also recognized \$2.3 million in settlement revenue during the nine months ended September 30, 2007 versus \$nil in 2006.

The Company recognized revenue on 14 theater systems which qualified as either sales or sales-type leases in the nine months ended September 30, 2007 compared to 21 in the same period in 2006. There were 11 new theater systems with a value of \$16.2 million recognized into revenue in the nine months ended September 30, 2007 compared to 13 new theater systems with a total value of \$21.7 million recognized in the nine months ended September 30, 2006. 3 of the theater systems recognized in 2007 were used theater systems versus 8 used theater systems in the nine months ended September 30, 2006. The aggregate sales value of the used systems in 2007 totaled \$2.9 million compared to \$9.6 million for the used systems in the nine months ended September 30, 2006.

Average revenue per sales and sales-type lease has remained consistent at \$1.5 million for the nine month periods ended September 30, 2007 and 2006.

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The table below illustrates the mix of theater systems recognized in the nine months ended September 30, 2007 compared to the same period in 2006.

	Nine Months Ended September 30,	
	2007	2006 As restated
Sales and Sales-type lease systems recognized		
IMAX 2D GT	1	1
IMAX 3D GT	3	10
IMAX 2D SR	1	—
IMAX 3D SR	2	4
IMAX 3D MPX	7	6
	<u>14</u>	<u>21</u>

The table above excludes two transactions for theater systems installed during the third quarter which are subject to an upgrade to the Company's digital projection system, at a discounted price. Since the Company has not yet established fair value for this element of the arrangement, revenues for these transactions have been deferred until such time as fair value for the upgrade has been established. Had the transactions not contained this digital upgrade clause, the Company would have recognized \$3.0 million in revenues and \$1.8 million in gross margin. However, the Company expects that once the fair value for the upgrade is established, the Company will allocate total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a fair value basis and recognize the revenue allocated to the delivered elements with their associated costs. The Company currently estimates that its cost to provide an upgrade will be approximately \$0.3 million.

Ongoing rent revenue increased to \$8.6 million in the nine months ended September 30, 2007 from \$8.0 million in 2006, an increase of 7.6%. Ongoing rent revenue for the first nine months of 2006 included the recording of non-recurring finance income of \$0.5 million. Absent this non recurring increase, ongoing rent revenue increase 14.7% over the prior year. Revenues from joint revenue sharing arrangements, included in ongoing rent, increased from \$0.6 million in the nine months ended September 30, 2006 to \$1.6 million in the nine months ended September 30, 2007. The Company installed 4 new joint revenue sharing theaters in the first three quarters of 2007. Maintenance revenue increased 3.1% to \$12.0 million over the prior year due to an increase in the theater network. The Company expects to see an increase in 2007 compared to 2006 in both ongoing rent and maintenance revenue as the Company's theater network continues to grow in 2007.

Film segment revenues increased to \$26.6 million in the nine months ended September 30, 2007 from \$25.5 million in the nine months ended September 30, 2006, an increase of 4.3%, due primarily to an increase in production and IMAX DMR revenues, offset by a decrease in film distribution and post-production revenues. Film production and IMAX DMR revenues increased to \$14.6 million in the nine months ended September 30, 2007 from \$8.6 million in the nine months ended September 30, 2006, an increase of 71.0%. The increase in film production and IMAX DMR revenues was due primarily to IMAX DMR revenues gross box office performance of *Harry Potter and the Order of the Phoenix: An IMAX 3D Experience*, *Spider-Man 3: An IMAX 3D Experience* and *300: An IMAX Experience* released in 2007 and the continued success of *Night at the Museum: An IMAX Experience*, released in December 2006, *Happy Feet: An IMAX Experience*, released November 2006, which together performed better than the 2006 release of *Superman Returns: An IMAX Experience*, released in September 2006, *The Ant Bully: An IMAX Experience*, released in July 2006, *Poseidon: An IMAX Experience*, released in May 2006, *V for Vendetta: An IMAX Experience*, released in March 2006, and the first quarter performance of *Harry Potter and the Goblet of Fire: The IMAX Experience*, released in November 2005. Film distribution revenues decreased to \$8.6 million in the nine months ended September 30, 2007 from \$11.6 million, a decrease of 25.6%, in the nine months ended September 30, 2006 due to lower distribution revenues from *Magnificent Desolation* and *Deep Sea 3D* in 2007 compared to 2006. Film post-production revenues decreased to \$3.3 million in the nine months ended September 30, 2007 from \$5.3 million in the nine months ended September 30, 2006, a decrease of 37.6%, mainly due to a decrease in third party business at the Company's post-production unit.

Theater operations revenue increased to \$13.4 million in the nine months ended September 30, 2007 from \$12.4 million in the nine months ended September 30, 2006, due to an increase in average ticket prices of approximately 20%.

Other revenue decreased to \$2.5 million in the nine months ended September 30, 2007 compared to \$3.1 million in the same period in 2006. Other revenue primarily includes revenue generated from the Company's camera and rental business and after market sales of projection system parts.

Gross Margin

The gross margin across all segments in the nine months ended September 30, 2007 was \$33.3 million, or 39.4% of total revenue, compared to \$35.9 million, or 38.8% of total revenue in the nine months ended September 30, 2006. The increase in gross margin percentage for the nine months ended September 30, 2007 is largely driven by the improved performance in the film segment.

IMAX theater systems margin, excluding the impact of settlement revenues from termination of arrangements, was 52.0% in the nine months ended September 30, 2007, compared to 55.4% experienced in the nine months ended September 30, 2006. The decrease in gross margin of IMAX theater systems is due to a different mix of theater systems sold in the nine months ended September 30, 2007 compared to the same period in 2006. Gross margins on sale of new systems was 51.8% in the nine months ended September 30, 2007 compared to 53.4% in the prior year. Gross margins were also impacted by one theater system recognition in the third quarter of 2007 where the Company did not recognize revenues to the extent of the present value of future payments since it did not consider them fixed and determinable. Gross margins on the sale of used systems in the nine months ended September 30, 2007 was 65.7% compared to 55.0% for the used systems recognized in the same period of 2006.

The Company's gross margin from its film segment increased in the nine months ended September 30, 2007 by \$3.7 million. Film production and IMAX DMR gross margin increased by \$4.4 million due primarily to the successful releases of *Harry Potter and the Order of the Phoenix: An IMAX 3D Experience*, *Spider-Man 3: An IMAX Experience* and *300: An IMAX Experience* and *Night at the Museum: An IMAX Experience* as compared to the films released in the year-ago period. Film distribution margin increased by \$0.1 million primarily due to higher ongoing margins earned on *Deep Sea 3D* in 2007 over 2006 due to the Company's expensing of associated film exploitation costs in the first and second quarters of 2006. Film post-production gross margin decreased by \$0.9 million to \$1.5 million, primarily due to a reduction in third party business.

Theater operations margin decreased \$0.6 million in the nine months ended September 30, 2007 as compared to nine months ended September 30, 2006 primarily due to higher film rentals fees related to the strong box office performance of *Harry Potter and the Order of the Phoenix: An IMAX 3D Experience*, *300: The IMAX Experience* and *Spider-Man 3: An IMAX Experience* partially offset by the impact of higher revenues.

Other gross margin remained consistent at \$0.2 million for both the nine months ended September 30, 2007 and 2006.

Other

Selling, general and administrative expenses were \$31.7 million in the first nine months of 2007, compared to \$29.9 million in 2006. The \$1.8 million net increase in SG&A includes an increase in professional and legal fees in 2007 of \$2.6 million resulting from the Company's restatement related activities, SEC and OSC inquiries, class action lawsuits and bond consent solicitation. The 2006 amendment to the Company's Supplemental Executive Retirement Plan (the "SERP") resulted in a decrease in pension expense in 2007 over the first nine months of 2006 of \$0.3 million. Compensation expense excluding pension rose by \$0.5 million compared to the same period of 2006 due mainly to the stronger Canadian dollar in relation to the United States dollar, but the increase was offset by a decrease in the Company's discretionary travel and entertainment expense of \$0.2 million. There was an increase in non-cash stock-based compensation for employees of \$0.7 million during the nine months ended September 30, 2007 compared to the prior year period. Non-cash stock-based compensation includes stock options, stock appreciation rights and restricted shares issued to employees. The Company recorded a foreign exchange gain of \$1.5 million in the nine months ended September 30, 2007, compared to a gain of \$0.3 million in the nine months

ended September 30, 2006. The Company records foreign exchange translation gains and losses primarily on a portion of its financing receivable balances which are denominated in Canadian dollars, Euros and Japanese Yen. Included within expenses for the first nine months of 2007 were legal, accounting and professional fees in the amount of \$8.9 million.

Receivable provisions, net of recoveries, for accounts receivable and financing receivables amounted to \$0.7 million in the nine months ended September 30, 2007, compared to \$0.3 million in the nine months ended September 30, 2006.

Interest income decreased to \$0.6 million from \$0.8 million for the nine months ended September 30, 2007 compared to 2006.

Interest expense increased to \$13.0 million in the nine months ended September 30, 2007 compared to \$12.6 million in the nine months ended September 30, 2006. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.9 million and \$0.7 million in the nine months ended September 30, 2007 and 2006, respectively, relating to the Company's Senior Notes. The Company's policy is to defer and amortize all the costs relating to a debt financing over the life of the debt instrument. Finance costs increase during the nine months ended September 30, 2007 due to fees associated with and amortized in conjunction with the Company's amendment of the indenture dated as of December 4, 2003, and as thereafter amended and supplemented (the "Indenture") governing the Company's Senior Notes.

Research and Development

Research and development expenses amounted to \$4.2 million in the nine months ended September 30, 2007 compared to \$2.5 million in 2006. The expenses primarily reflect research and development activities pertaining to the Company's digitally-based theater projector, the anticipated launch of which the Company recently moved up to the middle of 2008. Through research and development, the Company continues to design and develop cinema-based equipment, software and other technologies 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), distribution and display. Consequently, the Company has made significant investments in digital technologies, including the development of proprietary, patent-pending technology related to a digitally-based projector, as well as technologies to digitally enhance image resolution and quality of motion picture films, and convert monoscopic (2D) to stereoscopic (3D) images. The Company also holds a number of patents, patents pending and intellectual property rights in these areas.

The motion picture industry is in the early stages of transitioning from film projection to digital projection, and the Company is developing a digitally-based projector that it anticipates launching in the middle of 2008. In recent years, a number of companies have introduced digital 3D projection technology and a small number of Hollywood features have been exhibited in 3D using these technologies. The Company believes that its many competitive strengths, including the IMAX® brand name, the quality and immersiveness of *The IMAX Experience*, its IMAX DMR technology and its patented theater geometry, significantly differentiate the Company's 3D presentations from any other 3D presentations.

Discontinued Operations

On December 23, 2003, the Company closed its owned and operated Miami IMAX theater. The Company completed its abandonment of assets and removal of its projection system from the theater in the first quarter of 2004, with no financial impact. The Company was 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 had been estimated as between \$0.9 million and \$2.3 million. Prior to 2006, the Company paid out \$0.8 million with respect to amounts owing to the landlord. The Company paid out an additional \$0.1 million and also accrued \$0.8 million in net loss from discontinued operations related to Miami IMAX Theater in the third quarter of 2006. On January 4, 2007, as a result of a settlement negotiated between both parties, the Company paid out a final \$0.8 million, extinguishing its obligations to the landlord.

On December 29, 2005, the Company and a previously wholly-owned subsidiary, Digital Projection International, entered into an agreement to settle its loan agreements in exchange for a payment of \$3.5 million. During the nine months ended September 30, 2006, the Company recognized \$2.3 million in income from discontinued operations as a result of this settlement.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility

Under the Indenture governing the Company's Senior Notes, the Company is permitted to incur indebtedness on a secured basis pursuant to a credit agreement, or the refinancing or replacement of a credit facility, provided that the aggregate principal amount of indebtedness thereunder outstanding at any time does not exceed the greater of a) \$30,000,000 minus the amount of any such indebtedness retired with the proceeds of an Asset Sale and (b) 15% of Total Assets, as defined in the Indenture, of the Company. The Indenture also permits the Company to incur indebtedness solely in respect of performance, surety or appeal bonds, letters of credit and letters of guarantee as required in the ordinary course of business in accordance with customary industry practices. On February 6, 2004, the Company entered into a Loan Agreement for a secured revolving credit facility as amended on June 30, 2005 and as further amended by the Second Amendment to the Loan Agreement which was entered into with effect from May 16, 2006 (the "Credit Facility"). The Credit Facility is a revolving credit facility expiring on October 31, 2009 with an optional one year renewal thereafter contingent upon approval by the lender, permitting maximum aggregate borrowings of equal to the lesser of (i) \$40.0 million, (ii) a collateral calculation based on percentages of the book values for the Company's net investment in sales-type leases, financing receivables, finished goods inventory allocated to backlog contracts and the appraised values of the expected future cash flows related to operating leases and of the Company's owned real property, reduced by certain accruals and accounts payable and (iii) a minimum level of trailing cash collections in the preceding twenty — six week period (\$58.6 million as of September 30, 2007), and is subject to certain limitations under the Company's Senior Notes and is reduced for outstanding letters of credit. As at September 30, 2007, the Company's current borrowing capacity under such calculation is \$27.7 million after deduction for outstanding letters of credit of \$9.8 million. The Credit Facility bears interest at the applicable prime rate per annum or LIBOR plus a margin as specified therein 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. In addition, the Credit Facility agreement contains customary events of default, including upon an acquisition or a change of control that may have a material adverse effect on the Company or a guarantor. The Credit Facility also requires the Company to maintain, over a period of time, a minimum level of adjusted earnings before interest, taxes, depreciation and amortization including film asset amortization, stock and non-cash compensation, write downs (recoveries), and asset impairment charges, and other non-cash uses of funds trailing four quarter basis on a calculated quarterly, of not less than \$20.0 million (the "EBITDA Requirement"). On November 7, 2007 the Company entered into the Third Amendment to the Credit Facility whereby the EBITDA Requirement was reduced to \$17.0 million for the four quarters ended September 30, 2007 and \$15.0 million for the four quarters ending December 31, 2007. In the event that the Company's available borrowing base falls below the amount borrowed against the Credit Facility, the excess above the available borrowing base becomes due upon demand by the lender. If the Credit Facility were to be terminated by either the Company or the lender, the Company would have the ability to pursue another source of secured financing pursuant to the terms of the Indenture.

The Company was in compliance with its adjusted EBITDA covenant as of September 30, 2007 at \$20.2 million.

In March 2007, the Company delayed the filing of its 2006 Annual Report on Form 10-K for the year ended December 31, 2006 beyond the filing deadline in order to restate financial statements for certain periods during fiscal years 2002 - 2006. On March 27, 2007, the Credit Facility lender waived the requirement for the Company to deliver audited consolidated financial statements within 120 days of the end of the fiscal year ended December 31, 2006, provided such statements and documents are delivered on or before June 30, 2007. On June 27, 2007, the Credit Facility lender agreed that an event of default would not be deemed to have occurred unless the Company's 2006

Annual Report on Form 10-K filing did not occur by July 31, 2007 or upon the occurrence and continuance of an event of default under the Company's Indenture governing its Senior Notes, which goes uncured within the applicable grace period. The Company cured such default under the Indenture by filing its 2006 Annual Report on Form 10-K and first quarter 2007 Form 10-Q on July 20, 2007, within the applicable grace report.

Cash and Cash Equivalents

As at September 30, 2007, the Company's principal sources of liquidity included cash and cash equivalents of \$16.0 million, short-term investments of \$2.2 million, the Credit Facility, trade accounts receivable of \$22.4 million and anticipated collection from financing receivables due in the next 12 months of \$11.2 million. As at September 30, 2007, the Company has not drawn down on the Credit Facility, and has letters of credit for \$9.8 million secured by the Credit Facility arrangement.

The Company currently believes that cash flow from operations together with existing cash and borrowing available under the Credit Facility will be sufficient to fund the Company's business operations for the foreseeable future, including its strategic initiatives relating to joint revenue sharing arrangements and the funding of the development of its digitally-based projection system which it anticipates launching in the middle of 2008. The Company similarly believes it will be able to continue to meet customer commitments for at least the 12 month period commencing October 1, 2007. The Company further believes that if it were to enter into a joint revenue sharing arrangement, out of the ordinary course in terms of size or scale, it could adequately raise the necessary capital to fund the required inventory. However, the Company's operating cash flow will be adversely impacted if management's projections of future signings and installations are not realized. The Company forecasts its short-term liquidity requirements on a quarterly and annual basis. Since the Company's future cash flows are based on estimates and there may be factors that are outside of the Company's control (see "Risk Factors" in Item 1A in the Company's 2006 Form 10-K/A), 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 component 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 used in operating activities is impacted by a number of factors, including the proceeds associated with new signings of theater system component lease and sale agreements in the year, costs associated with contributing systems under joint box-office sharing arrangements, 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, including research and development, and the level of cash collections received from its customers.

Cash used in operating activities amounted to \$5.0 million for the nine months ended September 30, 2007. Changes in other non-cash operating assets as compared to December 31, 2006 include a \$0.6 million increase in commissions and other deferred selling expenses, an increase of \$2.1 million in inventories, a decrease of \$4.5 million in financing receivables, a \$3.1 million decrease in accounts receivable and a \$0.3 million decrease in prepaid expenses, which mostly relates to prepaid film print costs that will be expensed over the period to be benefited. Changes in other non-cash operating liabilities as compared to December 31, 2006 include an increase in deferred revenue of \$2.7 million, a decrease in accounts payable of \$2.6 million and an increase of less than \$0.6 million in accrued liabilities. Included in accrued liabilities for the nine months ended September 30, 2007 were \$28.0 million in respect of accrued pension obligations which are mostly long-term in nature. Investments in film assets were \$8.1 million at September 30, 2007.

Net cash used in investing activities amounted to \$2.2 million in the nine months ended September 30, 2007, which includes purchases of short-term investments of \$6.5 million, proceeds from maturities of short-term investments of \$6.5 million, purchases of \$1.3 million in fixed assets, an increase in other assets of \$0.6 million and an increase in other intangible assets of \$0.4 million.

Cash used in financing activities in the nine months ended September 30, 2007 amounted to \$1.9 million due mainly to financing costs related to the Company's Senior Notes due 2010.

Capital expenditures, including the purchase of fixed assets and investments in film assets were \$9.5 million for the nine months ended September 30, 2007.

Cash used in operating activities amounted to \$7.5 million for the nine months ended September 30, 2006. Changes in other non-cash operating assets and liabilities include an increase in accounts payable of \$2.1 million, an increase in accrued liabilities of \$4.7 million, an increase in deferred revenue of \$0.7 million an increase of \$1.5 million in inventories and an increase in trade accounts receivable and financing receivables of \$10.3 million. Cash provided by investing activities for the nine months ended September 30, 2006 amounted to \$4.9 million, primarily consisting of \$14.5 million invested in short-term investments, \$18.7 million received from proceeds of short-term investments and \$3.5 million from settlement of a note receivable from discontinued operations. Cash provided by financing activities amounted to \$0.3 million due to the issuance of common shares through the exercise of stock options. Capital expenditures including the purchase of fixed assets net of sales proceeds and investments in film assets were \$9.4 million for the nine months ended September 30, 2006.

Letters of Credit and Other Commitments

As at September 30, 2007, the Company has letters of credit of \$9.8 million outstanding, of which the entire balance has been secured under the Credit Facility.

Senior Notes due 2010

As at September 30, 2007, the Company had outstanding \$159.0 million aggregate principal of Registered Senior Notes and \$1.0 million aggregate principal of Unregistered Senior Notes. The Registered Senior Notes and the Unregistered Senior Notes are referred to herein as the "Senior Notes".

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

In addition, the terms of the Company's Senior Notes require that annual and quarterly financial statements are filed with the Trustee within 15 days of the required public company filing deadlines. If these financial reporting covenants are breached then this is considered an event of default under the terms of the Senior Notes and the Company has 30 days to cure this default, after which the Senior Notes become due and payable.

In March 2007, the Company delayed the filing of its 2006 Annual Report on Form 10-K for the year ended December 31, 2006 beyond the required public company filing deadline due to the discovery of certain accounting errors, broadened its accounting review to include certain other accounting matters based on comments received by the Company from the SEC and OSC, and ultimately restated financial statements for certain periods during those years. The filing delay resulted in the Company being in default of a financial reporting covenant under the Indenture, governing the Company's Senior Notes.

On April 16, 2007 the Company completed a consent solicitation, receiving consents from holders of approximately 60% aggregate principal amount of the Senior Notes (the "Consenting Holders") to execute a ninth supplemental indenture (the "Supplemental Indenture") to the Indenture with the Guarantors named therein and U.S. Bank National Association. The Supplemental Indenture waived any defaults existing at such time arising from a failure by the Company to comply with the reporting covenant and extended until May 31, 2007, or at the Company's election until June 30, 2007 (the "Covenant Reversion Date"), the date by which the Company's failure to comply with the reporting covenant shall constitute a default, or be the basis for an event of default under the Indenture. The Company paid consent fees of \$1.0 million to the Consenting Holders. On May 30, 2007, the Company provided notice to the holders of the Senior Notes of its election to extend the Covenant Reversion Date to June 30, 2007. The Company paid additional consent fees of \$0.5 million to the Consenting Holders. Because the Company did not file its 2006 Annual Report on Form 10-K for the year ended December 31, 2006 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 by June 30, 2007, it was in default of the reporting

covenant under the Indenture on July 1, 2007, and received notice of such default on July 2, 2007. The Company cured such default under the Indenture, by filing its 2006 Annual Report on Form 10-K and the first quarter 2007 Form 10-Q on July 20, 2007, within the applicable grace period.

Pension and Postretirement Obligations

The Company has a defined benefit pension plan, the SERP, covering its two Co-CEOs. As at September 30, 2007, the Company had an unfunded and accrued projected benefit obligation of approximately \$28.0 million (December 31, 2006 — \$26.1 million) in respect of the SERP. At the time the Company established the SERP, it also took out life insurance policies on its two Co-CEOs with coverage amounts of \$21.5 million in aggregate. The Company intends to use the proceeds of life insurance policies taken on its Co-CEOs to be applied towards the benefits due and payable under the SERP, although there can be no assurance that the Company will ultimately do so. As at September 30, 2007, the cash surrender value of the insurance policies is \$5.0 million (December 31, 2006 — \$4.3 million).

In July 2000, the Company agreed to maintain health benefits for its two Co-CEOs upon retirement. As at September 30, 2007, the Company had an unfunded benefit obligation of \$0.4 million (December 31, 2006 — \$0.4 million).

On March 8, 2006, the Company and the Co-CEOs negotiated an amendment to the SERP covering its two Co-CEOs effective January 1, 2006 which reduced the related pension expense to the Company. Under the original terms of the SERP, 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 Company, represented by the independent directors (as defined in Rule 4200(a) of the NASDAQ Marketplace Rules and Section 1.4 of Multilateral Instrument 52-110), retained Mercer Human Resources Consulting and outside legal counsel to advise them on certain analyses regarding the SERP. Under the terms of the SERP amendment, the cost of living adjustment and surviving spouse benefits previously owed to the Co-CEOs are each reduced by 50%, subject to a recoupment of a percentage of such benefits upon a change of control of the Company, and the net present value of the reduced benefit payments is accelerated and paid out upon a change of control of the Company. The benefits were 50% vested as of July 2000, the SERP 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 or upon change of control shall be 100%. The actuarial liability was remeasured as of March 8, 2006 to reflect the SERP changes adopted. Under the original terms of the SERP, benefits were determined as 75% of the member's best average 60 consecutive months of earnings during the 120 months preceding retirement. On May 4, 2007, the Company amended the SERP to provide for the determination of benefits to be 75% of the member's best average 60 consecutive months of earnings over the member's employment history. The actuarial liability was remeasured to reflect this amendment. The amendment resulted in a \$1.0 million increase to the pension liability and a corresponding \$1.0 million change to other comprehensive income. As of September 30, 2007, one of the Co-CEO's benefits was 100% vested and the other Co-CEO's benefits were approximately 85% vested.

A Co-CEO whose employment terminates other than for cause prior to August 1, 2010 will receive SERP benefits in the form of monthly annuity payments until the earlier of a change of control or August 1, 2010 at which time the Co-CEO shall receive remaining benefits in the form of a lump sum payment. A Co-CEO whose employment terminates other than for cause on or after August 1, 2010 shall receive SERP benefits in the form of a lump sum payment.

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 3. Quantitative and Qualitative Factors about Market Risk

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

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar flows is converted to

Canadian dollars to fund Canadian dollar expenses through the spot market. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Japanese yen, Euros and Canadian dollars. The Company plans to convert Japanese yen and Euro 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 maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the specified time periods and that such information is accumulated and communicated to management, including the Co-CEOs and Chief Financial Officer (“CFO”), to allow timely discussions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The Company’s management, with the participation of its Co-CEOs and its CFO, have evaluated the effectiveness of the Company’s “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as of September 30, 2007. Based on that evaluation, the Co-CEOs and the CFO have concluded that the Company’s disclosure controls and procedures were not effective as at September 30, 2007. In making this evaluation, management considered, among other matters: the identification of certain material weaknesses in the Company’s internal control over financial reporting, as discussed in the Company’s 2006 Form 10-K/A (and as described below); and the conclusion of the Co-CEOs and the CFO that the Company’s disclosure controls and procedures as at December 31, 2006, March 31, 2007 and June 30, 2007 were not effective, as discussed in the Company’s 2006 Form 10-K/A, first quarter 2007 Form 10-Q/A and second quarter 2007 Form 10-Q/A, respectively.

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected.

As previously disclosed in Item 9A of the Company’s 2006 Form 10-K/A, the Company’s Co-CEOs and CFO assessed the effectiveness of the Company’s internal control over financial reporting, and concluded that the following material weaknesses in internal control over financial reporting existed as at December 31, 2006, all of which had not yet been remediated as at September 30, 2007:

Application of U.S. GAAP

Six of the Company’s material weaknesses relate to controls over the analysis and review of certain transactions to be able to correctly apply U.S. GAAP to record those transactions. The financial impact of these

material weaknesses on the Company's restated financial results was principally related to the analysis and review of transactions that were complex or nonstandard. These material weaknesses are:

1. The Company did not maintain adequate controls, including period-end controls, over the analysis and review of revenue recognition for sales and lease transactions in accordance with U.S. GAAP. Specifically, effective controls were not maintained to correctly assess the identification of deliverables and their aggregation into units of accounting and in certain cases the point when certain units of accounting were substantially complete to allow for revenue recognition on a theater system.

In addition, the Company did not have effective controls over other aspects of such transactions including identifying the fair values of certain future deliverables, identifying certain clauses in arrangements that impact revenue recognition, accounting for warranty costs, the appropriate accounting for certain settlement agreements and the recognition of finance income on impaired receivables.
2. The Company did not maintain effective controls, including period-end controls, over accounting for film transactions in accordance with U.S. GAAP. Specifically, effective controls were not maintained related to the classification and accurate recording of marketing and advertising costs of co-produced film productions, production fees on co-produced films and the application of the individual-film forecast computation method to film assets, participation liabilities and deferred production fees.
3. The Company did not maintain effective controls, including period-end controls, over the accounting for contract origination costs in accordance with U.S. GAAP. Specifically, effective controls were not maintained related to the classification of fees paid to a professional services firm.
4. The Company did not maintain adequate controls over the complete and accurate recording of postretirement benefits other than pensions in accordance with U.S. GAAP. Specifically, effective controls were not maintained over the complete identification of all relevant contractual provisions within its executive employment contracts.
5. The Company did not maintain effective controls over the intraperiod allocation of the provision for income taxes in accordance with U.S. GAAP. Specifically, effective controls were not in place such that the tax provisions were appropriately allocated to continuing operations, discontinued operations, and accumulated other comprehensive income.
6. The Company did not maintain adequate controls, including period-end controls, over the complete and accurate recording of transactions related to real estate lease arrangements for owned and operated theaters or corporate offices in accordance with U.S. GAAP. Specifically, effective controls were not maintained over the complete identification of all relevant contractual provisions including lease inducements, construction allowances, rent holidays, escalation clauses and lease commencement dates. In addition, adequate controls were not maintained over the accurate recording of rent abatements received in subsequent periods.

Cross-departmental Communication

Two of the Company's material weaknesses relate to controls over the lines of communication between different departments. These material weaknesses are:

7. The Company did not maintain adequate controls over the lines of communication between operational departments and the Finance Department related to revenue recognition for sales and lease transactions. Specifically, effective controls were not maintained to raise on a timely basis certain issues relating to observations of the installation process, any remaining installation or operating obligations, and concessions on contractual terms that may impact the accuracy and timing of revenue recognition.
8. The Company did not maintain adequate controls over the timely communication between departments of information relating to developing issues that may impact the Company's financial reporting. Specifically, effective controls were not maintained over the status of a review of cap limits under the

Company's Stock Option Plan that affected the recording and related disclosure of stock-based compensation benefits.

In addition to the restatements and audit adjustments discussed in the Company's 2006 Form 10-K/A, each of these control deficiencies above could result in a misstatement of certain account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Management determined that each of these control deficiencies set forth above constitutes a material weakness at September 30, 2007.

REMEDIATION PLAN

The Company's management, including the Co-CEOs and CFO, are committed to remediating its material weaknesses in internal control over financial reporting by enhancing existing controls and introducing new controls in all necessary areas. The smooth functioning of the Company's finance area is of the highest priority for the Company's management. Remediation activities will include the following specifics:

The Company will strengthen U.S. GAAP awareness throughout all levels of the Finance Department to help prevent material misstatements. The objective of strengthening U.S. GAAP awareness is to enable personnel throughout all levels of the Finance Department to recognize complex or atypical situations in the day-to-day operations which may require further analysis. Management is currently considering various ways of meeting this objective effectively.

The Company will enhance cross-functional communications to assist in preventing material misstatements. The objective of enhancing cross-functional communications is to provide an effective forum through which all relevant information pertaining to transactions could be sought by, and communicated to, the Finance Department for consideration of accounting implications. Management is currently considering various ways of meeting this objective most effectively and efficiently.

The Company has revised its revenue recognition policy in the second quarter of 2007. The Company will enhance its controls in this area by documenting a detailed analysis for all sales and lease transactions to help ensure that the timing of revenue recognition is appropriate, and that all contractual provisions have been sufficiently considered in determining the timing and amounts of revenues to be recognized. As well, to assist in preventing material misstatements, the Company will enhance its period-end reviews of sales and lease transactions to specifically consider whether the accounting for these transactions is in accordance with U.S. GAAP.

The Company will enhance its controls in accounting for film transactions. To assist in preventing material misstatements, the Company will enhance its review of new film transactions for complexities that may impact the accounting for the transaction and treatment within the film's ultimate model. As well, to assist in preventing material misstatements, the Company will enhance its period-end reviews of film accounting to specifically consider whether revenues and costs are being treated in accordance with SOP 00-2.

The Company will enhance its controls in accounting for costs related to inventory. To assist in preventing material misstatements, the Company will develop guidelines regarding the nature of costs that could be capitalized to inventory with appropriate references to U.S. GAAP, which would be distributed to personnel involved with inventory costs. As well, to assist in preventing material misstatements, the Company will enhance its period-end reviews of the inventory balances to specifically consider whether the nature of the costs that comprise inventory balances are in accordance with U.S. GAAP.

The Company will enhance its controls to capture all postretirement benefits other than pensions included within executive employment contracts. Management is currently considering various ways of meeting this objective efficiently and effectively.

The Company will enhance its controls in accounting for intraperiod allocations of income taxes. Management is currently considering various ways of meeting this objective effectively.

The Company will enhance its controls in reviewing its real estate lease arrangements to determine the correct accounting treatment. Management is currently considering various ways of meeting this objective effectively.

The Company's management, including the Co-CEOs and CFO, is committed to implementing its remediation plan as soon as practicable.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Except as described above, there were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

(a) In March 2005, the Company, together with Three-Dimensional Media Group, Ltd. ("3DMG"), filed a complaint in the U.S. District Court for the Central District of California, Western Division, against In-Three, Inc. ("In-Three") alleging patent infringement. On March 10, 2006, the Company and In-Three entered into a settlement agreement settling the dispute between the Company and In-Three. On June 12, 2006, the U.S. District Court for the Central District of California, Western Division, entered a stay in the proceedings against In-Three pending the arbitration of disputes between the Company and 3DMG. Arbitration was initiated by the Company against 3DMG on May 15, 2006 before the International Centre for Dispute Resolution in New York, alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties' license agreement. On June 21, 2007, the Arbitration Panel unanimously denied 3DMG's Motion for Summary Judgment filed on April 11, 2007 concerning the Company's claims and 3DMG's counterclaims. On October 5, 2007, 3DMG amended its counterclaims and added counterclaims from UNIPAT.ORG relating to fees allegedly owed to UNIPAT.ORG by the Company. An evidentiary hearing on liability issues has been set for January 2008 with further proceedings on damages issues to be scheduled if and when necessary. The Company will continue to pursue its claims vigorously and believes that all allegations made by 3DMG are without merit. The Company further believes that the amount of loss, if any, suffered in connection with the counterclaims would not have a material impact on the financial position or operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration.

(b) 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 (the "ICC") with respect to the breach by Electronic Media Limited ("EML") of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-CITI Entertainment (I) PVT Limited ("E-Citi"), seeking \$17.8 million in damages as a result of E-Citi's breach of a September 2000 lease agreement. The damages sought against E-Citi included the original claim sought against EML. An arbitration hearing took place in November 2005 against E-Citi, which included all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company's favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of \$9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company's theater system contract. The Company has now submitted its application to the arbitration panel for interest and costs and is awaiting the Panel's decision on that issue.

(c) In June 2004, Robots of Mars, Inc. ("Robots") initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to an arbitration provision in a 1994 film production agreement between Robots' predecessor-in-interest and a subsidiary of the Company, asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with contract. Robots is seeking an accounting of the Company's revenues and an award of all sums alleged to be due to Robots under the production agreement, as well as punitive damages. The Company intends to vigorously defend the arbitration proceeding and believes the amount of the loss, if any, that may be suffered in connection with this proceeding will 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 such arbitration.

(d) The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York. On January 18, 2007, the Court consolidated all eight class action lawsuits and appointed Westchester Capital Management, Inc. as the lead plaintiff and Abbey Spanier Rodd Abrams & Paradis LLP as lead plaintiff's counsel. On October 2, 2007, plaintiffs filed a consolidated amended class action complaint. The amended complaint, brought on behalf of shareholders who purchased the Company's common stock between February 27, 2003 through July 30, 2007, alleges primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company's revenue recognition of theater system installations, and failing to disclose material information concerning the Company's revenue recognition practices. The amended complaint also adds PricewaterhouseCoopers LLP, the Company's auditors, as a defendant. The lawsuit seeks unspecified compensatory damages, costs, and expenses. The lawsuit is at a very early stage and as a result the Company is not able to estimate a potential loss exposure. The Company believes the allegations made against it in the amended complaint are meritless and will vigorously defend the matter, although no assurances can be given with respect to the outcome of such proceedings. The Company's directors and officers insurance policy provides for reimbursement for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles. The deadline for defendants to respond to the amended complaint is currently December 3, 2007.

(e) A class action lawsuit was filed on September 20, 2006 in the Ontario Superior Court of Justice against the Company and certain of its officers and directors, alleging violations of Canadian securities laws. This lawsuit was brought on behalf of shareholders who acquired the Company's securities between February 17, 2006 and August 9, 2006. The lawsuit is in a very early stage and seeks unspecified compensatory and punitive damages, as well as costs and expenses. As a result, the Company is unable to estimate a potential loss exposure. The Company believes the allegations made against it in the statement of claim are meritless and will vigorously defend the matter, although no assurance can be given with respect to the ultimate outcome of such proceedings. The Company's directors and officers insurance policy provides for reimbursement for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

(f) On September 7, 2007, Catalyst Fund Limited Partnership II, a holder of the Company's Senior Notes ("Catalyst"), commenced an application against the Company in the Ontario Superior Court of Justice for a declaration of oppression pursuant to s. 229 and 241 of the Canada Business Corporations Act ("CBCA") and for a declaration that the Company is in default of the Indenture governing its Senior Notes. The allegations of oppression are substantially the same as allegations Catalyst made in a May 10, 2007 complaint filed against the Company in the Supreme Court of the State of New York, and subsequently withdrawn on October 12, 2007, wherein Catalyst challenged the validity of the consent solicitation through which the Company requested and obtained a waiver of any and all defaults arising from a failure to comply with the reporting covenant under the Indenture and alleged common law fraud. Catalyst has also requested the appointment of an inspector and an order that an investigation be carried out pursuant to s. 229 of the CBCA. In addition, between March 2007 and October 2007, Catalyst has sent the Company eight purported notices of default or acceleration under the Indenture. It is the Company's position that no default or event of default (as those terms are defined in the Indenture) has occurred or is continuing under the Indenture and, accordingly, that Catalyst's purported acceleration notice is of no force or effect. The Company is in the process of responding to the Ontario application and a hearing is scheduled to take place on January 15 and 16, 2008. The litigation is at a preliminary stage and as a result, the Company is not able to estimate a potential loss exposure. The Company believes this application is entirely without merit and plans to contest it vigorously and seek costs from Catalyst, although no assurances can be given with respect to the outcome of the proceedings. The Company's directors and officers insurance policy provides for reimbursement for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

(g) On June 19, 2007, the Ontario Superior Court of Justice granted the Company's application to call its Annual General Meeting between June 30, 2007 and September 30, 2007.

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

Item 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in the Company's 2006 Amended Annual Report on Form 10-K/A for the year ended December 31, 2006.

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of the Company's shareholders held on September 10, 2007, shareholders represented at the meeting voted on the following matters:

Election of Directors

By a vote by way of show of hands, Richard L. Gelfond and Bradley J. Wechsler were elected as Class III directors of the Company for a term expiring in 2010. Management received proxies from the shareholders to vote for the two directors nominated for election as follows:

<u>Director</u>	<u>Votes For</u>	<u>Votes Withheld</u>	<u>Percentage of Votes Cast For</u>
Richard L. Gelfond	27,893,958	2,544,943	91.64%
Bradley J. Wechsler	27,857,360	2,581,541	91.52%

In addition to the foregoing directors, the following directors continued in office: Neil S. Braun, Kenneth Copland, David W. Leebron, Garth M. Girvan and Marc A. Utay

Appointment of Auditor

By a vote by way of show of hands, PricewaterhouseCoopers, LLP ("PwC") were appointed auditors of the Company to hold office until the next annual meeting of shareholders and authorizing the directors to fix their remuneration. Management received proxies from the shareholders to vote for the re-appointment of PwC as follows:

	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Withheld</u>	<u>Percentage of Votes Cast For</u>
Appointment of Auditor	29,093,265	939,920	405,715	95.58%

Item 5. Other Information

On November 7, 2007 the Company and Wachovia Capital Finance Corporation (Canada) entered into the Third Amendment to the Loan Agreement, dated as of and in effect from September 30, 2007. See note 7 to the condensed consolidated financial statements for additional details.

Item 6. Exhibits

Exhibit No.	Description
10.25	Employment Agreement, dated May 14, 2007 between IMAX Corporation and Joseph Sparacio.
10.26	Third Amendment to the Loan Agreement, as of and with effect September 30, 2007, between IMAX Corporation and Wachovia Capital Finance Corporation (Canada) (formerly, Congress Financial Corporation (Canada)).
31.1	Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated November 9, 2007, by Bradley J. Wechsler.
31.2	Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated November 9, 2007, by Richard L. Gelfond.
31.3	Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated November 9, 2007, by Joseph Sparacio.
32.1	Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated November 9, 2007, by Bradley J. Wechsler.
32.2	Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated November 9, 2007, by Richard L. Gelfond.
32.3	Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated November 9, 2007, by Joseph Sparacio.

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.

Date: November 9, 2007

IMAX CORPORATION

By: /s/ Joseph Sparacio
Joseph Sparacio Chief Financial Officer (Principal Financial Officer)

Date: November 9, 2007

By: /s/ Jeffrey Vance
Jeffrey Vance Co-Controller (Principal Accounting Officer)

Date: November 9, 2007

By: /s/ Vigna Vivekanand
Vigna Vivekanand Co-Controller (Principal Accounting Officer)

IMAX[®]

IMAX CORPORATION
Exhibit 10.25

EMPLOYMENT AGREEMENT

This Employment Agreement dated and effective as of May 14, 2007 (the "Agreement"), is made between

IMAX CORPORATION
a corporation organized
under the laws of Ontario
(hereinafter referred to as the "Company")

OF THE FIRST PART

And

JOSEPH SPARACIO
of the Town of Holmdel in the
State of New Jersey
(hereinafter referred to as the "Executive")

OF THE SECOND PART

WHEREAS, the Company wishes to enter into this Agreement to engage the Executive to provide services to the Company, and the Executive wishes to be so engaged, pursuant to the terms and conditions hereinafter set forth;

AND WHEREAS the Executive is engaged to provide services to the Company as its Chief Financial Officer;

NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. EMPLOYMENT AND DUTIES

1.1 **Employment.** The Company hereby agrees to employ the Executive, and the Executive hereby agrees to serve, as Executive Vice President and Chief Financial Officer of the Company, upon the terms and conditions herein contained. It is understood that the Executive will commence employment in the role of Executive Vice President, Finance, and will assume the role of Chief Financial Officer at a time that is mutually agreed by the party, but expected to be at some point prior to June 30, 2007. The Executive's primary responsibilities shall be to organize and manage the financial affairs generally of the Company and to perform such other duties commensurate with his position with the Company as are reasonably designated by the Chief Executive Officer(s) of the Company. The Executive agrees to serve the Company faithfully and to the best of his ability under the direction of the Chief Executive Officer(s) of the Company. The Executive shall report to the Chief Executive Officer(s) of the Company on all of his activities.

1.2 **Exclusive Services.** Except as may otherwise be approved in advance by the Chief Executive Officer(s) of the Company, the Executive shall devote his full working time throughout the Employment Term (as defined in Section 1.3) to the services required of him hereunder. The Executive shall render his services exclusively to the Company and its subsidiaries and affiliates during the Employment Term, and shall use his best efforts, judgment and energy to improve and advance the business and interests of the Company in a manner consistent with the duties of his position.

1.3 **Term of Employment.** The Executive's employment under this Agreement shall commence on the date hereof (the "Commencement Date") and shall terminate on the earlier of (i) the second anniversary of the Commencement Date, or (ii) termination of the Executive's employment pursuant to this Agreement. The period commencing as of the Commencement Date and ending on the second anniversary of the Commencement Date or such later date to which the term of the Executive's employment under this Agreement shall have been extended is hereinafter referred to as the "Employment Term". The Company shall notify the Executive at least six (6) months prior to the second anniversary of the Agreement of its intentions with respect to renewing the Agreement.

1.4 **Place of Employment.** During the Employment Term the Executive will be based , at the Company's offices in New York City with regular travel to the offices of the Company in Mississauga, Los Angeles, and other parts of the world.

1.5 Reimbursement of Expenses. The Company shall reimburse the Executive for reasonable travel and other business expenses incurred by him in the fulfillment of his duties hereunder in accordance with Company practices consistently applied.

2. COMPENSATION

2.1 Base Salary. During his employment under this Agreement, the Executive shall be paid a base salary ("Base Salary") of no less than US\$ 350,000 subject to annual review on no later than Executive's anniversary date. The Executive shall be paid no less frequently than monthly in accordance with the Company's payroll practices.

2.2 Bonus. In addition to the Base Salary, during the Employment Term the Executive shall be entitled to participate in the management bonus plan of the Company which applies to senior executives of the Company. The Executive shall participate in that plan on the basis that the target annual bonus pool eligibility of the Executive shall be 35% of his Base Salary (the "Target Bonus") in any year, which will entitle the Executive to earn a bonus, according to the terms of the bonus plan, of up to 52.5% of his Base Salary. Notwithstanding the foregoing, the bonus to be paid to the Executive in respect of 2007 shall be not less than US\$ 100,000 (the "Guaranteed Bonus") , which shall be paid at the time bonuses are scheduled to be paid to other senior managers participating in the plan, normally in March of the following year. The Executive acknowledges that the said bonus plan may be changed from time to time by the Company without notice to or any requirement to obtain the consent of the Executive and without the Executive having any claim against the Company with respect to any changes thereto, including any claims of constructive dismissal. Following any changes to the said plan, the Executive will be given notice of the changes in the same manner as are other executives of the Company of the Executive's stature.

2.3 Stock Options. Effective as soon as is practicable after the Commencement Date, the Executive shall be granted non-qualified options (the “Options”) to purchase 75,000 shares of common stock of the Company (the “Common Shares”), at an exercise price per Common Share equal to the Fair Market Value, as defined in the Company’s Stock Option Plan (the “Option Plan”). The Options shall vest and become exercisable according to the following schedule:

On the first anniversary of the grant date	10%
On the second anniversary of the grant date	15%
On the third anniversary of the grant date	20%
On the fourth anniversary of the grant date	25%
On the fifth anniversary of the grant date	30%

The Options granted hereunder shall be subject to the terms and conditions of the Option Plan and the stock option agreement to be entered into between the Company and the Executive as of the applicable date of grant pursuant to, and in accordance with, the terms of the Option Plan .

3. EXECUTIVE BENEFITS

3.1 General. The Executive shall, during the Employment Term, receive Executive benefits including vacation time, medical benefits, disability and life insurance, all at least consistent with those established by the Company for its other key executives at a level commensurate with that of the Executive. Without limitation, however, the Executive shall be entitled to the following benefits:

- (i) four (4) weeks’ paid vacation in each year of the Employment Term
 - (ii) such audio/visual, computer, fax, cellular telephone and other like equipment as may be necessary in connection with the performance of the Executive’s responsibilities shall be made available to the Executive; and
 - (iii) a monthly automobile allowance of US\$ 850.00, together with all associated operating expenses;
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4. TERMINATION OF EMPLOYMENT

Definitions. As used in this Article 4, the following terms have the following meanings:

(a) "Termination Payment" means each of the following amounts to the extent that such amounts are due to be paid to and including the date upon which the Executive's employment is terminated (i) Base Salary and automobile allowance, (ii) unreimbursed business expenses as outlined in Section 1.5, (iii) any amounts to be paid pursuant to the terms of any benefit plans of the Company in which the Executive participates or pursuant to any policies of the Company applicable to the Executive, and (iv) any outstanding vacation pay calculated up to and including such date.

(b) "Without Cause" means termination of the Executive's employment by the Company other than for Cause (as defined in Section 4.2), death or disability (as set forth in Section 5).

4.1 Termination Without Cause

4.1.1 General. Subject to the provisions of Sections 4.1.2, 4.1.3 and 6, if, prior to the expiration of the Employment Term, the Executive's employment is terminated by the Company Without Cause, the Company shall pay the Termination Payment to be paid within 30 days of the date of termination and shall continue to pay the Executive the Base Salary and automobile allowance for the remainder of the Employment Term (such period being referred to hereinafter as the "Severance Period"), either at such intervals as the same would have been paid had the Executive remained in the active service of the Company or, at the option of the Company, by immediate payment to the Executive, provided however that the Severance Period shall be a minimum of six (6) months in duration in the normal course and twelve (12) months in duration following a Change of Control. It is understood that the Executive shall also be entitled to receive his Target Bonus during the Severance Period following a termination arising as a result of a Change of Control. For purposes of this agreement, a "Change of Control" of the Company will be deemed to occur if (i) there is a sale of more than 50% of the assets of the Company to a third party (other than to a person or group including Brad Wechsler or Rich Gelfond); or (ii) any person or group (other than a person or group including Brad Wechsler or Rich Gelfond) acquires 50% or more of the voting power of the outstanding stock of the Company or the shareholders of the Company immediately prior to any corporate transaction cease to own at least 50% of the voting power of the outstanding stock of the surviving entity. Upon any termination, the Executive shall also be entitled to continue to receive his employment benefits referred to in Section 3.1 at the Company's expense (to the extent paid for by the Company as at the date of termination) and subject to the consent of the applicable insurers.

The Executive agrees that the Company may deduct from any payment of Base Salary to be made during the Severance Period the benefit plan contributions which are to be made by the

Executive during the Severance Period in accordance with the terms of all benefit plans for the minimum period prescribed by law. The Executive shall have no further right to receive any other compensation or benefits after such termination of employment except as are necessary under the terms of the Executive benefit plans or programs of the Company or as required by applicable law. Payment of the Termination Payment, Base Salary and automobile allowance during the Severance Period and the continuation of the aforementioned Executive benefits during the Severance Period as outlined above shall be deemed to include all termination and severance pay to which the Executive is entitled pursuant to applicable statute law and common law. The date of termination of employment Without Cause shall be the date specified in a written notice of termination to the Executive and does not include the Severance Period.

4.1.2 Fair and Reasonable The parties confirm that notice and pay in lieu of notice provisions contained in Subsection 4.1.1 are fair and reasonable and the parties agree that upon any termination of this Agreement Without Cause, the Executive shall have no action, cause of action, claim or demand against the Company or any other person as a consequence of such termination other than to enforce Section 4.1.1.

4.1.3 Conditions Applicable to the Severance Period. If, during the Severance Period, the Executive breaches his obligations under Article 7 of this Agreement, the Company may, upon written notice to the Executive, terminate the Severance Period and cease to make any further payments or provide further benefits as described in Section 4.1.1.

4.2 Termination for Cause; Resignation. At any time prior to the expiration of the Employment Term the Executive's employment may be terminated by the Company immediately upon notice for Cause. If, prior to the expiration of the Employment Term, the Executive's employment is terminated by the Company for Cause, or the Executive resigns from his employment hereunder, the Executive shall only be paid, within 15 days of the date of such termination or resignation, the Termination Payment, then due to be paid. The Executive shall have no further right to receive any other compensation or benefits after such termination or resignation of employment, except as determined in accordance with the terms of the Executive benefit plans or programs of the Company. The date of termination for Cause shall be the date specified in a written notice of termination to the Executive, which notice shall set forth the basis for the termination. The date of resignation shall be sixty (60) days following the date or receipt of notice of resignation from the Executive to the Company.

4.3 Cause. Termination for “Cause” shall mean termination of the Executive’s employment because of:

- (i) the cessation of the Executive’s ability to work legally in the United States or Canada other than for reasons not within the Executive’s reasonable control;
 - (ii) any act or omission that constitutes a material breach by the Executive of any of his obligations under this Agreement, which breach has not been remedied within thirty (30) days after written notice specifying such breach has been given to the Executive by the Company;
 - (iii) the continued failure or refusal of the Executive to perform the duties reasonably required of him as Chief Financial Officer, which failure or refusal has not been remedied within 30 days after written notice specifying such failure or refusal has been given to the Executive
 - (iv) any material violation by the Executive of any Canadian or United States federal, provincial, state or local law or regulation applicable to the business of the Company, which violation is injurious to the financial condition or business reputation of the Company or the Executive’s conviction of a felony or commission of an indictable offense for which he is not pardoned, or any perpetration by the Executive of a common law fraud;
 - (v) any other action by the Executive which is materially injurious to the financial condition or business reputation of, or is otherwise materially injurious to, the Company, or which results in a violation by the Company of any Canadian or United States federal, provincial, state or local law or regulation applicable to the business of the Company,
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5. DEATH OR DISABILITY

In the event of termination of employment by reason of death or Permanent Disability (as hereinafter defined), the Executive (or his estate, as applicable) shall be paid the Termination Payment then due to be paid within 30 days of the date of such termination of employment. Both the employment of the Executive and the entitlement of the Executive to be paid amounts under Section 4.1.1, in respect of the Severance Period, shall terminate immediately and without notice upon his death or upon his Permanent Disability (as hereinafter defined). Any benefits thereafter shall be determined in accordance with the benefit plans maintained by the Company, and the Company shall have no further obligation hereunder. For purposes of this Agreement, "Permanent Disability" means a physical or mental disability or infirmity of the Executive that prevents the normal performance of substantially all his duties under this Agreement as an Executive of the Company, which disability or infirmity shall exist for any continuous period of 180 days. The parties agree that such Permanent Disability cannot be accommodated short of undue hardship.

6. MITIGATION

Subject to Section 7.1 and 7.2, the Executive shall be required to mitigate the amount of any payment provided for in Section 4.1.1 by seeking other employment or remunerative activity reasonably comparable to his duties hereunder. Upon the date of the Executive's obtaining such other employment or remunerative activity any payment of the remaining portion of the Executive's Base Salary, and Target Bonus in the event of a termination following a Change of Control, to be made by the Company under Section 4.1.1 will be reduced by a total of one half (1/2). The Executive shall be required as a condition of any payment under Section 4.1.1 (other than the Termination Payment) promptly to disclose to the Company any such mitigation compensation.

7. NON-SOLICITATION, CONFIDENTIALITY, NON-COMPETITION

7.1 Non-solicitation. For so long as the Executive is employed by the Company and continuing for two years thereafter, notwithstanding whether the Executive's employment is terminated with or Without Cause or whether the Executive resigns, the Executive shall not, without the prior written consent of the Company, directly or indirectly, for the Executive's own benefit or the benefit of any other person, whether as a sole proprietor, member of a partnership, stockholder or investor (other than a stockholder or investor owning not more than a 5% interest), officer or director of a corporation, or as a trustee, executive, associate, consultant, principal or agent of any person, partnership, corporation or other business organization or entity other than the Company: (x) solicit or endeavour to entice away from the Company, any person or entity who is, or, during the then most recent 12-month period, was employed by, or had served as an agent or consultant of the Company; or (y) solicit, endeavour to entice away or gain the custom of, canvass or interfere in the Company's relationship with any person or entity who is, or was within the then most recent 12-month period, a supplier, customer or client (or reasonably anticipated to become a supplier, customer or client of the Company and with whom the Executive had dealings during his employment with the Company). The Executive confirms that all restrictions in this Section are reasonable and valid and waives all defences to the strict enforcement thereof.

7.2 Non-Competition. For so long as the Executive is employed by the Company and continuing for a period of two years after the date of the termination of the employment of the Executive with the Company, notwithstanding whether the Executive's employment is terminated with or Without Cause or whether the Executive resigns, the Executive shall not, without the prior written consent of the Company, directly or indirectly anywhere within Canada, the United States, Europe or Asia, as a sole proprietor, member of a partnership, stockholder or investor (other than a stockholder or investor owning not more than a 5% interest), officer or director of a corporation, or as a trustee, Executive, associate, consultant, principal or agent of any person, partnership, corporation or other business organization or entity other than the Company, render any service to or in any way be affiliated with a competitor (or any person or entity that is, at the time the Executive would otherwise commence rendering services to or become, affiliated with such person or entity, reasonably anticipated to become a competitor) of the Company (a "Competitor"), which is engaged or reasonably anticipated to become engaged in designing or supplying large format theatres, designing or distributing projection or sound systems for large format theatres, designing or supplying digital or other electronic film projection systems (regardless of image delivery system used) or sound technology. The Executive confirms that all restrictions in this Section are reasonable and valid and waives all defenses to the strict enforcement thereof.

7.3 Confidentiality. The Executive covenants and agrees that he will not at any time during employment hereunder or thereafter, except in performance of his obligations to the Company hereunder or with the prior written consent of the senior operating officer of the Company, directly or indirectly, disclose or use any secret or confidential information that he may learn or has learned by reason of his association with the Company. The term "confidential information" includes information not previously disclosed to the public or to the trade by the Company's management, or otherwise in the public domain, with respect to the Company's products, facilities, applications and methods, trade secrets and other intellectual property, systems, procedures, manuals, confidential reports, product price lists, customer lists, technical information, financial information, business plans, prospects or opportunities, but shall exclude any information which (i) is or becomes available to the public or is generally known in the industry or industries in which the Company operates other than as a result of disclosure by the Executive in violation of his agreements under this Section 7.3 or (ii) the Executive is required to disclose under any applicable laws, regulations or directives of any government agency, tribunal or authority having jurisdiction in the matter or under subpoena or other process of law. The Executive confirms that all restrictions in this Section 7.3 are reasonable and valid and waives all defences to the strict enforcement thereof.

7.4 Exclusive Property. The Executive confirms that all confidential information is and shall remain the exclusive property of the Company. All business records, papers and documents regardless of the form of their records kept or made by Executive relating to the business of the Company shall be and remain the property of the Company, and shall be promptly returned by the Executive to the Company upon any termination of employment.

7.5 Injunctive Relief. Without intending to limit the remedies available to the Company, the Executive acknowledges that a material breach of any of the covenants contained in Article 7 will result in material and irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, the Company shall be entitled to seek a temporary restraining order and/or a preliminary, interim or permanent injunction restraining the Executive from engaging in activities prohibited by Article 7 or such other relief as may be required specifically to enforce any of the covenants in Article 7. The Executive waives any defences to the strict enforcement by the Company of the covenants contained in Article 7. If for any reason it is held that the restrictions under Article 7 are not reasonable or that consideration therefor is inadequate, such restrictions shall be interpreted or modified to include as much of the duration and scope identified in Article 7 as will render such restrictions valid and enforceable.

7.6 Representation. The Executive represents and warrants that he is not subject to any non-competition covenant or any other agreement with any party which would in any manner restrict or limit his ability to render the services required of him hereunder.

8. MISCELLANEOUS

8.1 Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company:

Imax Corporation
2525 Speakman Drive
Mississauga, Ontario
L5K 1B1

Telecopier No: (905) 403-6468
Attention: Legal Department

To the Executive:

Joseph Sparacio
9 Jennifer Drive
Holmdel, New Jersey
07733

Telecopier No:

All such notices shall be conclusively deemed to be received and shall be effective, (i) if sent by hand delivery, upon receipt or (ii) if sent by registered or certified mail, on the fifth day after the day on which such notice is mailed.

8.2 Severability. Each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. The parties agree that Sections 4, 5, 6 and 7 shall survive the termination of this Agreement.

8.3 Assignment. This Agreement shall be binding upon and inure to the benefit of the heirs and representatives of the Executive and the assigns and successors of the Company, if any are permitted by law and provided that the Company and its assignee shall each remain liable to the Executive in the event of any assignment, but neither this Agreement nor any rights hereunder shall be assignable or otherwise subject to hypothecation by the Executive. The Executive expressly agrees that the Company may assign any of its rights, interest or obligations hereunder to any affiliate without the consent of the Executive; provided, however, that no such assignment shall relieve the assignor of any of its obligations hereunder.

8.4 Entire Agreement: Amendment. This Agreement represents the entire agreement of the parties and shall supersede any and all previous contracts, arrangements or understandings between the Company and the Executive. This Agreement may only be amended at any time by mutual written agreement of the parties hereto.

8.5 Withholding. The payment of any amount pursuant to this Agreement shall be subject to any applicable withholding and payroll taxes, and such other deductions as may be required under applicable law or the Company's Executive benefit plans, if any.

8.6 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein without regard to principles of conflicts of laws.

IN WITNESS WHEREOF, the Company and the Executive have duly executed and delivered this Agreement as of the 31st day of March, 2007.

IMAX CORPORATION:

By: “Mary Sullivan”

Name:

Title:

By: “Bradley J. Wechsler”

Name:

Title:

EXECUTIVE:

“Joseph Sparacio”

Joseph Sparacio

SIGNED, SEALED AND DELIVERED
in the presence of:

“Michael J. Ferrador”
Witness

IMAX CORPORATION

EXHIBIT 10.26

THIS THIRD AMENDMENT TO THE LOAN AGREEMENT is made as of and with effect the 30th day of September, 2007.

BETWEEN:

IMAX CORPORATION

("Borrower")

- and -

WACHOVIA CAPITAL FINANCE CORPORATION (CANADA)
(formerly, CONGRESS FINANCIAL CORPORATION (CANADA))

("Lender")

WHEREAS Borrower and Lender entered into a loan agreement dated February 6, 2004 as amended by a first amendment to the loan agreement made as of June 30, 2005 and a second amendment to the loan agreement made of as and with effect from the 16th day of May, 2006 (collectively, the "Loan Agreement"), pursuant to which certain credit facilities were established in favour of the Borrower;

AND WHEREAS the parties hereto wish to amend section 9.13 of the Loan Agreement;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT in consideration of the covenants and agreements contained herein and for other good and valuable consideration, the parties hereto agree to amend the Loan Agreement as provided herein:

1. **General**

In this Third Amendment to the Loan Agreement, unless otherwise defined or the context otherwise requires, all capitalized terms shall have the respective meanings specified in the Loan Agreement.

2. **To be Read with Loan Agreement**

Unless the context of this Third Amendment to the Loan Agreement otherwise requires, the Loan Agreement and this Third Amendment to the Loan Agreement shall be read together and shall have effect as if the provisions of the loan Agreement and this Third Amendment to the loan Agreement were contained in one agreement. The term "Agreement" when used in the Loan Agreement means the Loan Agreement as amended by this Third Amendment to the Loan Agreement, together with all amendments, supplements, restatements and replacements thereto or therefore from time to time.

3. **No Novations**

Nothing in this Third Amendment to the Loan Agreement, nor in the Loan Agreement when read together with this Third Amendment to the Loan Agreement, shall constitute a novation, payment, re-advance or reduction or termination in respect of any Obligations of Borrower.

4. **Amendment to the Loan Agreement**

Section 9.13 of the Loan Agreement (EBITDA), is hereby amended by adding “or, in the case of the four fiscal quarters ending on September 30, 2007 only, not less than \$17,000,000, and in the case of the subsequent four fiscal quarters ending on December 31, 2007 only, not less than \$15,000,000” after “\$20,000,000” in the first sentence of Section 9.13.

5. **Representations and Warranties**

In order to induce Lender to enter into this Third Amendment to the Loan Agreement, Borrower represents and warrants to Lender the following, which representations and warranties shall survive the execution and delivery hereof:

- (a) all necessary action, corporate or otherwise, has been taken to authorize the execution, delivery and performance of this Third Amendment to the Loan Agreement by Borrower;
- (b) the Borrower has duly executed and delivered this Third Amendment to the Loan Agreement;
- (c) this Third Amendment to the Loan Agreement is a legal, valid and binding obligation of Borrower, enforceable against it by Lender in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, moratorium, reorganization and other laws of general application limited the enforcement of creditor’s rights generally and the fact that the courts may deny the granting or enforcement of equitable remedies;
- (d) the representations and warranties set forth in Section 8 of the Loan Agreement, as amended by this Third Amendment to the Loan Agreement, continue to be true and correct as of the date hereof; and
- (e) no Event of Default, or event which, with the passage of time or giving of notice or both, would constitute an Event of Default, exists.

6. **Amendment Fee**

The Borrower shall pay to the Lender a one-time amendment fee in the amount of CDN \$20,000, which shall be fully earned as of and payable upon the execution of this Third Amendment to the Loan Agreement.

7. **Expenses**

Borrower shall pay to the Lender on demand all reasonable fees and expenses, including, without limitation, legal fees, incurred by Lender in connection with the preparation, negotiation, completion, execution, delivery and review of this Third Amendment to the Loan Agreement and all other documents, registrations and instruments arising therefrom and/or executed in connection therewith.

8. **Conditions Precedent**

This Third Amendment to the Loan Agreement shall not be effective until each of the following conditions has been satisfied, or has been waived in writing (in whole or in part) by Lender in its sole discretion. The execution of this Third Amendment to the Loan Agreement by Lender shall constitute evidence of the satisfaction and/or waiver of each of the following conditions by Lender:

- (a) Lender has received, in form and substance satisfactory to Lender, an original copy of this Third Amendment to the Loan Agreement duly executed and delivered by Borrower.

9. **Continuance of the Loan Agreement and Security**

The Loan Agreement, as changed, altered, amended or modified by this Third Amendment to the Loan Agreement, shall be and continue in full force and effect and is hereby confirmed and the rights and obligations of all parties thereunder shall not be affected or prejudiced in any manner except as specifically provided for herein. It is agreed and confirmed that after giving effect to this Third Amendment to the Loan Agreement, all security delivered by Borrower and/or any Obligor secures the payment of all of the Obligations including, without limitation, the obligations arising under the Loan Agreement, as amended by the terms of this Third Amendment to the Loan Agreement.

10. **Counterparts & Facsimile**

This Third Amendment to the Loan Agreement may be executed in any number of counterparts, by original or facsimile signature, each of which shall be deemed an original and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

11. **Governing Law**

The validity, interpretation and enforcement of this Third Amendment to the Loan Agreement and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the laws of the Province of Ontario and the federal laws of Canada therein.

IN WITNESS WHEREOF the parties hereto have executed this Third Amendment to the Loan agreement as of and with effect from the day and year first above written.

LENDER

BORROWER

**WACHOVIA CAPITAL FINANCE
CORPORATION (CANADA)**

IMAX CORPORATION

By: “Niall Hamilton”

By: “G. Mary Ruby” “Brian Bonnick”

Title: Senior Vice President

Title: Sr. Vice President Exec. Vice President
Legal Affairs Technology

Address:
141 Adelaide Street West, Suite 1500
Toronto, Ontario M5H 3L5
Fax: (416) 364-6060

Address:
110 East 59th Street
New York, New York 10022
Fax: (212) 371-7584

Each of **IMAX U.S.A. Inc.**, **IMAX II U.S.A. Inc.** and **1329507 Ontario Inc.** (collectively, the “**Guarantors**” and each a “**Guarantor**”) hereby acknowledges, consents and confirms as follows:

- (a) it has reviewed and understands the terms of this Third Amendment to the Loan Agreement and consents to the amendment of the Loan Agreement as contemplated herein;
 - (b) its liability under the guarantee to which it is a party dated February 6, 2004 (each hereinafter referred to as a “**Guarantee**”), is affected by this Third Amendment to the Loan Agreement;
 - (c) the “**Guaranteed Obligations**” (as respectively defined in each Guarantee, as applicable) shall extend to and include all of the obligations of the Borrower under the Loan Agreement as amended by this Third Amendment to the Loan Agreement;
 - (d) each of the Guarantees shall continue in full force and effect, enforceable against each of the Guarantors, as applicable, in accordance with its terms; and
 - (e) each of the security documents or instruments creating a security interest, assignment, hypothec, lien, pledge or other charge granted by the Guarantors to Lender together with all amendments, supplements, restatements or replacements thereto or therefore from time to time remains in full force and effect as at the date hereof, in respect of each of the Guarantor’s obligations under the Loan Agreement, as amended by this Third Amendment to the Loan Agreement.
-

DATED as of and with effect from 30th day of September, 2007.

IMAX U.S.A. INC.

By: “Edward MacNeil” “G. Mary Ruby”
Name: Edward MacNeil G. Mary Ruby
Title: Vice President Secretary

1329507 ONTARIO INC.

By: “Edward MacNeil” “G. Mary Ruby”
Name: Edward MacNeil G. Mary Ruby
Title: Vice President Secretary

IMAX II U.S.A. INC.

Per: “Edward MacNeil” “G. Mary Ruby”
Name: Edward MacNeil G. Mary Ruby
Title: Vice President Secretary

IMAX CORPORATION

Exhibit 31.1

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

I, Bradley J. Wechsler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2007

By: "Bradley J. Wechsler"

Name: Bradley J. Wechsler

Title: Co-Chief Executive Officer

IMAX CORPORATION

Exhibit 31.2

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

I, Richard L. Gelfond, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2007

By: “Richard L. Gelfond”

Name: Richard L. Gelfond

Title: Co-Chief Executive Officer

IMAX CORPORATION

Exhibit 31.3

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

I, Joseph Sparacio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2007

By: “Joseph Sparacio”

Name: Joseph Sparacio

Title: Chief Financial Officer

IMAX CORPORATION

Exhibit 32.1

CERTIFICATIONS

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18, United States Code)

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

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2007

"Bradley J. Wechsler"

Bradley J. Wechsler

Co-Chief Executive Officer

IMAX CORPORATION

Exhibit 32.2

CERTIFICATIONS

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

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

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2007

"Richard L. Gelfond"

Richard L. Gelfond

Co-Chief Executive Officer

IMAX CORPORATION

Exhibit 32.3

CERTIFICATIONS

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

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

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2007

"Joseph Sparacio"

Joseph Sparacio
Chief Financial Officer