

IMAX CORP  
Form 10-Q  
July 20, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 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

98-0140269

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

2525 Speakman Drive, Mississauga, Ontario, Canada

L5K 1B1

(Address of principal executive offices)

(Postal Code)

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

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is 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-Accelerate 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 June 30, 2007
Common stock, no par value	40,288,074

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**SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

Certain statements included in this quarterly report may constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business 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.



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<b>Item 1. FINANCIAL INFORMATION</b>	
<b>Financial Statements</b>	
The following Condensed Consolidated Financial Statements are filed as part of this Report:	
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**IMAX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**In accordance with United States Generally Accepted Accounting Principles**  
*(in thousands of U.S. dollars)*

	<b>March 31,</b>	<b>December</b>
	<b>2007</b>	<b>31,</b>
	<b>(unaudited)</b>	<b>2006</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 25,252	\$ 25,123
Short-term investments	2,141	2,115
Accounts receivable, net of allowance for doubtful accounts of \$3,362 (2006 - \$3,253)	18,725	26,017
Financing receivables (note 4)	65,884	65,878
Inventories (note 5)	26,664	26,913
Prepaid expenses	2,552	3,432
Film assets	1,160	1,235
Property, plant and equipment	23,280	24,389
Other assets	10,623	10,365
Deferred income taxes (note 12)		
Goodwill	39,027	39,027
Other intangible assets	2,558	2,547
<b>Total assets</b>	<b>\$ 217,866</b>	<b>\$ 227,041</b>
<b>Liabilities</b>		
Accounts payable	\$ 5,306	\$ 11,426
Accrued liabilities (note 9(h),13(a), 16(a), 16(c))	53,643	51,052
Deferred revenue	57,643	56,694
Senior Notes due 2010 (note 6)	160,000	160,000
<b>Total liabilities</b>	<b>276,592</b>	<b>279,172</b>
<b>Commitments and contingencies</b> (notes 8 and 9)		
<b>Shareholders' equity (deficit)</b>		
Capital stock (note 13) Common shares - no par value. Authorized - unlimited number. Issued and outstanding 40,285,574 (2006 - 40,285,574)	122,024	122,024
Other equity	3,054	2,937
Deficit	(185,147)	(178,274)
Accumulated other comprehensive income	1,343	1,182
<b>Total shareholders' deficit</b>	<b>(58,726)</b>	<b>(52,131)</b>
<b>Total liabilities and shareholders' equity (deficit)</b>	<b>\$ 217,866</b>	<b>\$ 227,041</b>



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

	<b>Three months ended March</b>	
	<b>31,</b>	
	<b>2007</b>	<b>2006</b>
		<b>As</b>
		<b>restated</b>
		<b>(note 3)</b>
<b>Revenues</b>		
Equipment and product sales	\$ 7,105	\$ 7,820
Services	17,645	13,434
Rentals	1,221	899
Finance income	1,186	1,112
	27,157	23,265
<b>Cost of goods sold, services and rentals</b>		
Equipment and product sales	3,943	4,206
Services	11,276	10,617
Rentals	549	465
	15,768	15,288
<b>Gross margin</b>	11,389	7,977
Selling, general and administrative expenses (note 10)	10,342	10,553
Research and development	1,495	915
Amortization of intangibles	136	192
Receivable provisions net of (recoveries) (note 11)	6	143
<b>Loss from operations</b>	(590)	(3,826)
Interest income	226	253
Interest expense	(4,249)	(4,157)
<b>Loss from continuing operations before income taxes</b>	(4,613)	(7,730)
(Provision for) recovery of income taxes	(167)	1,692
<b>Net loss from continuing operations</b>	(4,780)	(6,038)
Net earnings from discontinued operations		2,300
<b>Net loss</b>	\$ (4,780)	\$ (3,738)

**Earnings (loss) per share**

Earnings (loss) per share basic and diluted:



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Net loss from continuing operations	\$	(0.12)	\$	(0.15)
Net earnings from discontinued operations	\$		\$	0.06
Net loss	\$	(0.12)	\$	(0.09)

**Other comprehensive income consists of:**

Amortization of prior service credits (net of tax provision of \$76)	\$	161	\$	
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*(the accompanying notes are an integral part of these condensed consolidated financial statements)*

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

	<b>Three months ended March</b>	
	<b>2007</b>	<b>31,</b>
		<b>2006</b>
		<b>As</b>
		<b>restated</b>
		<b>(note 3)</b>
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net loss	\$ (4,780)	\$ (3,738)
Net (earnings) from discontinued operations		(2,300)
Items not involving cash:		
Depreciation and amortization	2,995	3,390
Write-downs	6	143
Change in deferred income taxes	(76)	(1,387)
Stock and other non-cash compensation	1,809	1,605
Non-cash foreign exchange gain	(109)	(29)
Interest on short-term investments	(26)	(85)
Investment in film assets	(1,340)	(1,651)
Changes in other non-cash operating assets and liabilities	2,139	(1,590)
Net cash provided by (used in) operating activities	618	(5,642)
<b>Investing Activities</b>		
Purchases of short-term investments	(2,124)	(4,098)
Proceeds from maturities of short-term investments	2,124	4,097
Purchase of property, plant and equipment	(99)	(92)
Increase in other assets	(245)	(187)
Increase in other intangible assets	(148)	(91)
Net cash used in investing activities	(492)	(371)
<b>Financing Activities</b>		
Common shares issued		254
Net cash provided by financing activities		254
Effects of exchange rate changes on cash	3	(35)

<b>Increase (Decrease) in cash and cash equivalents from continuing operations</b>	129	(5,794)
Increase in cash and cash equivalents provided by investing activities from discontinued operations		3,493
<b>Increase (decrease) in cash and cash equivalents, during the year</b>	129	(2,301)
<b>Cash and cash equivalents, beginning of period</b>	25,123	24,324
<b>Cash and cash equivalents, end of period</b>	\$ 25,252	\$ 22,023

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

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

**1. Basis of Presentation**

IMAX Corporation, together with its subsidiaries, reports its results under United States Generally Accepted Accounting Principles ( U.S. GAAP ).

The condensed consolidated financial statements include the accounts of IMAX Corporation together with its subsidiaries (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 Standard 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 March 31, 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 March 31, 2007, these five VIEs have total assets of \$0.4 million (December 31, 2006 \$0.4 million) and total liabilities of \$0.4 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 financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 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 Number 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 or 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 is an increase to the tax liability of \$2.1 million and a charge to opening deficit. For additional information see note 12.

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**3. Restatement of Previously Issued Financial Statements**

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 films 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 retained earnings.

The sections which follow present additional detail with regard to the restatement and the impact on results of operations for the quarter ended March 31, 2006.

***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, screen system and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and the use of that IMAX brand as a single deliverable and a single unit of accounting. In addition, the Company revised its policy to require that (i) the projector, sound system and screen system be installed and be in full working condition, the 3D glasses cleaning machine, if applicable, be delivered and projectionist training be completed, and (ii) written customer acceptance thereon be received, or the public opening of the theater takes place, before revenue can be recognized. 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. Three transactions which were originally recorded in 2005 (revenue and net earnings impact of \$5.3 million and \$2.7 million, respectively) were moved to the first quarter of 2006. One transaction which was originally recorded in the first quarter of 2006 (revenue and net earnings impact of \$1.8 million and \$0.4 million, respectively) was moved to the second quarter of 2006. The net impact of these adjustments was an understatement of net earnings of \$2.3 million for the quarter ended March 31, 2006. The net impact of these adjustments was an increase in revenue and net earnings of \$3.2 million and \$2.1 million, respectively, for the quarter ended March 31, 2006.

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**3. Restatement of Previously Issued Financial Statements (cont d)**

***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 arrangements separately priced maintenance and warranty agreements and film licenses, the Company determined that fair value previously allocated in certain multiple element arrangements was not appropriate and has adjusted these amounts.

The existence of certain non-standard contractual provisions resulted in the reclassification of: certain sales to sales-type lease transactions given lien rights were retained; certain sales-type leases to operating leases given substantially all of the benefits and risks of ownership had not passed to the customer and certain contractual default clauses impacted the timing of recognition of the minimum annual payments under the 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 by \$0.1 million for the three months ended March 31, 2006.

***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 net loss has been increased by less than \$0.1 million for the three months ended March 31, 2006.

***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 be 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 net loss has been increased by \$0.3 million for the three months ended March 31, 2006.

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**3. Restatement of Previously Issued Financial Statements (cont d)**

***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 net loss has been decreased by \$0.2 million for the three months ended March 31, 2006.

***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 benefits since 2000 for which the obligation had not been included in the prior financial statements as required under SFAS No. 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 \$0.1 million for the three months ended March 31, 2006.

***Statements of Cash Flows***

There were no errors in the cash flow statements for the quarter ended March 31, 2006 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.



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**3. Restatement of Previously Issued Financial Statements (cont d)****Nature of Errors (cont d)*****Restated Statement of Operations for the Three Months Ended March 31, 2006***

The following table presents the impact of the restatement on the Company's previously issued consolidated statements of operations for the three months ended March 31, 2006:

	As Previously Reported <sup>(1)</sup>	Revenue Recognition- Theater Systems	Revenue Recognition- Other	Inventory Costs	Film Accounting	Branch Level Interest Taxes	Other Adjustments	As Restated
<b>Revenues</b>								
Equipment and product sales	\$ 4,679	\$ 3,315	\$ (174)	\$	\$	\$	\$	\$ 7,820
Services	13,708		243		(517)			13,434
Rentals	854		45					899
Finance income	1,177	(81)	16					1,112
	20,418	3,234	130		(517)			23,265
<b>Costs of goods sold, services and rentals</b>								
Equipment and product sales	3,121	1,085						4,206
Services	10,828	14			(225)			10,617
Rentals	444		21					465
	14,393	1,099	21		(225)			15,288
<b>Gross margin</b>	6,025	2,135	109		(292)			7,977
Selling, general and administrative expenses								
	10,505			45			3	10,553
Research and development	915							915
Amortization of intangibles	192							192
Receivable provisions net of (recoveries)	143							143

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<b>Earnings from operations</b>	(5,730)	2,135	109	(45)	(292)		(3)	(3,826)
Interest income	253							253
Interest expense	(4,174)					17		(4,157)
<b>Earnings (loss) from continuing operations before income taxes</b>	(9,651)	2,135	109	(45)	(292)	17	(3)	(7,730)
Recovery of (provision for) income taxes	1,530					162		1,692
<b>Net earnings (loss) from continuing operations</b>	(8,121)	2,135	109	(45)	(292)	179	(3)	(6,038)
Net earnings from discontinued operations	2,300							2,300
<b>Net earnings (loss)</b>	\$ (5,821)	\$ 2,135	\$ 109	\$ (45)	\$ (292)	\$ 179	\$ (3)	\$ (3,738)
<b>Earnings (loss) per share</b>								
Earnings (loss) per share basic:								
Net earnings (loss) from continuing operations	\$ (0.20)	\$ 0.05	\$	\$	\$	\$	\$	\$ (0.15)
Net earnings from discontinued operations	\$ 0.06	\$	\$	\$	\$	\$	\$	\$ 0.06
Net (loss) earnings	\$ (0.14)	\$ 0.05	\$	\$	\$	\$	\$	\$ (0.09)
Earnings (loss) per share diluted:								
Net earnings (loss) from continuing operations	\$ (0.20)	\$ 0.05	\$	\$	\$	\$	\$	\$ (0.15)
Net earnings from discontinued operations	\$ 0.06	\$	\$	\$	\$	\$	\$	\$ 0.06

Net earnings (loss) \$ (0.14) \$ 0.05 \$ \$ \$ \$ \$ (0.09)

(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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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**In accordance with U.S. Generally Accepted Accounting Principles**  
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*(unaudited)*

**4. Financing Receivables**

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Gross minimum lease amounts receivable	\$ 88,175	\$ 89,343
Residual value of equipment	368	368
Unearned finance income	(30,303)	(31,182)
Present value of minimum lease amounts receivable	58,240	58,529
Accumulated allowance for uncollectible amounts	(2,555)	(2,445)
Net investment in leases	55,685	56,084
Gross receivables from financed sales	14,697	14,268
Unearned income	(4,498)	(4,474)
Present value of financed sale receivables	10,199	9,794
Total financing receivables	\$ 65,884	\$ 65,878
Present value of financed sale receivables due within one year	\$ 2,576	\$ 1,886
Present value of financed sale receivables due after one year	\$ 7,623	\$ 7,908
As at March 31, 2007 the financed sale receivables had a weighted average effective interest rate of 8.7% (December 31, 2006 8.3%).		

**5. Inventories**

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Raw materials	\$ 11,496	\$ 11,504
Work-in-process	2,612	2,677
Finished goods	12,556	12,732
	\$ 26,664	\$ 26,913

**6. Senior Notes due 2010**

As at March 31, 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 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 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, governing the Company's Senior Notes due 2010 (the Indenture ).

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**6. Senior Notes due 2010** (cont d)

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 \$0.5 million to the Consenting Holders. 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 will cure such default under the Indenture, which provides for a 30-day cure period for defaults under the reporting covenant, by filing its 2006 10-K and this first quarter 2007 10-Q by the end of the 30-day cure period.

**7. Credit Facility**

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 \$40.0 million, subject to a borrowing base calculation which includes the Company s financing receivables, operating leases, finished goods inventory and capital assets with certain reserve requirements and deductions for outstanding letters of credit. As at March 31, 2007, the Company s current borrowing capacity under such calculation is \$22.4 million after deduction for outstanding letters of credit of \$10.6 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 cash collections and 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 calculated on a trailing four quarter basis, of not less than \$20.0 million.

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 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 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 10-K filing does 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, has not been cured within the applicable grace period.

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**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 March 31, 2007 for each of the years ended December 31, are as follows:

2007 (nine months remaining)	\$ 4,637
2008	6,036
2009	5,854
2010	5,999
2011	6,136
Thereafter	14,636
	\$ 43,298

- (b) As at March 31, 2007, the Company has letters of credit of \$10.6 million (December 31, 2006 - \$9.4 million) outstanding under the Company's credit facility arrangement, which have been collateralized by cash deposits (see note 7). In addition, as at March 31, 2007, the Company has Performance Security Guarantees of \$0.6 million (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 March 31, 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 Statements of Financial Accounting Standards 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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**9. Contingencies and Guarantees (cont d)**

- (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. An evidentiary hearing on liability issues has been set for September 2007 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 arbitration hearing on both claims took place in November 2005. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company's favor on all claims. The ICC hearings to determine the amount of damages to be awarded to the Company took place in July 2006, and a further hearing took place on December 2006. The ICC panel has not yet rendered its decision with respect to damages and no amount has yet been recorded for these damages.
- (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.

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**9. Contingencies and Guarantees (cont d)**

- (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. The lawsuits, brought on behalf of shareholders who purchased the Company's common stock between October 28, 2004 and August 9, 2006, allege 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. These lawsuits seek unspecified compensatory damages, costs, and expenses. 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 April 26, 2007, the lead plaintiff and the Company entered into a stipulation extending the time in which the lead plaintiff must file a consolidated amended complaint until sixty days after the Company files its Annual Report on Form 10-K for the year ended December 31, 2006. 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 complaints are meritless and will vigorously defend this matter, although no assurance 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.
- (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.
- (f) On May 10, 2007, Catalyst Fund Limited Partnership II, a holder of Senior Notes, filed a complaint against the Company in the Supreme Court of the State of New York, New York County alleging common law fraud, challenging 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 governing the Senior Notes, and seeking a declaration that the consent solicitation was legally ineffective due to alleged misstatements made by the Company. The complaint further seeks a declaration that the Company has defaulted on its reporting obligations under the indenture as a result of its failure to timely file its annual and quarterly reports, and the Company's stated expectation that it will restate certain of the financial statements it filed during the 2001 through 2006 time period. 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 lawsuit is entirely without merit and plans to defend it vigorously. On June 29, 2007, the Company moved to dismiss the complaint in its entirety. The Company believes this lawsuit is entirely without merit and plans to defend it vigorously although no assurances can be given with respect to the outcome of such proceedings.

- (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 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 issued 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.

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**9. Contingencies and Guarantees (cont d)****Financial Gurantees**

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 March 31, 2007:

	<b>2007</b>
Balance at the beginning of the year	\$ 38
Payments	
Warranties issued	
Revisions	
Balance as of March 31, 2007	\$ 38

**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 December 31, 2006, 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 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**

- (a) Included in selling, general and administrative expenses for the three months ended March 31, 2007 is a gain of \$0.1 million (2006 less than \$0.1 million gain), for net foreign exchange gains or losses related to the translation of foreign currency denominated monetary assets, liabilities and integrated subsidiaries.

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**11. Receivable Provisions, Net of (Recoveries)**

	<b>Three months ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Accounts receivable provisions, net of (recoveries)	\$ (11)	\$ 203
Financing receivables, net of (recoveries)	17	(60)
Receivable provisions, net of (recoveries)	\$ 6	\$ 143

**12. 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 March 31, 2007, the Company has net deferred income tax assets of \$nil (December 31, 2006 - \$nil). As of March 31, 2007, the Company had a gross deferred income tax asset of \$53.8 million, against which the Company is carrying a \$53.8 million valuation allowance.

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*. 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 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 decrease to retained earnings 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 March 31, 2007 and January 1, 2007, the Company had total unrecognized tax benefits of \$3.8 million and \$3.7 million comprised of (i) \$3.6 million and \$3.5 million for international withholding taxes, respectively, and (ii) \$0.2 million related to Large Corporations Tax as of both periods. 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 be greater than our 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 in potential interest and penalties associated with uncertain tax positions for the three months ended March 31, 2007.

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**13. Capital Stock****(a) Stock-Based Compensation**

The Company has four stock-based compensation plans that are described below. The compensation costs charged to the statement of operations for these plans were \$1.0 million and \$0.8 million for the first quarters ended March 31, 2007 and 2006, respectively. 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 in the first quarter of 2007 at the date of grant was \$2.42 per share (2006 \$3.75 per share). The Company utilizes a Binomial Model to determine the fair value of common share options at the grant date. For the three months ended March 31, the following assumptions were used:

	<b>2007</b>	<b>2006</b>
Average risk-free interest rate	4.72%	4.83%
Market risk premium	5.73%	5.33% - 5.60%
Beta	0.82	1.11 - 1.28
Expected option life (in years)	5.34	3.86 - 5.33
Expected volatility	61%	60%
Annual termination probability	11.87%	8.06%
Dividend yield	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 equity 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.



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**13. Capital Stock** (cont d)**(a) Stock-Based Compensation** (cont d)**Stock Option Plan** (cont d)

As at March 31, 2007, the Company has reserved a total of 6,974,657 (December 31, 2006 6,974,657) common shares for future issuance under the Stock Option Plan, of which options in respect of 5,087,985 common shares are outstanding at March 31, 2007. Options are generally granted with an exercise price equal to the market value of the Company's stock at the grant date. The options generally vest between one and 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 March 31, 2007, options in respect of 4,625,132 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 March 31:

	Number of shares		Weighted average exercise price per share	
	2007	2006	2007	2006
Options outstanding, beginning of period	5,100,995	5,262,824	\$7.12	\$ 6.82
Granted	16,390	33,335	4.40	9.06
Exercised		(66,533)		3.81
Forfeited	(16,350)	(14,000)	8.12	20.65
Expired		(8,000)		13.95
Cancelled	(13,050)	(2,467)	6.87	
Options outstanding, end of period	5,087,985	5,205,159	7.11	7.16
Options exercisable, end of period	4,625,132	4,238,422	7.07	7.12

In the first quarter of 2007, the Company cancelled 13,050 stock options from its Stock Option Plan (2006 2,467) surrendered by Company employees for \$nil consideration.

As at March 31, 2007 4,945,309 options are fully vested or are expected to vest with a weighted average exercise price of \$7.09, aggregate intrinsic value of \$1.7 million and weighted average remaining contractual life of 4.3 years. As at March 31, 2007, options that are exercisable have an intrinsic value of \$1.7 million and a weighted average remaining contractual life of 4.2 years. The intrinsic value of options exercised in the first quarter of 2006 was \$0.4 million.

Not included in the table above are 502,500 options granted in the first quarter of 2006 that the Company determined in the fourth quarter of 2006, exceeded, by approximately 1.6%, certain cap limits for grants set by its

Stock Option Plan. These options were granted with a weighted average exercise price of \$10.43. Of these options, 10,000 options with a weighted average exercise price of \$10.69 were forfeited. The number of these options outstanding as at March 31, 2007 was 492,500 (2006 502,500) with a weighted average exercise price of \$10.42 (2006 \$10.43). The number of these options exercisable as at March 31, 2007 was 216,250 (2006 nil) with a weighted average exercise price of \$10.63 (2006 nil). As the Company intended to settle the obligations for a significant number of these options in cash, these options have been treated as liability-based awards based on fair values as at March 31, 2007. 5,000 of these options were forfeited in May 2007, 150,000 of these options were voluntarily surrendered by the Co-CEOs for no consideration in June 2007; and 337,500 of these options were settled for cash in June 2007 in an amount of \$0.3 million. Compensation cost recognized up to the cancellation date was not reversed for the options cancelled.

***Options to Non-Employees***

In the first quarter of 2007, an aggregate of 8,890 (2006 23,335) options to purchase the Company's common stock with an average exercise price of \$4.31 (2006 \$8.75) were issued 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.

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**13. Capital Stock** (cont d)**(a) Stock-Based Compensation** (cont d)**Stock Option Plan** (cont d)**Options to Non-Employees** (cont d)

As at March 31, 2007, non-employee options outstanding amounted to 125,549 options (2006 63,340) with a weighted-average exercise price of \$8.24 (2006 \$9.51). 115,549 options (2006 53,340) were exercisable with an average weighted exercise price of \$8.18 (2006 \$9.62) and the vested options have an aggregate intrinsic value of less than \$0.1 million. The Company has calculated the fair value of these options to non-employees to be less than \$0.1 million (2006 \$0.1 million), using a Binomial option-pricing model with the following underlying assumptions for periods ended March 31:

	<b>2007</b>	<b>2006</b>
Average risk-free interest rate	4.71%	4.60%
Contractual option life	6 years	5-7 years
Average expected volatility	60%	60%
Dividend yield	0%	0%

In the first quarter of 2007, the Company has recorded a charge of less than \$0.1 million (2006 - \$0.1 million) to film cost of sales related to the non-employee stock options.

**Restricted Common Shares**

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 \$0.8 million. The Company accounts for the obligation as a liability, which is classified within accrued liabilities. The Company has recorded an expense of \$0.2 million for the quarter ended March 31, 2007 (2006 \$0.5 million), 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 vested and were exercisable immediately and the other 300,000 rights will vest and be exercisable by the end of 2007. These rights were measured at fair value at the date of grant and are remeasured each period until settled. At March 31, 2007, these rights had weighted average fair value of \$1.12 based on the fair value of \$nil for the rights that vested on date of grant and a fair value of \$2.23 for the rights that vest during 2007. The Company has recorded a charge of \$0.3 million to SG&A related to these rights. The following assumptions were used at March 31, 2007 for measuring the fair value of the rights that vest during 2007:

Risk-free interest rate	4.72%
Market risk premium	5.66%
Beta	0.90
Expected option life (in years)	4.51
Expected volatility	61%
Annual termination probability	0%
Dividend yield	0%

**Warrants to Non-Employees**

There were no warrants issued during the three months ended or outstanding as of March 31, 2007 and 2006.

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**13. Capital Stock** (cont d)**(b) Earnings (Loss) per Share**

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

	<b>Three months ended March 31,</b>	
	<b>2007</b>	<b>2006 As restated</b>
Net loss from continuing operations applicable to common shareholders	\$ (4,780)	\$ (6,038)
<i>Weighted average number of common shares (000 s):</i>		
Issued and outstanding, beginning of period	40,286	40,213
Weighted average number of shares issued during the period		12
Weighted average number of shares used in computing basic earnings per share	40,286	40,225
Assumed exercise of stock options, net of shares assumed repurchased		
Weighted average number of shares used in computing diluted earnings per share	40,286	40,225

The calculation of diluted earnings per share for the three months ended March 31, 2007 excludes 0.2 million (2006 1.8 million) common shares 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 three months ended March 31, 2007:

Balance as of December 31, 2006	\$ (52,131)
Net loss	(4,780)
Adjustment to paid-in-capital for employee stock options granted	96
Adjustment to paid-in-capital for non-employee stock options granted	21
Adjustment for adoption of FIN 48	(2,093)
Adjustment to amortize the prior service credit	161
Balance as of March 31, 2007	\$ (58,726)

**14. 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 Annual Report on Form 10-K for the year ended December 31, 2006. The Company has conformed its segment information in the current year to the current information used by the Company's Chief Operating Design Makers ( CODM ), as defined in Statement of Financial Accounting Standards No. 131 Disclosures about Segments of an Enterprise and Related Information ( SFAS 131 ).

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.

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**14. Segmented Information** (cont d)

The CODM 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.

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
		<b>As</b>
		<b>restated</b>
<b>Revenue</b>		
IMAX systems	\$ 13,084	\$ 12,763
Films		
Production and IMAX DMR	4,592	1,097
Distribution	3,410	3,424
Post-production	1,074	1,482
Theater operations	4,475	3,657
Other	522	842
Total	\$ 27,157	\$ 23,265
<b>Gross margins</b>		
IMAX systems	\$ 7,543	\$ 7,345
Films		
Production and IMAX DMR	2,382	(538)
Distribution	1,356	544
Post-production	102	429
Theater operations	198	306
Other	(192)	(109)
Total	\$ 11,389	\$ 7,977

**15. Discontinued Operations****(a) Miami Theater LLC**

On December 23, 2003, the Company closed its owned and operated Miami IMAX theater. The Company completed its abandonment of assets and removal of its projection system from the theater in the first quarter of 2004, with no financial impact. The Company 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 fourth 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 ( DPI ), entered into an agreement to settle its loan agreements in exchange for a payment of \$3.5 million. During the first quarter of 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.

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**16. 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 effective January 1, 2006, which reduced the related pension expense to the Company. The Company was represented by the independent directors (as defined in Rule 4200(a)(15) of the NASDAQ Marketplace Rules and Section 1.4 of Multilateral Instrument 52-110 (Independent Directors)), who retained Mercer Human Resources Consulting (Mercer) 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 pension 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 a change in control shall be 100%. The actuarial liability was remeasured as of March 8, 2006 to reflect the SERP changes adopted. As of March 31, 2007, one of the Co-CEO's benefits was 100% vested and the other Co-CEO's benefits were approximately 83% vested.

The amount accrued for the SERP as at March 31, 2007 is determined as follows:

	<b>2007</b>
Projected benefit obligation:	
Obligation, beginning of period	\$ 26,109
Service cost	172
Interest cost	339
Actuarial gain	(237)
 Obligation, end of period	 \$ 26,383
 Unfunded status:	
Obligation, end of period	\$ 26,383
Unrecognized gain relating to prior service cost	
Unrecognized actuarial (loss)	
 Accrued pension liability	 \$ 26,383

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The following table provides disclosure of pension expense for the SERP for quarters ended March 31:

	<b>2007</b>	<b>2006</b>
Service cost	\$ 172	\$ 457
Interest cost	339	362
Amortization of prior service cost		153
Pension expense	\$ 511	\$ 972

The accumulated benefit obligation for the SERP was \$26.4 million at March 31, 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.

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**16. Employees Pension and Postretirement Benefits (cont d)****Defined Benefit Plan (cont d)**

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	1,007
2009	1,016
2010	31,894
2011	
2012 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 March 31, 2007, the cash surrender value of the insurance policies is \$4.5 million (December 31, 2006 \$4.3 million) and has been included in other assets.

**(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 months ended March 31, 2007 and 2006, the Company contributed and expensed an aggregate of \$0.2 million and \$0.2 million, respectively, to its Canadian plan and an aggregate of \$0.1 million and \$0.1 million, respectively, 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 March 31, 2007 is \$0.4 million.

**17. 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.

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**18. 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.

Supplemental Consolidating Balance Sheets as at March 31, 2007:

	<b>IMAX Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Adjustments and Eliminations</b>	<b>Consolidated Total</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 17,246	\$ 7,844	\$ 162	\$	\$ 25,252
Short-term investments	2,141				2,141
Accounts receivable	16,732	1,697	296		18,725
Financing receivables	63,860	2,024			65,884
Inventories	26,344	238	82		26,664
Prepaid expenses	2,104	428	20		2,552
Intercompany receivables	31,712	35,509	11,322	(78,543)	
Film assets	1,160				1,160
Property, plant and equipment	22,152	1,117	11		23,280
Other assets	10,623				10,623
Deferred income taxes					
Goodwill	39,027				39,027
Other intangible assets	2,558				2,558
Investments in subsidiaries	32,124			(32,124)	
<b>Total assets</b>	<b>\$ 267,783</b>	<b>\$ 48,857</b>	<b>\$ 11,893</b>	<b>\$ (110,667)</b>	<b>\$ 217,866</b>
<b>Liabilities</b>					
Accounts payable	2,540	2,756	10		5,306
Accrued liabilities	51,208	2,211	224		53,643
Intercompany payables	59,328	39,395	6,490	(105,213)	
Deferred revenue	54,059	3,528	56		57,643
Senior Notes due 2010	160,000				160,000
<b>Total liabilities</b>	<b>327,135</b>	<b>47,890</b>	<b>6,780</b>	<b>(105,213)</b>	<b>276,592</b>

**Shareholder s deficit**

Capital stock	122,024		117	(117)	122,024
Other equity / additional paid in capital / contributed surplus	2,020	46,960		(45,926)	3,054
Deficit	(185,353)	(45,379)	4,996	40,589	(185,147)
Accumulated other comprehensive income (loss)	1,957	(614)			1,343
Total shareholders equity (deficit)	\$ (59,352)	\$ 967	\$ 5,113	\$ (5,454)	\$ (58,726)
Total liabilities & shareholders equity (deficit)	\$ 267,783	\$ 48,857	\$ 11,893	\$ (110,667)	\$ 217,866

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 \$27.1 million as at March 31, 2007.

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**18. Supplemental Consolidating Financial Information** (cont d)

Supplemental Consolidating Balance Sheets as at December 31, 2006:

	<b>IMAX Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Adjustments and Eliminations</b>	<b>Consolidated Total</b>
	<b>As restated</b>	<b>As restated</b>	<b>As restated</b>	<b>As restated</b>	<b>As restated</b>
<b>Assets</b>					
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	26,045	36,181	11,164	(73,390)	
Film assets	1,235				1,235
Property, plant and equipment	23,162	1,212	15		24,389
Other assets	10,365				10,365
Deferred income taxes					
Goodwill	39,027				39,027
Other intangible assets	2,547				2,547
Investments in subsidiaries	33,978			(33,978)	
<b>Total assets</b>	<b>\$ 272,299</b>	<b>\$ 50,411</b>	<b>\$ 11,699</b>	<b>\$ (107,368)</b>	<b>\$ 227,041</b>
<b>Liabilities</b>					
Accounts payable	4,259	7,164	3		11,426
Accrued liabilities	47,993	2,850	209		51,052
Intercompany payables	60,049	35,601	6,306	(101,956)	
Deferred revenue	52,754	3,818	122		56,694
Senior Notes due 2010	160,000				160,000
<b>Total liabilities</b>	<b>325,055</b>	<b>49,433</b>	<b>6,640</b>	<b>(101,956)</b>	<b>279,172</b>
<b>Shareholders deficit</b>					
Capital stock	122,024		117	(117)	122,024
Other equity	1,903	46,960		(45,926)	2,937
Deficit	(178,479)	(45,368)	4,942	40,631	(178,274)
Accumulated other comprehensive income (loss)	1,796	(614)			1,182

Total shareholders' equity (deficit)	\$ (52,756)	\$ 978	\$ 5,059	\$ (5,412)	\$ (52,131)
Total liabilities & shareholders' equity (deficit)	\$ 272,299	\$ 50,411	\$ 11,699	\$ (107,368)	\$ 227,041

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 \$29.0 million.



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**18. Supplemental Consolidating Financial Information** (cont d)

Supplemental Consolidating Statements of Operations for the three months ended March 31, 2007:

	<b>IMAX Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Adjustments and Eliminations</b>	<b>Consolidated Total</b>
<b>Revenues</b>					
Equipment and product sales	\$ 7,081	\$ 450	\$ 2	\$ (428)	\$ 7,105
Services	12,155	6,107	161	(778)	17,645
Rentals	1,199	19	3		1,221
Finance income	1,134	52			1,186
Other revenues					
	21,569	6,628	166	(1,206)	27,157
<b>Cost of goods sold, services and rentals</b>					
Equipment and product sales	3,874	428	1	(360)	3,943
Services	5,988	6,059	75	(846)	11,276
Rentals	549				549
	10,411	6,487	76	(1206)	15,768
<b>Gross margin</b>	<b>11,158</b>	<b>141</b>	<b>90</b>		<b>11,389</b>
Selling, general and administrative expenses					
	10,102	204	36		10,342
Research and development	1,495				1,495
Amortization of intangibles	136				136
Loss (income) from equity-accounted investees	(43)			43	
Receivable provisions, net of (recoveries)	10	(4)			6
<b>Earnings (loss) from operations</b>	<b>(542)</b>	<b>(59)</b>	<b>54</b>	<b>(43)</b>	<b>(590)</b>
Interest income	178	48			226
Interest expense	(4,249)				(4,249)
<b>Net earnings (loss) from continuing operations before income taxes</b>	<b>(4,613)</b>	<b>(11)</b>	<b>54</b>	<b>(43)</b>	<b>(4,613)</b>
(Provision for) recovery of income taxes	(167)				(167)

<b>Net earnings (loss)</b>	\$	(4,780)	\$	(11)	\$	54	\$	(43)	\$	(4,780)
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**18. Supplemental Consolidating Financial Information** (cont d)

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	<b>IMAX Corporation As restated</b>	<b>Guarantor Subsidiaries As restated</b>	<b>Non- Guarantor Subsidiaries As restated</b>	<b>Adjustments and Eliminations As restated</b>	<b>Consolidated Total As restated</b>
<b>Revenues</b>					
Equipment and product sales	\$ 7,818	\$	\$ 2	\$	\$ 7,820
Services	8,524	5,627	191	(908)	13,434
Rentals	831	64	4		899
Finance income	1,058	54			1,112
Other revenues					