

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 June 30, 1999

OR

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

Commission File Number 0-24216

Imax Corporation
(Exact name of registrant as specified in its charter)

Canada

98-0140269

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

2525 Speakman Drive, Mississauga, Ontario, Canada

L5K 1B1

(Address of principal executive offices)

(Postal Code)

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

NONE

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

Class	Outstanding as of July 30, 1999
Common stock, no par value	29,628,888

IMAX CORPORATION

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FORWARD LOOKING INFORMATION

Certain statements included herein may constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements may include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of its business and operations, plans and references to the future success of the Company and the known Year 2000 issues confronting the Company. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other companies; conditions in the out-of-home entertainment industry; changes in laws or regulations; 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; the availability of personnel with required remediation skills, the ability of the Company to identify and correct all relevant computer code and the success of third parties with whom the Company does business in addressing their Year 2000 issues and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made herein are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The following condensed consolidated financial statements are filed as part of this Report:

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

	June 30, 1999	December 31, 1998
	-----	-----
Assets		
Current assets		
Cash and cash equivalents	\$135,405	\$143,566
Short-term marketable securities	27,023	39,305
Accounts receivable	46,294	45,217
Current portion of net investment in leases	9,458	9,303
Inventories and systems under construction (note 2)	26,484	18,747
Prepaid expenses	5,014	3,766
	-----	-----
Total current assets	249,678	259,904
Long-term marketable securities	16,529	20,070
Net investment in leases	81,354	79,124
Film assets	37,590	34,885
Capital assets	56,231	46,563
Goodwill	37,183	38,129
Other assets	11,629	11,416
	-----	-----
Total assets	\$490,194	\$490,091
	=====	=====
Liabilities		
Current liabilities		
Accounts payable	\$ 6,041	\$ 9,882
Accrued liabilities	23,374	30,153
Current portion of deferred revenue	22,015	22,062
Income taxes payable	108	435
	-----	-----
Total current liabilities	51,538	62,532
Deferred revenue	21,043	15,005
Senior notes	200,000	200,000
Convertible subordinated notes	100,000	100,000
Deferred income taxes	22,080	23,263
	-----	-----
Total liabilities	394,661	400,800
	-----	-----
Minority interest	5,552	4,845
	-----	-----
Commitments and contingencies (notes 3 and 4)		
Shareholders' equity		
Capital stock	56,546	55,236
Retained earnings	33,644	29,436
Other comprehensive items	(209)	(226)
	-----	-----
Total shareholders' equity	89,981	84,446
	-----	-----
Total liabilities and shareholders' equity	\$490,194	\$490,091
	=====	=====

(See accompanying notes to the condensed consolidated financial statements on pages 7 to 9.)

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

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
Revenue				
Systems	\$18,889	\$30,890	\$ 41,309	\$57,254
Films	10,444	6,904	19,066	14,037
Other	4,925	5,526	10,626	8,399
	-----	-----	-----	-----
	34,258	43,320	71,001	79,690
Costs and expenses	18,544	18,621	38,757	33,947
	-----	-----	-----	-----
Gross margin	15,714	24,699	32,244	45,743
Loss from equity accounted investees	44	411	162	678
Selling, general and administrative expenses	8,269	8,462	16,258	17,896
Research and development	812	630	1,287	1,359
Amortization of intangibles	472	630	945	1,259
	-----	-----	-----	-----
Earnings from operations	6,117	14,566	13,592	24,551
Interest income	2,858	1,142	5,269	2,404
Interest expense	(5,181)	(3,330)	(11,014)	(6,617)
Foreign exchange gain (loss)	296	(156)	213	(229)
	-----	-----	-----	-----
Earnings before income taxes and minority interest	4,090	12,222	8,060	20,109
Provision for income taxes	(1,597)	(5,679)	(3,144)	(9,147)
	-----	-----	-----	-----
Earnings before minority interest	2,493	6,543	4,916	10,962
Minority interest	(297)	(382)	(707)	(602)
	-----	-----	-----	-----
Net earnings	\$ 2,196	\$ 6,161	\$ 4,209	\$10,360
	=====	=====	=====	=====
Earnings per share (note 5)				
Basic	\$ 0.07	\$ 0.21	\$ 0.14	\$ 0.35
Diluted	\$ 0.07	\$ 0.20	\$ 0.14	\$ 0.34

(See accompanying notes to the condensed consolidated financial statements on pages 7 to 9.)

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
Amounts in accordance with U.S. Generally Accepted Accounting Principles
(in thousands of U.S. dollars)
(unaudited)

	Six months ended June 30, 1999	1998
	-----	-----
Cash provided by (used in):		
Operating Activities		
Net earnings	\$ 4,209	\$ 10,360
Items not involving cash:		
Depreciation and amortization	11,193	8,068
Deferred income taxes	(592)	6,706
Loss from equity accounted investees	162	678
Minority interest	707	602
Other	(199)	(228)
Change in net investment in leases	(2,339)	(17,579)
Change in deferred revenue on film production	1,945	2,799
Changes in non-cash operating assets and liabilities	(17,547)	(4,411)
	-----	-----
Net cash (used in) provided by operating activities	(2,461)	6,995
	-----	-----
Investing Activities		
Decrease in marketable securities	15,757	1,296
Increase in film assets	(8,088)	(7,712)
Purchase of capital assets	(12,381)	(5,409)
Increase in other assets	(1,993)	(2,144)
	-----	-----
Net cash used in investing activities	(6,705)	(13,969)
	-----	-----
Financing Activities		
Class C preferred shares dividends paid	(365)	(386)
Common shares issued	1,310	1,276
	-----	-----
Net cash provided by financing activities	945	890
	-----	-----
Effect of exchange rate changes on cash	60	(46)
	-----	-----
Decrease in cash and cash equivalents during the period	(8,161)	(6,130)
Cash and cash equivalents, beginning of period	143,566	64,069
	-----	-----
Cash and cash equivalents, end of period	\$135,405	\$ 57,939
	=====	=====

(See accompanying notes to the condensed consolidated financial statements on pages 7 to 9.)

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)
 For the Six Month Periods Ended June 30, 1999 and 1998
 (unaudited)

1. Basis of Presentation

The consolidated financial statements include the accounts of Imax Corporation and its wholly owned and majority owned subsidiaries. The nature of the Company's business is such that the results of operations for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature.

These financial statements should be read in conjunction with the Company's most recent annual report on Form 10-K for the year ended December 31, 1998 which should be consulted for a summary of the significant accounting policies utilized by the Company.

2. Inventories and Systems Under Construction

	June 30, 1999	December 31, 1998
	-----	-----
Raw materials	\$12,430	\$ 7,555
Work-in-process	13,258	10,686
Finished goods	796	506
	-----	-----
	\$26,484	\$18,747
	=====	=====

3. Financial Instruments

From time to time the Company engages in hedging activities to reduce the impact of fluctuations in foreign currencies on its profitability and cash flow. The credit risk exposure associated with these activities would be limited to all unrealized gains on contracts based on current market prices. The Company believes that this credit risk has been minimized by dealing with highly rated financial institutions.

To fund Canadian dollar costs in 1999 and 2000, the Company had entered into forward exchange contracts as at June 30, 1999 to hedge the conversion of \$31.0 million of its cash flow into Canadian dollars at an average exchange rate of Canadian \$1.46 per U.S. dollar. The company recognizes an exchange gains or losses on the forward contracts when the contracts mature.

The Company has also entered into foreign currency swap transactions to hedge minimum lease payments receivable under sales-type lease contracts denominated in Japanese Yen and French Francs. These swap transactions fix the foreign exchange rates on conversion of 139 million Yen at 98 Yen per U.S. dollar through September 2004 and on 15.5 million Francs at 5.1 Francs per U.S. dollar through September 2005.

These hedging contracts are expected to be held to maturity; however, if they were terminated on June 30, 1999, the Company would have realized a gain of approximately \$0.3 million based on the then prevailing exchange rates.

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)
For the Six Month Periods Ended June 30, 1999 and 1998
(unaudited)

3. Financial Instruments (Cont'd)

The Company entered into an interest rate swap transaction in May 1999 for a term commencing June 1, 1999 and terminating on December 1, 2002. The Company has agreed to pay a floating rate of LIBOR plus 1.49% to June 1, 2000 and LIBOR plus 2.09% for the remainder of the term and the counterparty has agreed to pay a fixed rate of 7.875% on notional principal of \$65 million. The floating rate is revised every 1st/ of December and June. The counterparty may cancel the remaining payments on the swap transaction prior to May 31, 2000 with no early termination cost to either party. The Company adjusts interest expense over each 6-month period for the net amount it receives from or pays to the counterparty. The interest rate swap is expected to be held to maturity; however, if it were terminated by the Company on June 30, 1999, the Company would have realized a loss of approximately \$0.7 million based on the then prevailing interest rates.

4. Contingencies

In April 1994, Compagnie France Film Inc. filed a claim against the Company in the Superior Court in the District of Montreal, in the Province of Quebec, alleging breach of contract and bad faith in respect of an agreement which the plaintiff claims it entered into with the Company for the establishment of an IMAX theater in Quebec City, Quebec, Canada. The plaintiffs claimed damages of Canadian \$4.6 million, together with expenses and pre-judgment interest. Compagnie France Film had also incorporated a shell company, 3101-8450 Quebec Inc. ("3101"). 3101 was sued in an unrelated action to which the Company was not a party and, in February 1996, was found liable to pay damages in the amount of Canadian \$2.5 million. Subsequent to that judgment 3101 intervened in the lawsuit between Compagnie France Film and the Company in order to claim such amount from the Company. In a decision rendered in April 1998, the Court dismissed the plaintiffs' claims with costs. In May 1998, Compagnie France Film Inc. and 3101 both filed appeals to the Court of Appeal. The Company believes that it will be successful in responding to these appeals and the ultimate loss, if any, 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 this litigation.

In addition to the litigation described above, the Company is currently involved in other litigation 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 for any such litigation.

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)
 For the Six Month Periods Ended June 30, 1999 and 1998
 (unaudited)

5. Earnings Per Share

Reconciliations of the numerators and denominators of the basic and diluted per-share computations are as follows:

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
	-----	-----	-----	-----
Net earnings available to common shareholders:				
Net earnings	\$ 2,196	\$ 6,161	\$ 4,209	\$10,360
Less:				
Accrual of dividends on preferred shares	-	(43)	-	(86)
Accretion of discount of preferred shares	-	(44)	-	(88)
	-----	-----	-----	-----
Net earnings used in computing basic earnings per share	2,196	6,074	4,209	10,186
Interest expense on Convertible Subordinated Notes, net of tax	-	885	-	885
	-----	-----	-----	-----
Net earnings used in computing diluted earnings per share	\$ 2,196	\$ 6,959	\$ 4,209	\$11,071
	=====	=====	=====	=====
Weighted average number of common shares (000's):				
Issued and outstanding at beginning of period	29,587	29,115	29,478	29,115
Weighted average shares issued in the period	8	138	103	103
	-----	-----	-----	-----
Weighted average used in computing basic earnings per share	29,595	29,253	29,581	29,218
Assumed exercise of stock options, net of shares assumed acquired under the Treasury Stock Method	798	1,205	854	1,218
Assumed conversion of Convertible Subordinated Notes	-	4,671	-	2,336
	-----	-----	-----	-----
Weighted average used in computing diluted earnings per share	30,393	35,129	30,435	32,772
	=====	=====	=====	=====

Common shares potentially issuable pursuant to the Convertible Subordinated Notes were excluded from the computations in the three and six months ended June 30, 1999 and in the three months ended March 31, 1998 as they would have had an antidilutive effect on earnings per share.

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)
 For the Six Month Periods Ended June 30, 1999 and 1998
 (unaudited)

6. Segmented Information

There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss from the Company's most recent annual report on Form 10-K for the year ended December 31, 1998. Intersegment transactions are not significant.

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
Revenue				
Systems	\$ 18,889	\$30,890	\$41,309	\$57,254
Films	10,444	6,904	19,066	14,037
Other	4,925	5,526	10,626	8,399
Total consolidated revenues	\$ 34,258	\$43,320	\$71,001	\$79,690
Earnings (loss) from operations				
Systems	\$ 10,330	\$18,392	\$21,063	\$33,639
Films	(532)	(339)	(481)	936
Other	(293)	759	(119)	(110)
Corporate overhead	(3,388)	(4,246)	(6,871)	(9,914)
Consolidated earnings from operations	\$ 6,117	\$14,566	\$13,592	\$24,551

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

RESULTS OF OPERATIONS

Theater Signings and Backlog

During the second quarter of 1999, the Company signed contracts for 12 IMAX theater systems valued at \$27.6 million, representing a 4% decrease over the \$28.8 million value of the eight theater systems contracts signed in the second quarter of 1998. All of the signings in the second quarter of 1999 were for commercial locations and the majority were for international locations, including an agreement with United Cinemas International to open an additional eight IMAX theaters in Europe, Asia and South America. For the six months ended June 30, 1999, the Company signed contracts for 23 theater systems valued at \$60.1 million, approximately equal to the \$60.5 million value of the 21 contracts signed in the prior year period. As a result of these theater signings, the Company's sales backlog grew to \$209.7 million at June 30, 1999, a 9% increase from \$192.9 million at March 31, 1999 and a 19% increase from \$175.8 million at December 31, 1998.

The Company's sales backlog at June 30, 1999 represented contracts for 87 theater systems, including eleven systems which will be located at theaters in which the Company will have an equity interest and the upgrade of two existing theaters to IMAX 3D. The Company's sales backlog will vary from quarter to quarter depending on the signing of new systems which adds to backlog and the delivery of systems which reduces backlog. Sales backlog represents the minimum revenues under signed system sale and lease agreements that will be recognized as revenue as the associated theater systems are delivered. The minimum revenue comprises the upfront fees plus the present value of the minimum royalties due under sales-type lease agreements for the first 10 years of the initial lease term. The value of sales backlog does not include revenues from theaters in which the Company has an equity interest, letters of intent or long-term conditional theater commitments.

Three months ended June 30, 1999 versus three months ended June 30, 1998

The Company reported net earnings of \$2.2 million or \$0.07 per share on a diluted basis for the second quarter of 1999 compared to \$6.2 million or \$0.20 per share on a diluted basis for the second quarter of 1998.

The Company's revenues for the second quarter of 1999 decreased 21% to \$34.3 million from \$43.3 million in the corresponding quarter last year due mainly to a decline in systems revenue which more than offset an increase in film revenue.

Systems revenue, which includes revenue from theater system sales and leases, royalties and maintenance fees, decreased approximately 39% to \$18.9 million in the second quarter of 1999 from \$30.9 million in the same quarter last year. The Company delivered four theater systems in the second quarter of 1999 versus eight theater systems in the second quarter of 1998. Recurring revenues from royalties and maintenance fees increased approximately 13% in the second quarter over the corresponding period last year as a result of growth in the IMAX theater network.

IMAX CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont'd)

Three months ended June 30, 1999 versus three months ended June 30, 1998
(Cont'd)

Film revenue increased 51% to \$10.4 million in the second quarter of 1999 from \$6.9 million in the same quarter last year primarily as a result of an increase in film distribution and post-production revenue. Film distribution revenue in the second quarter of 1999 increased 65% compared to the same quarter last year due mainly to the strong performance of the Company's film T-REX: Back to the Cretaceous which was released late in 1998.

Other revenues decreased 11% to \$4.9 million in the first quarter in 1999 from \$5.5 million in the same quarter last year. Revenues from owned and operated theaters increased in the second quarter compared to the same quarter last year due to two owned and operated theaters which commenced operations late in 1998 and in early 1999 however, this was more than offset by declines in Ridefilm revenues and in camera rental revenues.

Gross margin for the second quarter of 1999 was \$15.7 million, or 46% of total revenue, compared to \$24.7 million, or 57% of total revenue, in the corresponding quarter last year. The decrease in gross margin as a percentage of total revenue is due to the lower proportion of systems revenue (which is generally higher margin than film and other revenues) in the second quarter of 1999 compared to the corresponding quarter in 1998.

Selling, general and administrative expenses were \$8.3 million in the second quarter of 1999 compared to \$8.5 million in the corresponding quarter last year. Decreases in executive compensation costs were partially offset by increases in affiliate relations initiatives.

Interest income increased to \$2.9 million in the second quarter of 1999 from \$1.1 million in the same quarter last year primarily due to an increase in the Company's cash and marketable securities balances following the Senior Notes offering in December, 1998.

Interest expense increased to \$5.2 million in the second quarter of 1999 from \$3.3 million in the corresponding quarter last year primarily as a result of the \$200 million Senior Notes issued in December, 1998.

The effective tax rate on earnings before taxes differs from the statutory tax rate and will vary from quarter to quarter primarily as a result of the amortization of goodwill, which is not deductible for tax purposes, and the provision of income taxes at different tax rates in foreign and other provincial jurisdictions. The effective tax rate in the second quarter of 1999 also benefited from an increase in tax credits associated with the Company's manufacturing activities compared to the corresponding quarter in 1998.

Six months ended June 30, 1999 versus six months ended June 30, 1998

The Company reported net earnings of \$4.2 million or \$0.14 per share on a diluted basis for the first half of 1999 compared to \$10.4 million or \$0.34 per share on a diluted basis for the first half of 1998.

The Company's revenues for the first half of 1999 decreased 11% to \$71.0 million from \$79.7 million in the corresponding period last year primarily as a result of decreased systems revenue which more than offset increases in film and other revenues.

Systems revenue decreased approximately 28% to \$41.3 million in the first half of 1999 from \$57.3 million in the same period last year as the Company recognized revenues on ten third-party theater systems compared to sixteen theater systems in the same period last year. Recurring revenues from both royalties and maintenance fees increased 9% in the first half of 1999 over the prior year period due to growth in the IMAX theater network.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont'd)

Six months ended June 30, 1999 versus six months ended June 30, 1998 (Cont'd)

Film revenue increased 36% to \$19.1 million in the first half of 1999 from \$14.0 million in the same period last year due to increases in film distribution and post-production revenues. Film distribution revenues increased 50% in the first half of 1999 over the same period last year primarily as a result of the strong performance of the Company's fill T-REX: Back to the Cretaceous which was released late in 1998.

Other revenue increased 27% to \$10.6 million in the six months ended June 30, 1999 from \$8.4 million in the same period last year as a result of an increase in the number of theaters in operation in which the Company has an equity interest, partially offset by a decline in camera rental revenues.

Gross margin for the first half of 1999 was \$32.2 million or 45% of total revenue, compared to \$45.7 million or 57% of total revenue in the corresponding period last year. The decline in gross margin as a percentage of total revenue is primarily due to the lower proportion of systems revenue (which has generally a higher margin than film and other revenue) in the first half of 1999 compared to the corresponding period in 1998.

Selling, general and administrative expenses were \$16.3 million in the first half of 1999 compared to \$17.9 million in the first half of 1998. The decrease in selling, general and administrative expenses in 1999 over 1998 resulted from declines in executive compensation, partially offset by increased affiliate relations initiatives.

Interest income increased to \$5.3 million in the first half of 1999 from \$2.4 million in the same period last year primarily due to an increase in the Company's cash and marketable securities balances following the \$200 million Senior Notes offering in December 1998.

Interest expense increased from \$6.6 million in the first six months of 1998 to \$11.0 million in the first half of 1999 primarily as a result of the \$200 million Senior Notes offering in December 1998.

The effective tax rate on earnings before taxes differs from the statutory tax rate and will vary from quarter to quarter primarily as a result of the amortization of goodwill, which is not deductible for tax purposes, and the provision of income taxes at different tax rates in foreign and other provincial jurisdictions. The effective tax rate in the first half of 1999 also benefited from an increase in tax credits associated with the Company's manufacturing activities compared to the corresponding period in 1998.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1999, the Company's principal source of liquidity included cash and cash equivalents of \$135.4 million, marketable securities totaling \$43.6 million, trade accounts receivable of \$46.3 million, net investment in leases due within one year of \$9.5 million and the amounts receivable under contracts in backlog which are not yet reflected on the balance sheet. The Company also has unused lines of credit under a working capital facility of \$2.7 million.

The 7.875% Senior Notes due December 1, 2005 are subject to redemption by the Company, in whole or in part, at any time on or after December 1, 2002 at redemption prices expressed as percentages of the principal amount for each 12-month period commencing December 1 of the years indicated: 2002 - 103.938%; 2003 - 101.969%; 2004 and thereafter - 100.000% together with interest accrued thereon to the redemption date and are subject to redemption by the Company prior to December 1, 2002 at a redemption price equal to 100% of the principal amount plus a "make whole premium". If certain changes result in the imposition of withholding taxes under Canadian law, the notes may be redeemed by the Company at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. In the event of a change in control, holders of the notes may require the Company to repurchase all or part of the notes at a price equal to 101% of the principal amount plus accrued interest to the date of repurchase.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont'd)

Liquidity And Capital Resources (Cont'd)

The 5 3/4% Convertible Subordinated Notes (the "Subordinated Notes") due April 1, 2003 are convertible into common shares of the Company at the option of the holder at a conversion price of \$21.406 per share (equivalent to a conversion rate of 46.7154 shares per \$1,000 principal amount of Subordinated Notes) at any time prior to maturity. The Subordinated Notes are redeemable at the option of the Company on or after April 1, 1999 at redemption prices expressed as percentages of the principal amount (1999 - 103.286%; 2000 - 102.464%; 2001 - 101.643%; 2002 - 100.821%) plus accrued interest. The Subordinated Notes may only be redeemed by the Company between April 1, 1999 and April 1, 2001 if the last reported market price of the Company's common shares is equal to or greater than \$30 per share for any 20 of the 30 consecutive trading days prior to the notice of redemption. The Subordinated Notes may be redeemed at any time on or after April 1, 2001 without limitation.

The Company partially funds its operations through cash flow from operations. Under the terms of the Company's typical theater system lease agreement, the Company receives cash payments before it completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures. These cash flows have generally been adequate to finance the ongoing operations of the Company.

In the first half of 1999, cash used in operating activities amounted to \$2.5 million after the payment of interest on the Senior and Convertible Notes totaling \$10.6 million and working capital requirements. Working capital requirements included an increase of \$8.1 million in inventory due mainly to an increase in raw materials and work-in-process inventory anticipated for completion and delivery later in the year and a \$10.3 million reduction in accounts payable and accrued liabilities due to the timing of payments. Cash flow from operations also includes an increase of \$1.9 million in funds held for sponsored film productions, which will be expended in future periods.

In the first half of 1999, cash used in investing activities amounted to \$6.7 million and included a decrease in marketable securities of \$15.8 million, which was more than offset by an \$8.1 million increase in film assets, primarily Galapagos, Cyberworld and Island of the Sharks and a \$12.4 million increase in capital assets, primarily owned and operated theaters.

During the first half of 1999, cash provided by financing activities included \$1.3 million of proceeds from common shares issued under the Company's stock option plan.

The Company believes that cash flows from operations together with existing cash balances and the working capital facility will continue to be sufficient to meet cash requirements in the foreseeable future.

IMPACT OF THE YEAR 2000

The Year 2000 issue involves computer programs and embedded chips, which use two digit date fields, failing or creating errors as a result of the change in the century.

Background and Process

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont'd)

IMPACT OF THE YEAR 2000 (Cont'd)

In order to assess the likely impact of the Year 2000 issue on its operations, the Company established a Year 2000 Committee in 1998, consisting of senior managers and reporting to the Chief Operating Officer, and designated a manager or coordinator in each department. The Company also retained external consultants who developed a Year 2000 project plan and conducted awareness sessions for the Company's staff.

As part of the Year 2000 project plan beginning in 1998, the Company's Internal Audit department, in conjunction with the Year 2000 Committee, distributed an asset inventory questionnaire and business partner questionnaire within the Company, and a key vendor questionnaire externally to identify and inventory likely areas of concern.

Assessment and Action Taken

The Internal Audit department and the Year 2000 Committee reviewed the responses to these questionnaires and assessed the areas of risk under the following categories: information technology systems, non-information technology systems, facilities, and third party suppliers.

The Internal Audit department and the Year 2000 Committee determined that the Company's information technology at risk were its cost accounting and financial software systems. Accordingly, the cost accounting and financial software systems were upgraded in the first quarter of 1999, which upgrades have been certified as Year 2000 ready by the vendors.

For non-information technology systems, the Company evaluated the projection system and concluded that the performance of the projection system would not be negatively impacted by the change in the century.

With respect to the sound systems used in connection with the projection system, the systems supplier Sonics, a subsidiary, has been evaluating each of the subsystems of the sound system. Sonics has advised the Company that the current standard sound system hardware would not be negatively impacted by Year 2000 risks. Sonics also evaluated the proprietary software elements incorporated into sound system software and has advised the Company that they, too, would not be negatively impacted by the change in the century. Sonics has advised the Company that it has verified that the manufacturer of each "off-the-shelf" utility software element, also incorporated into the sound system software, had tested and certified its product as Year 2000 ready.

Sonics must still complete the testing of an automation subsystem incorporated in a sound system in 26 IMAX theaters. Sonics' service department plans to conduct a Year 2000 readiness test on each automation subsystem during routine service visits. Sonics has advised the Company that it expects to complete such testing at minimal cost in the third quarter of 1999. If there is a failure in an automation subsystem to be Year 2000 ready, this failure would impact on the ability of a theater to present pre-show material but would not affect the theaters ability to present a 15/70-format film.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont'd)

IMPACT OF THE YEAR 2000 (Cont'd)

The Internal Audit department and the Year 2000 Committee determined that the Company's facilities that could be at risk include each of the Company's office premises. The Company has contacted utility suppliers to determine their Year 2000 readiness. The Company is reviewing and assessing responses from its utility suppliers. Such process is largely completed. With respect to third party risks, the Company is continuing to review and assess the responses to the key vendor questionnaires and following up with those key vendors who have not yet responded. Based upon its efforts and assessment to date, the Company believes that its information technology systems and non-information technology systems will remain operational during the Year 2000 transition process and that facilities will be largely unaffected subject to third party compliance.

Cost

The cost of the Company's Year 2000 efforts are not expected to be material nor have a material effect on the Company's financial position. The Company is not separately tracking the internal cost for its Year 2000 review activities.

Contingency Plans

Based on the Company's current review of its Year 2000 readiness, the Company does not anticipate the need for significant contingency planning for its information technology systems or non-information technology systems. The Company is, however, making plans to have additional customer service representatives available to handle inquiries or concerns from the Company's customers during the first few weeks of Year 2000. The Company is in the process of identifying alternate vendors of components for the projection system in the event that any key vendor fails to be Year 2000 ready. The Company's few sole source vendors of components for the projection system have indicated to the Company that they are Year 2000 ready. Sonics has pre-ordered sufficient quantities of key sound system components to meet the Company's scheduled deliverables in the first quarter of Year 2000. The Company is prioritizing its key utility suppliers and assessing the need and extent of a contingency plan for its facilities. The Company will continue to assess the need for additional contingency plans.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont'd)

IMPACT OF THE YEAR 2000 (Cont'd)

No assurance can be given that the Company will not be materially adversely affected by Year 2000 issues. Although the Company is not currently aware of any material operational issues with preparing its information technology systems, non-information technology systems and facilities for the Year 2000, the Company may experience material unanticipated problems and costs caused by undetected errors or defects. In addition, the failure of third parties to timely address their Year 2000 issues could have a material adverse impact on the Company's business, operations and financial condition. If, for example, third party suppliers of utilities and other commercial products and services experience interruptions in services as a result of Year 2000 issues, the Company's operations could be adversely affected.

The impact of the Year 2000 issue on the Company has been disclosed consistently with the above to those customers of the Company who have requested such disclosure.

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 substantial portion of the Company's revenues are denominated in U.S. dollars while a substantial portion of its costs and expenses are denominated in Canadian dollars. A portion of the net U.S. dollar flows of the Company are converted to Canadian dollars to fund Canadian dollar expenses, either through the spot market or through forward contracts. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese yen flows are converted to U.S. dollars generally through forward contracts to minimize currency exposure. The Company also has cash receipts under leases denominated in French francs and Japanese Yen which are converted to U.S. dollars generally through forward contracts to minimize currency exposure.

A substantial portion of the Company's cash equivalents earn interest at short-term floating rates while all of its long-term debt incurs interest at long-term fixed rates. The Company entered into an interest rate swap to hedge this exposure.

Contract amounts, average contractual exchange rates, terms and fair values for the Company's financial instruments are disclosed in Note 3 to the Condensed Consolidated Financial Statements contained in Item 1.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In April 1994, Compagnie France Film Inc. filed a claim against the Company in the Superior Court in the District of Montreal, in the Province of Quebec, alleging breach of contract and bad faith in respect of an agreement which the plaintiff claims it entered into with the Company for the establishment of an IMAX theater in Quebec City, Quebec, Canada. Until December 1993, Predecessor Imax was in negotiations with the plaintiff and another unrelated party for the establishment of an IMAX theater in Quebec City. In December 1993, Predecessor Imax executed a system lease agreement with the other party. During the negotiations, both parties were aware of the other party's interest in also establishing an IMAX theater in Quebec City. The plaintiffs claimed damages of Canadian \$4.6 million, representing the amount of profit they claim they were denied due to their inability to proceed with an IMAX theater in Quebec City, together with expenses incurred in respect of this project and pre-judgment interest. The Company disputed this claim and filed a defense in response. Compagnie France Film had also incorporated a shell company, 3101-8450 Quebec Inc. ("3101"). 3101 was to, among other things, enter into a lease for the proposed IMAX theater site. In November 1993, while negotiations between Compagnie France Film and the Company were still ongoing, 3101 entered into a lease for the site. 3101 defaulted on the lease and the landlord sued 3101 in an unrelated action to which the Company was not a party. In February 1996, 3101 was found liable to pay the landlord damages in the amount of Canadian \$2.5 million. Subsequent to that judgment 3101 intervened in the lawsuit between Compagnie France Film and the Company in order to claim from the Company damages in the amount of Canadian \$2.5 million. The Company disputed these claims and the suit went to trial in January 1998. In a decision rendered in April 1998, the court dismissed the plaintiffs' claims with costs. In May 1998, the plaintiffs and 3101 both filed appeals of the decision to the Court of Appeal. The Company believes that the amount of the loss, if any, 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 this litigation.

The Company filed a complaint in August 1994 in the U.S. District Court for the Northern District of California claiming that Neil Johnson, NJ Engineering Inc. and Cinema Technologies Inc. engaged in unfair competition and misappropriated the Company's trade secrets in the design and manufacture of the defendants' 70mm 15-perforation projection systems. The Company settled its claims with NJ Engineering Inc. but continued to pursue an injunction against Cinema Technologies Inc. and its principal Mr. Johnson to prevent shipment of projectors, which incorporate the Company's trade secrets in addition to damages. The defendants brought two motions for summary judgment, one of which was based on the defendants' statute of limitations defense and the other based on, among others, the defendants' contention that the trade secrets at issue were not trade secrets. The court denied the motion based on the statute of limitations defense, granted the motion based on the unfair competition and trade secret status issues, and entered a judgment for the defendants. The Company filed an appeal of this decision to the U.S. Court of Appeals for the Ninth Circuit and on August 19, 1998 it affirmed the granting of the motion based on the trade secrets claim, but vacated and reversed, and remanded for further proceedings, with respect to the Company's unfair competition claim against Cinema Technologies Inc. The case was returned to trial court in October 1998; a trial date had been set for September 1999. On May 15, 1999, the parties agreed to settle all outstanding litigation between them. In management's opinion, the terms of the settlement will not have a material impact on the financial position or results of the operation of the Company.

Iwerks Entertainment, Inc. ("Iwerks") filed a complaint against the Company on February 26, 1996 in the U.S. District Court for the Central District of California alleging violations under the Sherman Act, the Clayton Act, and tortious interference with contracts and prospective economic advantage. Iwerks was seeking unquantified damages, injunctive relief and restitution. All claims against the Company were dismissed in a summary judgment in April 1998. In May 1998, Iwerks filed an appeal of this decision to the U.S. Court of Appeals for the Ninth Circuit. Effective April 30, 1999, the parties agreed to settle the action. In management's opinion, the terms of the settlement will not have a material impact on the financial position or results of the operation of the Company.

IMAX CORPORATION

PART II OTHER INFORMATION (Cont'd)

Item 1. Legal Proceedings (Cont'd)

In addition to the litigation described above, the Company is currently involved in other litigation 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 for any such litigation.

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

At the Annual Meeting of the Company's shareholders held on June 7, 1999, shareholders represented at the meeting, whether in person or by proxy: (i) elected the Honourable J. Trevor Eyton, G. Edmund King, Sam Reisman and W. Townsend Ziebold as Class I directors of the Company for the balance of the term expiring in 2000, Kenneth G. Copland, Garth M. Girvan, Murray B. Koffler and Mark A. Utay as Class II directors for a term expiring in 2002 and Michael J. Biondi as a Class III director for the balance of the term expiring in 2001 (19,447,181 shares voted for and 73,193 shares withheld); (ii) appointed PricewaterhouseCoopers, LLP as auditors of the Company to hold office until the next annual meeting of shareholders at a remuneration to be fixed by the Board of Directors (19,450,542 shares voted for and 69,832 shares withheld); (iii) approved certain amendments to the Corporation's Stock Option Plan and thereby to approve the grant of certain options to each of Mssrs. Wechsler and Gelfond (17,522,457 shares voted for and 1,997,917 shares voted against); (iv) approved certain amendments to the articles of Incorporation of the Corporation (18,538,437 shares voted for and 981,937 shares voted against) and (v) approved certain amendments to the By-laws of the Corporation (18,879,094 shares voted for and 641,280 shares voted against).

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

No reports on Form 8-K were filed in the three-month period ended June 30, 1999.

SIGNATURES

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

IMAX CORPORATION

Date: August 13, 1999

By: /s/ John M. Davison

John M. Davison
Chief Operating Officer and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Mark J. Thornley

Mark J. Thornley
Vice President, Finance
(Principal Accounting Officer)