

The image features the word "IMAX" in large, blue, 3D block letters. The letters are positioned in the upper left quadrant of the frame. The background is a deep blue, digital tunnel with a perspective that draws the eye towards a bright light source on the left. The walls and floor of the tunnel are composed of a grid of small, glowing blue squares, creating a sense of depth and movement. The lighting is dramatic, with the light source on the left casting a strong glow and creating a lens flare effect. The overall aesthetic is futuristic and high-tech.

IMAX


IMAX CORPORATION 2000 Annual Report



IMAX[®]: the best
sight and sound
experiences.

China: The Panda Adventure
Coming Fall 2001





We believe that IMAX is uniquely positioned to capitalize on the rapid evolution of digital technologies in the media and entertainment realm. The Company is currently developing digital tools to allow 35mm movies to be blown up to IMAX's format, and using digital projectors to both replace film-based projectors in your local cinema and to potentially revolutionize billboard advertising.

Message to Shareholders

IMAX continued to build for its long-term future while operating in a difficult environment in 2000. Financial difficulties in the North American commercial exhibition industry led to bankruptcies at several major movie theatre chains. While this disruption promises to result in a stronger and more viable commercial exhibition industry in North America in the long run, in the short run it has, and will, affect companies like IMAX that are suppliers to the commercial exhibition industry.

These difficult industry conditions were reflected in IMAX's financial results for 2000. It is important to note, however, that our financial results have obscured the significant progress IMAX continues to make in establishing its brand, in expanding its reach internationally and in taking important steps to bring to market exciting new digital technologies and products.

OPERATING MILESTONES

2000 began with one of the most significant events in IMAX's history, an event that demonstrated the viability of the IMAX network as a distribution platform for Hollywood films. On January 1, 2000, The Walt Disney Company's *Fantasia/2000: The IMAX Experience*[®] became the first Hollywood film to be released to the IMAX[®] theatre network. The film proceeded to become the fastest-grossing IMAX film in history, grossing almost

\$50,000 per screen per week in its initial run on only 75 screens over a four-month period, or roughly 10 times the average for conventional films. In its initial run and subsequent re-release in IMAX theatres, *Fantasia/2000: The IMAX Experience*[®] grossed more than \$80 million. In February 2001, following on the tremendous success of *Fantasia/2000: The IMAX Experience*[®], Walt Disney Pictures announced its plans for a large-format release of *Beauty and the Beast* on January 1 of next year. We believe that this validation by Disney should be a powerful motivator for other studios to release films to IMAX theatres.

In June 2000, IMAX announced that it had signed an agreement with Texas Instruments Inc. (TI) to be one of only three licensees of TI's DLP Cinema[™] projection technology for standard format cinema venues, and the exclusive licensee for large-format theatres. DLP Cinema[™] is considered to be the world's leading digital projector technology. In December 2000, IMAX sold the very first commercial DIGIMAX[™] DLP Cinema[™] projector for use in a multiplex to Japanese cinema operator T-Joy.

Throughout the year, IMAX continued to expand its reach internationally, signing agreements in India, Greece, Taiwan, the Philippines, South Korea, China, Germany, the Netherlands, England and France, and



ALL ACCESS



JOURNEY INTO AMAZING CAVES



SHACKLETON'S ANTARCTIC ADVENTURE



SPACE STATION 3D

NEW RELEASES

In 2000, IMAX released *CYBERWORLD*, the Company's first full-length 3D animated motion picture, and brought some of the world's most popular and beloved animated characters to the giant screen.

Upcoming in 2001, The IMAX Experience again takes audiences to places few of us will ever visit. From the producers of *Everest*, MacGillivray Freeman's most recent film *JOURNEY INTO AMAZING CAVES* explores the subterranean world of caves 500 feet below the Earth's surface, while NOVA/WGBH Boston's *SHACKLETON'S ANTARCTIC ADVENTURE* recreates what is considered the greatest survival story of all time.

IMAX's new concert film, *ALL ACCESS, presented by CERTS®*, premiering April 2001, puts audiences on stage front and center. The film features a behind-the-scenes look at the inner workings of a mega-concert and includes candid backstage moments with legendary artists Carlos Santana, B.B. King, Dave Matthews, Sting, Sheryl Crow, Moby and others.

In Spring 2002, audiences join the workers on the world's highest construction project when IMAX brings the first ever 3D space film to the giant screen. *SPACE STATION 3D* will document the most challenging engineering feat ever undertaken: the building of the International Space Station.

CHINA: THE PANDA ADVENTURE, starring Maria Bello from the TV show *ER*, will be released in Fall 2001. Shot entirely on location in China, this true-life story set in the 1930s, follows Ruth Harkness in her quest to bring the first giant panda back to America.

TULSA



WARSAW



GLASGOW




KUWAIT CITY



INTERNATIONAL EXPANSION

TULSA: Cinemark opened Oklahoma's first IMAX theatre in Tulsa, bringing the total number of IMAX theatres in the U.S. at year-end to 110 in 39 states. **WARSAW:** The first IMAX theatre in Eastern Europe opened in Fall 2000 in a suburb of Warsaw, Poland. Operated by I.T. International, this theatre attracted an average of more than 2,000 patrons a day during its first four months. This is the first of seven IMAX theatres that I.T. International is scheduled to open. **GLASGOW:** Scotland's first IMAX theatre opened at the Glasgow Science Centre in October 2000. This IMAX 3D theatre is an integral part of a spectacular high-tech science and technology initiative that includes an Exploratorium and Planetarium. **KUWAIT CITY:** The first IMAX theatre in the Middle East opened at The Scientific Center in Kuwait in April and upgraded to IMAX 3D in December. The theatre was a gift to the people of Kuwait from the Kuwait Foundation for the Advancement of Science.



In 2000, IMAX used its proprietary digital conversion technology to take footage from Dreamworks' *ANTZ* and Fox's *The Simpsons*[™] and re-purpose it into IMAX 3D. In the future, this same technology will allow us to make a 3D version of a computer-generated film like *Toy Story* or take 35mm Hollywood films such as *Star Wars* or *Mission: Impossible* and create IMAX versions of them.



opening theatres in new countries such as Turkey, Malta, Kuwait and Scotland. The first IMAX theatre to open in Eastern Europe, in Warsaw, Poland by I.T. International, attracted an average of more than 2,000 patrons a day during its first four months, which bodes well for our Eastern European expansion.

RESTRUCTURING FOR PERFORMANCE

We are disappointed with our financial results in 2000.

The Company's results for fiscal 2000 include the impact of significant one-time charges primarily related to the implementation of new accounting policies SAB 101 and SOP 00-2. These charges and accounting changes are described in great detail in the Form 10K located elsewhere in this report. As a result of these and other charges, the Company reported losses of \$92.9 million or \$3.11 per share for the full year. It is important to note, however, that on an operating basis IMAX's operations were profitable before these predominantly non-cash charges.

At year-end IMAX had cash and cash equivalents of \$38.4 million.

In February 2001, we announced a corporate restructuring to better align the organization with our strategic objectives. As part of the restructuring, the Company reduced its workforce by about 15% and consolidated

the manufacturing of sound and projection systems at its facility in Mississauga, Ontario while scaling back operations in Birmingham, Alabama.

Strategically, our corporate restructuring plan is moving forward with three main components: one, cut corporate costs; two, improve the financial returns for IMAX theatre owners; and three, position IMAX strategically for the future. We believe IMAX will, in fact, be well positioned for the future as we install more theatre systems and bring online new revenue streams from digital cinema and digital media networks, or digital billboards.

CREATING NEW AREAS FOR GROWTH

IMAX made substantial progress in 2000 in advancing its digital strategy. On the whole, digital technologies have the potential to have a tremendous impact on the Company, both by creating new areas for growth and by greatly improving a number of our existing businesses. The potential market is very large, including the areas of digital cinema projection and digital media networks.

It is expected that over time 35mm film-based projectors will be replaced by digital cinema systems; this change will be driven by significant cost savings in print distribution and operating costs, and will allow exhibitors to add new revenue streams. Theatres



DIGITAL TECHNOLOGIES

We feel that IMAX is uniquely positioned to capitalize on the rapid evolution of digital technologies in the media and entertainment realm. This evolution has the potential to impact and improve all aspects of our businesses, allowing us the opportunity to both enter new businesses and greatly improve our existing ones.

We believe IMAX will be a leader in the emerging market for digital cinema projectors, which will eventually replace film-based projectors at your local cinema. Our recently launched Super Digital Cinema system, the world's only DLP Cinema™ system designed to fit into the largest stadium seat theatres, will help to establish the Company at the high end of digital cinema. This strategy, combined with our history as co-developer of DLP™ technology, should benefit our DIGIMAX™ DLP Cinema™ projectors and help to make them a leading choice for movie theatres around the world.

The Company's proprietary digital conversion technology, which allowed footage from Dreamworks' *ANTZ* and Fox's *The Simpsons*™ to be re-purposed into IMAX 3D film footage, gives us the ability to convert more films to IMAX's giant screen format and increase the film library for IMAX theatres. Eventually, we will have the ability to convert 35mm films to IMAX's format so you can see films such as *Star Wars* or the latest James Bond film in your local IMAX theatre.

In addition, IMAX digital media networks have the potential to revolutionize billboard advertising by allowing ads to be directed to any given location at any designated time of day, thus allowing for better timeliness of messages, increased flexibility and the ability of an advertiser to purchase the entire billboard network. For example, a digital billboard can advertise coffee in the morning, retail shopping in the afternoon and show a preview of that night's television line-up during the evening rush hour. This technology could greatly increase the revenue generated by billboards around the world.



IMAX's digital media networks have the potential to revolutionize the world of billboard advertising by replacing paper billboards with digitally projected moving images. This will allow visually powerful advertisements to be directed to any given location at any designated time of day, thus allowing ads to be more targeted, timely and effective, and resulting in the potential for much higher advertising revenue for the billboard owner. The London Underground is the first such location for which the Company has confirmed orders.

DIGITAL MEDIA NETWORK SYSTEMS



8:00 AM

12:00 PM

6:00 PM

equipped with IMAX's DIGIMAX™ projectors will be able to show rock concerts and sporting events such as boxing matches, as well as films with images that remain as pristine and crystal clear on the 100th showing as on the first. Over time, it is anticipated that virtually every film projector in the world will be replaced by a digital system. We believe IMAX will have a leading position in this market once it develops, as we are one of only three licensees of Texas Instruments' DLP Cinema™ technology, which is considered the foremost digital cinema technology today. In addition, we feel that the introduction of new products such as IMAX's Super Digital Cinema system, the world's only DLP Cinema™ system designed to fit into the largest stadium seat theatres, will help establish the Company at the high end of digital cinema.

We are very excited about our involvement in developing digital media networks or digital billboards, which use IMAX's digital projectors and screens in place of paper billboards. With a digital billboard, the on-screen moving images can be changed on a minute-by-minute basis and allow for highly targeted marketing on a location-by-location basis. For example, such a billboard can advertise coffee in the morning, retail shopping in the afternoon and show a preview of that night's television line-up during the evening rush hour. We believe that this business has great potential, given the size of the

billboard advertising market and the opportunity for digital billboards to dramatically increase advertising rates. IMAX's first digital media network will be in operation in the London Underground in 2001, and we hope its success will lead to additional locations.

ADVANCING OUR FILM STRATEGY

Our film strategy is to leverage the power of the IMAX theatre experience into becoming another release platform for Hollywood films so that audiences will be able to see event films the calibre of the next *Star Wars* or *Titanic* in an IMAX theatre. Technology is the key to accomplishing this goal, and we believe that within the next 12 to 18 months we will be able to achieve a cost-effective conversion of live-action 35mm film into IMAX's format. We have already demonstrated that we can transform 35mm computer-generated animation into crystal-clear IMAX 3D film footage in the Fall 2000 release of *Cyberworld*, where footage from Dreamworks' *ANTZ* and Twentieth Century Fox's *The Simpsons*™ was re-purposed into IMAX 3D film footage.

We intend to advance our film strategy by working with the studios to re-purpose Hollywood content for the giant screen and to acquire rights and develop projects that would readily translate into event-status IMAX presentations which promote the inherent qualities of the IMAX brand.

We believe IMAX will be a leader in the transition of conventional movie theatres to digital cinema and a leading provider of high-end specialized d-cinema projection systems. IMAX is one of only three licensees of Texas Instruments' DLP Cinema™ technology, and is the company that helped TI develop its DMD™-based technology. IMAX's DIGIMAX™ projector was the first DLP Cinema™ projector to be sold for commercial exhibition use, and our Super Digital Cinema system is the world's only DLP Cinema™ system designed to fit into the largest stadium seat theatres.



POSITIONING FOR A RETURN TO PROFITABILITY IN 2002

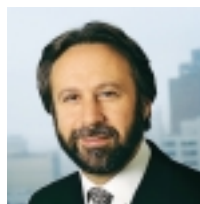
2000 was a very difficult year for IMAX, and 2001 will certainly have its challenges as well. However, we have cut costs, are improving IMAX theatre returns, and continue to use our brand to enhance the Company's success in new areas of business. We are developing the necessary digital technologies to make IMAX theatres a release window for Hollywood and are positioning IMAX to be a leader in the entertainment technology world. We expect a return to profitability in 2002 as we install more theatre systems and bring online new revenue streams from brand licensing, digital cinema and digital media networks, or digital billboards.

As always, our accomplishments are possible only because of the dedication of IMAX employees, our partners' support, and the enthusiasm of millions of theatregoers who continue to make IMAX their entertainment choice. We thank them all for their loyalty and confidence.

March, 2001



Richard L. Gelfond CO-CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICER
Richard L. Gelfond has been Co-Chairman of the Company since June 1999 and Co-Chief Executive Officer since May 1996. From March 1994 to June 1999, Mr. Gelfond served as Vice Chairman of the Corporation. In 1991, Mr. Gelfond founded Cheviot Capital Advisors Inc., a financial advisory and merchant banking firm that specializes in acquisitions and venture capital investments. In addition, Mr. Gelfond serves on the boards of several private and philanthropic entities.



Bradley J. Wechsler CO-CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICER
Bradley J. Wechsler has been Co-Chairman of the Company since June 1999 and Co-Chief Executive Officer since May 1996. From March 1994 to June 1999, Mr. Wechsler served as Chairman of the Corporation. From March 1 to September 12, 1994, Mr. Wechsler also served as Interim Chief Executive Officer. Mr. Wechsler serves on the boards of NYU Hospital, the Kernochan Center for Law, Media and the Arts and the American Museum of the Moving Image.

Richard L. Gelfond
*Co-Chairman and
Co-Chief Executive Officer*

Bradley J. Wechsler
*Co-Chairman and
Co-Chief Executive Officer*

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2000

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

Commission file Number 0-24216

IMAX Corporation

(Exact name of registrant as specified in its charter)

Canada

(State or other jurisdiction of incorporation or organization)

98-0140269

(I.R.S. Employer Identification Number)

2525 Speakman Drive, Mississauga, Ontario, Canada

(Address of principal executive offices)

L5K 1B1

(Postal Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

None

Name of exchange
on which registered

Securities registered pursuant to Section 12(g) of the Act:

Common Shares, no par value

(Title of class)

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

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, computed by reference to the last sale price of such shares as of the close of trading on March 9, 2001 was \$62,720,065 (18,413,230 common shares times \$3.40625). As of March 9, 2001, there were 30,126,514 common shares of the registrant outstanding.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation SK is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Document Incorporated by Reference*

Document

Proxy Statement

Where Incorporated

Part III (Item 11)

* As stated under various Items of this Report, only certain specified portions of such document are incorporated by reference in this Report.

Annual Report on Form 10-K

December 31, 2000

Table of Contents

| | <u>Page</u> |
|---|-------------|
| PART I | |
| Item 1 — Business | 4 |
| Item 2 — Properties | 10 |
| Item 3 — Legal Proceedings..... | 11 |
| Item 4 — Submission of Matters to a Vote of Security Holders | 11 |
| PART II | |
| Item 5 — Market for Registrant’s Common Equity and Related Stockholder Matters | 12 |
| Item 6 — Selected Financial Data | 13 |
| Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations..... | 15 |
| Item 7a — Quantitative and Qualitative Disclosures about Market Risk | 21 |
| Item 8 — Financial Statements and Supplementary Data | 22 |
| Item 9 — Changes in and Disagreements with Accountants on Accounting and Financial Disclosure..... | 49 |
| PART III | |
| Item 10 — Directors and Executive Officers of the Registrant..... | 49 |
| Item 11 — Executive Compensation..... | 52 |
| Item 12 — Security Ownership of Certain Beneficial Owners and Management | 53 |
| Item 13 — Certain Relationships and Related Transactions | 57 |
| PART IV | |
| Item 14 — Exhibits, Financial Statement Schedules and Reports on Form 8-K | 57 |
| Signatures | 60 |

EXCHANGE RATE DATA

Unless otherwise indicated, all dollar amounts in this document are expressed in United States dollars. The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in the City of New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"). Such rates quoted are the number of U.S. dollars per one Canadian dollar and are the inverse of rates quoted by the Federal Reserve Bank of New York for Canadian dollars per U.S. \$1.00. The average exchange rate is based on the average of the exchange rates on the last day of each month during such periods. The Noon Buying Rate on December 31, 2000 was U.S. \$0.6669.

| | Year ended December 31 | | | | |
|--|------------------------|---------------|---------------|---------------|---------------|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| Exchange rate at end of period | U.S. \$0.6669 | U.S. \$0.6925 | U.S. \$0.6522 | U.S. \$0.6999 | U.S. \$0.7301 |
| Average exchange rate during period..... | 0.6732 | 0.6730 | 0.6740 | 0.7220 | 0.7329 |
| High exchange rate during period | 0.6944 | 0.6925 | 0.7105 | 0.7471 | 0.7513 |
| Low exchange rate during period | 0.6410 | 0.6535 | 0.6341 | 0.6945 | 0.7235 |

SPECIAL NOTE REGARDING 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 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. 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; and 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 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.

IMAX®, IMAX® *Dome*, IMAX *Solido*®, OMNIMAX®, IMAX® 3D, *Personal Sound Environment*®, The IMAX Experience? and An IMAX Experience® are trademarks and trade names of the Company or its subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

PART I

Item 1. Business

GENERAL

IMAX Corporation together with its subsidiaries (the "Company") is one of the world's leading entertainment technology companies, with particular emphasis on film and digital imaging technologies including giant screen images, 3D presentations, post-production and digital projection. The Company designs and manufactures projection and sound systems for giant-screen ("15/70-format") theaters based on proprietary and patented technology and is a major distributor of films for giant-screen theaters. The Company, through its subsidiary Digital Projection International ("DPI"), also designs and manufactures high performance digital image delivery systems in the form of digital projectors capable of projecting high quality images on large screens from any video, computer or High Definition Television (HDTV) source. The IMAX® brand name enjoys widespread recognition with more than 700 million viewers throughout the world having experienced the Company's high-quality, giant-screen theater attractions since 1970 including over 75 million viewers in 2000.

The IMAX theater network is the most extensive giant-screen theater network in the world with 221 theaters operating in 28 countries as of December 31, 2000. In addition to the existing library of general entertainment and educational 15/70-format films, the increased number of commercial IMAX theaters in operation has attracted more commercial films to the medium including films produced by major Hollywood studios. In January 2000, Buena Vista Pictures Distribution, a unit of The Walt Disney Company, released Disney's animated feature *Fantasia/2000: The IMAX Experience®* exclusively to 75 IMAX theaters around the world for the four-month period ended April 30, 2000. *Fantasia/2000* was the first theatrical full-length feature film to be reformatted into 15/70-format film and has become the fastest grossing large-format film in history demonstrating the potential for Hollywood films to be shown in IMAX theaters. The Company believes that the success of *Fantasia 2000: The IMAX Experience* has the potential to lead to additional Hollywood films being released to IMAX theaters which, the Company believes, could create further demand worldwide for commercial IMAX theaters.

The Company generally does not own IMAX theaters but leases its projection and sound systems and licenses the use of its trademarks. IMAX theater systems combine advanced, high-resolution projection systems, sound systems and screens as large as eight stories high (approximately 80 feet) that extend to the edge of a viewer's peripheral vision to create immersive audio-visual experiences. As a result, audiences feel as if they are a part of the on-screen action in a way that is more intense and exciting than in traditional theaters. In addition, the Company's IMAX 3D theater systems combine the same projection and sound systems and up to eight storey screens with 3D images that further increase the audience's feeling of immersion in the film. The Company believes that the network of IMAX 3D theaters is the largest out-of-home, 3D distribution network in the world.

DPI's digital projectors are based on Texas Instruments' Digital Micromirror Device™ ("DMD"), a unique digital imaging platform based on an optical semiconductor chip that has any array of up to 1,310,000 hinged, microscopic mirrors which operate as optical switches to create a high resolution, full color image. DPI played an important role in the development of the DMD chip. DPI designs, manufactures and sells high quality digital image delivery devices for applications such as rock concerts, casinos and trade shows. DPI offers a number of different product offerings based on a range of brightness and resolution of the projected image. The Company believes that new markets are emerging for DPI's products including applications for digital cinema in conventional movie theaters and digital media networks, including location-based advertising networks.

The Company was formed in March 1994 as a result of an amalgamation between WGIM Acquisition Corp. and the former IMAX Corporation ("Predecessor IMAX"). Predecessor IMAX was incorporated in 1967.

PRODUCT LINES

The Company is the largest designer and supplier of specialty projection and sound systems and a major producer and distributor of 15/70-format films for giant-screen theaters. The Company’s theater systems include specialized projection equipment, advanced sound systems, specialty screens, theater automation control systems and film handling equipment. The Company derives a significant portion of its revenues from the sale and lease of its theater systems to giant-screen theaters and related film products and services. Segmented information is provided in note 18 to the audited financial statements contained in Item 8.

In 1999, the Company acquired 100% of DPI. DPI designs, manufactures and sells high quality digital image delivery devices for applications such as rock concerts, casinos and trade shows. DPI offers a number of different product offerings based on a range of brightness and resolution of the projected image. The Company believes that new markets are emerging for DPI’s products including applications for digital cinema in conventional movie theaters and digital media networks, including location based advertising networks (see Digital Projection International).

Giant-Screen Theaters

The Company is the pioneer and leader in the giant-screen, large-format film industry. The IMAX theater system network has the largest installed base of giant-screen theater systems, with systems located in 221 theaters in 28 countries as of December 31, 2000. IMAX theaters have flat or dome shaped screens for 2D and 3D presentations which are many times larger than conventional theaters, extending to the edge of the viewer’s peripheral vision. The theaters have a steeply inclined floor to provide all audience members a clear view of the screen and typically seat 250 to 500 people.

The Company’s projection systems utilize the largest commercially available film format (15-perforation film frame, 70mm), which is 10 times larger than conventional film (4-perforation film frame, 35mm) and therefore are able to project significantly more detail on a larger screen. The Company believes its projectors, which utilize the Company’s Rolling Loop technology, are unsurpassed in their ability to project film with maximum steadiness and clarity with minimal film wear, and substantially enhance the quality of the projected image. As a result, the Company’s projection systems deliver a higher level of clarity, detail and brightness compared to conventional movies and competing systems.

To complement the film technology and viewing experience, IMAX theater systems feature unique digital sound systems. The sound systems are among the most advanced in the industry and help to heighten the sense of realism of a 15/70-format film. IMAX sound systems are specifically designed for IMAX theaters and are an important competitive advantage of IMAX systems.

The following chart shows the number of the Company’s theater systems by product, installed base and backlog as of December 31, 2000:

| | | <u>2D</u> | | <u>3D</u> | | |
|-------------------|------------------|-----------------------|----------------|--------------------|-----------------------|----------------|
| | <u>Product</u> | <u>Installed Base</u> | <u>Backlog</u> | <u>Product</u> | <u>Installed Base</u> | <u>Backlog</u> |
| Flat Screen | IMAX | 61 | — | IMAX 3D | 73 | 34 |
| | | | | IMAX 3D SR | 24 | 33 |
| Dome Screen | IMAX <i>Dome</i> | 59 | 4 | IMAX <i>Solido</i> | 4 | 1 |

IMAX and IMAX Dome Systems. IMAX and IMAX *Dome* systems make up the largest component of the Company’s installed theater base. IMAX theaters, with a flat screen, were introduced in 1970, while IMAX *Dome* theaters, previously known as OMNIMAX theaters, are designed for tilted dome screens and were introduced in 1973. There have been several significant proprietary and patented enhancements to these systems since their introduction.

IMAX 3D and 3D SR Systems. IMAX 3D systems make up the largest component of the Company's backlog. IMAX 3D theaters utilize a flat screen 3D system which produces realistic three-dimensional images on a giant IMAX screen. The Company believes that the IMAX 3D system offers consumers one of the most realistic 3D experiences available today. To create the 3D effect, the audience uses either polarized glasses or electronic glasses that separate the left-eye and right-eye images. The IMAX 3D projectors can project both 2D and 3D films, allowing theater owners the flexibility to exhibit either type of film. The Company offers upgrades to existing theaters which have 2D IMAX projection systems to IMAX 3D projection systems. Since the introduction of IMAX 3D technology, the Company has upgraded 13 theater systems.

In 1997, the Company launched a smaller IMAX 3D system called IMAX 3D SR; a patented theater system that combines a proprietary theater design, a more automated projection system and specialized sound system to replicate the experience of a larger IMAX 3D theater in a smaller space (up to 270 seats). The IMAX 3D SR theater system is designed to be located primarily in multiplexes in smaller cities and to operate at lower costs than the larger IMAX 3D GT theater system.

IMAX Solido Systems. IMAX *Solido* theaters comprise a dome screen 3D system that projects the film onto a tilted dome such that objects not only appear to "come out" from the screen but also to envelop the viewer. IMAX *Solido* projectors, like IMAX 3D projectors, can project both 2D and 3D films.

Theater System Leases

The Company's system leases generally have 10-to 20-year initial terms and are typically renewable by the customer for one or more additional 10-year terms. As part of the lease agreement, the Company advises the customer on theater design, custom assembles and supervises the installation of the theater system, provides training to theater personnel and for a separate fee provides ongoing maintenance to the system. Prospective theater owners are responsible for providing the theater location, the design and construction of the theater building, the installation of the system and any other necessary improvements. Under the terms of the typical lease agreement, the title to all theater system equipment (including the projection screen, the projector and the sound system) remains with the Company. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally not cancelable by the customer unless the Company fails to perform its obligations. The contracts are generally denominated in U.S. dollars, except in Canada and Japan, where contracts are generally denominated in Canadian dollars and Japanese Yen, respectively.

The typical lease agreement provides for three major sources of revenue: (i) initial rental fees, (ii) ongoing additional rental payments and (iii) ongoing maintenance fees. Rental payments and maintenance fees are generally received over the life of the contract and are usually adjusted annually based on changes in the local consumer price index. The terms of each lease agreement vary according to the system technology provided and the geographic location of the customer.

Theater Operations and Investments

The Company has eight theaters in which it holds an equity interest and seven joint ventures.

In the case of joint ventures, the Company generally contributes the projection and sound system to the theater in exchange for a percentage of the theater revenues and/or profits. The Company's partner is generally responsible for constructing and outfitting the theater. The Company may also provide management services in return for a fee or a percentage of theater revenues as part of the equity interest.

Sound Systems

Sonics Associates, Inc. ("Sonics"), the Company's 100% owned subsidiary, is a world leader in the development and manufacture of sound systems for all applications including traditional movie theaters, auditoriums and specialized uses including the development of 3D sound capabilities, and manufactures the sound systems for the Company's theaters. Prior to October 1, 1999, Sonics was 51% owned by the Company and 49% owned by four executive officers of Sonics. On October 1, 1999, the Company purchased the remaining 49% of Sonics that it did not own (see note 4 to the financial statements contained in Item 8). In February 2001, the Company decided to relocate the manufacture of sound systems from Birmingham, Alabama to the Company's headquarters near Toronto, Canada.

Digital Projection International

DPI's digital projectors are based on Texas Instruments' Digital Micromirror Device™ ("DMD™"), a unique digital imaging platform based on an optical semiconductor chip that has an array of up to 1,310,000 hinged, microscopic mirrors which operate as optical switches to create a high resolution, full color image. DPI played an important role in the development of the DMD chip. DPI designs, manufactures and sells high quality digital image delivery devices for applications such as rock concerts, casinos and trade shows. DPI offers a number of different product offerings based on a range of brightness and resolution of the projected image. The Company believes that new markets are emerging for DPI's products including applications for digital cinema in conventional movie theaters and digital media networks, including location-based advertising networks. DPI's products are the only projectors to be honored with two Emmy® awards for broadcast engineering. On September 3, 1999 the Company purchased 100% of DPI (see note 4 to the financial statements contained in Item 8).

Film Production, Distribution and Post-Production

The Company produces films financed either internally or partially or fully financed by third parties. With respect to films financed by third parties, the Company generally receives a film production fee in exchange for producing the films and is appointed the exclusive distributor of the film. When the Company produces films, it typically hires production talent and specialists on a project-by-project basis, similar to a movie studio, allowing the Company to retain creative and quality control without the burden of significant ongoing overhead expenses. Typically, the ownership rights to films produced for third parties are held by the film sponsors, the film investors and the Company.

The Company is a major distributor of 15/70-format films. The Company generally distributes films which it produces and has acquired distribution rights to films produced by independent producers. The Company has distribution rights to more 15/70-format films than any competing distributor. As distributor, the Company generally receives a percentage of the theater box office receipts.

The library of 15/70-format films includes general entertainment and educational films on subjects such as space, wildlife, music, history and natural wonders, and consisted of 167 films at the end of 2000, of which the Company had distribution rights to 52 such films. In recent years, several 15/70-format commercial films have been successfully released, including *T-REX: Back to the Cretaceous*, which was released by the Company in 1998 and has grossed over \$58 million to date and *Everest*, which was released by MacGillivray Freeman Films in 1998 and has grossed over \$107 million to date. On January 1, 2000 pursuant to an agreement between the Company and Buena Vista Pictures Distribution, a unit of The Walt Disney Company, *Fantasia/2000: The IMAX Experience®* was released exclusively to 75 IMAX theaters around the world for the four-month period ended April 30, 2000. This was the first theatrical full-length feature film to be reformatted into 15/70-format film and it became the fastest grossing large-format film in history, grossing over \$63 million during its initial release. The film was re-released in August 2000 and has grossed on a cumulative basis over \$80 million to date. 15/70-format films are expected to be in distribution for five or more years, although many of the films in the library have remained popular for longer periods including the films *To Fly* (1976), *Grand Canyon – The Hidden Secrets* (1984) and *The Dream Is Alive* (1985), which were all exhibited during 2000. In 2000, there were 13 new films released in the 15/70-format.

David Keighley Productions 70MM Inc., a wholly-owned subsidiary of the Company, provides film post-production and quality control services for 15/70-format films (whether produced internally or externally), and digital post-production services.

Cameras. The Company rents 2D 15/70-format cameras and provides technical and post-production services to third party producers for a fee. The Company maintains 11 cameras and other film and lighting equipment to support third-party producers and also offers production advice and technical assistance to filmmakers.

The Company has developed state-of-the-art patented dual and single filmstrips 3D cameras which are among the most advanced motion pictures cameras in the world and are the only 3D cameras of their kind. The IMAX 3D camera simultaneously shoots left-eye and right-eye images and its compact size allows filmmakers access to a variety of locations, such as underwater or aboard aircraft. The Company has three dual filmstrip cameras available for rent.

MARKETING AND CUSTOMERS

The Company markets its theater systems through a direct sales force and marketing staff located in offices in Canada, the United States, Europe, Singapore and Japan. In addition, the Company has agreements with consultants, business brokers and real estate professionals to locate potential customers and theater sites for the Company on a commission basis.

The Company has experienced an increase in the number of commercial theater signings and international signings since 1995. The commercial theater segment of the Company's theater network is now its largest segment with a total of 151 theaters opened or in backlog. At December 31, 2000, 47% of all opened and backlog theaters are for locations outside of North America. The Company's institutional customers include science and natural history museums, zoos, aquaria and other educational and cultural centers. The Company also leases its systems to theme parks, tourist destination sites, fairs and expositions.

INDUSTRY AND COMPETITION

The Company competes with a number of manufacturers of large-format film projection systems; however, the IMAX theater network and the number of 15/70-format films to which the Company has distribution rights are substantially larger than those of its 15/70-format competitors. The Company's customers generally consider a number of criteria when selecting a large-format theater including quality, reputation, brand name recognition, type of system, features, price and service. The Company believes that its competitive strengths include the value of the IMAX brand name, the quality and historic up-time of IMAX theater systems, the number and quality of 15/70-format films that it distributes, the quality of the sound system included with the IMAX theater and the level of the Company's service and maintenance efforts.

The commercial success of the Company's products is ultimately dependent upon consumer preferences. The out-of-home entertainment industry in general continues to go through significant changes, primarily due to technological developments and changing consumer tastes. Numerous companies are developing new entertainment products for the out-of-home entertainment industry in response to these changes, and some of these new products are or may be directly competitive with the Company's products. Competitors may design products which are more attractive to the consumers and/or more cost effective than the Company's products and that may make the Company's products less competitive. There can be no assurance that the Company's existing products will continue to compete effectively and be attractive to consumers or that its products under development will ever be attractive to consumers or be competitive. The Company may also face competition from companies in the entertainment industry with substantially greater financial and other resources than the Company.

RESEARCH AND DEVELOPMENT

The Company believes that it is one of the world's leading entertainment technology companies with significant in-house proprietary expertise in projection system, camera and sound system design, engineering and technology. The Company believes that virtually all aspects of the motion picture industry will be affected by the development of digital techniques, particularly in the areas of content creation (image capture), post-production (editing and special effects), distribution and display. The Company has made significant investments in digital technologies, including its 1999 acquisition of 100% of DPI, a designer and manufacturer of digital image delivery systems, and has a number of patents and intellectual property rights in these areas. DPI played an important role in the development of the DMD™ chip that forms the basis for DPI's projectors. The Company has made a number of significant technological advances in the past and in January 1997, the Company was awarded an Academy Award® for scientific and technical achievement by the Academy of Motion Picture Arts and Sciences. In addition, the Company has substantial proprietary knowledge in 15/70-format film production. As of December 31, 2000, 59 of the Company's employees were connected with research and development projects.

Several of the underlying technologies and resulting products and systems of the Company are covered by patents or patent applications. Other underlying technologies are available to competitors, in part because of the expiration of certain patents owned by the Company. The Company, however, has successfully obtained patent protection covering several of its significant improvements made to such technologies. The Company plans to continue to fund research and development activity in areas considered important to the Company's continued commercial success.

MANUFACTURING AND SERVICE

IMAX Manufacturing

The Company assembles its giant-screen projection systems at its Corporate Headquarters and Technology Center in Mississauga, Ontario (near Toronto). A majority of the components for the Company's systems are purchased from outside vendors. The Company develops and designs all the key elements for the proprietary technology involved in its projector and camera systems. Fabrication of these components is then subcontracted to a group of carefully pre-qualified suppliers. Manufacture and supply contracts are signed for the delivery of components on an order-by-order basis. The Company has developed long-term relationships with a number of significant suppliers, and the Company believes its existing suppliers will continue to supply quality products in quantities sufficient to satisfy its needs. The Company inspects all components and sub-assemblies, completes the final assembly and then subjects the systems to comprehensive testing prior to shipment. Since 1980, the IMAX theater systems have had an average in service time of over 99.8%.

Sonics Manufacturing

Sonics develops, designs and assembles the key elements of its theater sound systems. The standard IMAX theater sound system comprises components from a variety of sources with approximately 50% of the materials cost of each system attributable to proprietary components provided under Original Equipment Manufacturers (OEM) agreements with outside vendors. These proprietary components include custom loudspeaker enclosures and horns and specialized amplifiers, signal processing and control equipment.

DPI Manufacturing

DPI develops, designs and manufactures digital projector systems utilizing digital and micromirror technology. These projector systems are marketed typically to commercial clients in the staging, rental and display advertising sectors who require an industry leading combination of high brightness and resolution. DPI manufactures projectors at its production and research facility in Manchester, England and also maintains a sales and customer support office in Atlanta, Georgia.

Service and Maintenance

The Company provides key services and support functions for the IMAX theater network and for filmmakers. To support the IMAX theater network, the Company has personnel stationed in major markets who provide periodic and emergency service and maintenance on existing systems throughout the world. The Company's personnel typically visit each theater every three months to service the projection and sound systems. The Company also provides theater design expertise for both the visual and audio aspects of the theater, as well as system installation and training.

PATENTS AND TRADEMARKS

The Company's inventions cover various aspects of its proprietary technology and many of such inventions are protected by Letters of Patent or applications filed throughout the world, most significantly in the United States, Canada, Japan, Korea, France, Germany and the United Kingdom. The subject matter covered by these patents and applications encompasses electronic circuitry and mechanisms employed in film projectors and projection systems (including 3D projection systems) and a method for synchronizing digital data systems. The Company has been diligent in the protection of its proprietary interests.

The Company currently holds 56 patents, has 24 patents pending in the United States and has corresponding patents or filed applications in many countries throughout the world. While the Company considers its patents to be important to the overall conduct of its business, it does not consider any particular patent essential to its operations. Certain of the Company's patents in the United States, Canada and Japan for improvements to the IMAX projector, IMAX *Solido* and sound systems expire between 2001 and 2018.

The Company owns or otherwise has rights to trademarks and trade names used in conjunction with the sale of its products, systems and services. The following trademarks are considered significant in terms of the current and contemplated operations of the Company: The IMAX Experience[®], An IMAX Experience[®], IMAX[®], IMAX[®] 3D, IMAX[®] *Dome*, IMAX *Solido*[®], *Personal Sound Environment*[®] and OMNIMAX[®]. These trademarks are widely protected by registration or common law throughout the world. The Company also owns the service mark IMAX THEATRE[™]. The Company vigorously enforces its trademarks and trade names against whomever it believes is infringing upon its rights.

EMPLOYEES

As of December 31, 2000, the Company had 701 employees not including hourly employees at Company-owned theaters.

Item 2. Properties

The Company's principal executive offices are located in Mississauga, Ontario and New York, New York. The Company's principal facilities are as follows:

| | <u>Operation</u> | <u>Own/Lease</u> | <u>Expiration</u> |
|--------------------------------|--|------------------|-------------------|
| Mississauga, Ontario (1) | Headquarters, Administrative, Assembly and Research and Development | Own | N/A |
| New York, New York | Executive | Lease | 2004 |
| Birmingham, Alabama | Sound Systems Design and Assembly | Own | N/A |
| Kempton, Germany | Sales and Marketing | Lease | 2001 |
| Santa Monica, California | Sales, Marketing, Film Production and Post-Production | Lease | 2012 |
| Singapore | Sales and Marketing | Lease | 2002 |
| Tokyo, Japan | Sales, Marketing, Maintenance and Theater Design | Lease | 2001 |
| Manchester, England | Digital Projection International Design and Assembly, Research and Development | Lease | 2004 |
| Atlanta, Georgia | Digital Projection International Sales, Marketing and Service | Lease | 2002 |

- (1) This property is subject to a collateral secured charge in favour of The Toronto-Dominion Bank in connection with a working capital facility.

Item 3. 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. 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 plaintiff appealed the decision to the Quebec Court of Appeal. The Company believes that the amount of the loss, if any, suffered in connection with a successful appeal by the plaintiff 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 matter.

In January 2000, the Commission of the European Communities (the "Commission") informed the Company that Euromax, an association of European large screen cinema owners, had filed a complaint against the Company under EC competition rules. The complaint addressed a variety of alleged abuses, mainly relating to the degree of the control that the Company asserts over the projection systems it leases and the form and terms of the Company's agreements. No formal investigation has been initiated to date, and the Commission has limited itself to a request of IMAX to comment on the complaint and subsequent response. Should proceedings be initiated, it is expected that no decision would be rendered until the end of 2001 or 2002 at the earliest. Although the Commission has the power to impose fines of up to a maximum of 10% of Company revenue for breach of EC competition rules, the Company believes on the basis of currently available information and an initial review that such result would not be likely. The Company further believes that the allegations in the complaint are meritless and will accordingly defend the matter vigorously. The Company believes that the amount of the loss, if any, suffered in connection with this dispute would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of this litigation.

In April 2000, Thémax Inc., a 33% owned investee of the Company, and certain of its shareholders (collectively "Thémax") filed a claim against the Company in the Superior Court in the District of Longueuil, in the Province of Quebec, alleging breach of contract in respect of the IMAX System Lease agreement between IMAX Ltd. and Thémax dated February 5, 1996 as well as a claim for damages suffered as a result of IMAX Ltd.'s alleged failure to adequately manage the Brossard Theater during its tenure as manager. Thémax claimed damages representing a return of the original investment by Thémax as well as lost profits and costs. The Company believes that the allegations made by Thémax are entirely without merit and has and will accordingly defend the matter vigorously. The Company believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome for any such litigation.

In June 2000, a complaint was filed against the Company and a third party by Mandalay Resort Group f/k/a Circus Circus Enterprises, Inc., alleging breach of contract and express warranty, fraud and misrepresentation in connection with the installation of certain motion simulation bases in Nevada. The complaint alleges damages in excess of \$30,000. The Company believes that the allegations made against it in this complaint are meritless and will accordingly defend the matter vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome for any such 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.

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

There were no matters submitted to a vote of the security holders during the quarter ended December 31, 2000.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common shares are listed for trading under the trading symbol "IMAX" on the Nasdaq National Market System ("Nasdaq"). The common shares are also listed on The Toronto Stock Exchange ("TSE") under the trading symbol "IMX". The following table sets forth the range of high and low sales prices per share for the common shares on Nasdaq and the TSE.

| | | U.S. Dollars | |
|------------------------------|--------|------------------|-----|
| | | High | Low |
| Nasdaq | | | |
| Year ended December 31, 2000 | | | |
| Fourth quarter..... | 16.938 | 2.500 | |
| Third quarter..... | 29.438 | 13.188 | |
| Second quarter..... | 24.125 | 18.000 | |
| First quarter..... | 28.500 | 19.500 | |
| Year ended December 31, 1999 | | | |
| Fourth quarter..... | 28.750 | 17.000 | |
| Third quarter..... | 25.500 | 19.563 | |
| Second quarter..... | 24.125 | 18.688 | |
| First quarter..... | 33.625 | 15.000 | |
| | | Canadian Dollars | |
| | | High | Low |
| TSE | | | |
| Year ended December 31, 2000 | | | |
| Fourth quarter..... | 25.650 | 3.800 | |
| Third quarter..... | 42.500 | 20.000 | |
| Second quarter..... | 35.000 | 27.550 | |
| First quarter..... | 40.500 | 29.000 | |
| Year ended December 31, 1999 | | | |
| Fourth quarter..... | 42.500 | 25.750 | |
| Third quarter..... | 38.000 | 28.500 | |
| Second quarter..... | 35.000 | 27.400 | |
| First quarter..... | 51.000 | 23.700 | |

As of December 31, 2000 the Company had 266 registered holders of record of the Company's common shares.

The Company has not paid within the last two fiscal years, and has no current plans to pay, dividends on its common shares. The payment of dividends by the Company is subject to certain restrictions under the terms of the Company's indebtedness (see note 11 to the financial statements in Item 8 and the discussion of liquidity and capital resources in Item 7). The payment of any future dividends will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board of Directors.

Item 6. Selected Financial Data

(in thousands of dollars, except per share data)

The selected financial data set forth below is derived from the consolidated financial statements of the Company. The financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"). All financial information referred to herein is expressed in U.S. dollars unless otherwise noted.

| | Years Ended December 31, | | | | |
|---|---------------------------------|------------------|-----------------|------------------|------------------|
| | <u>2000(1)</u> | <u>1999(1)</u> | <u>1998</u> | <u>1997</u> | <u>1996</u> |
| Statement of Operations Data: | | | | | |
| Revenue | | | | | |
| IMAX systems | \$ 113,226 | \$ 126,826 | \$ 140,874 | \$ 97,539 | \$ 85,972 |
| Digital projection systems | 46,356 | 10,999 | — | — | — |
| Films | 41,711 | 47,227 | 30,824 | 39,683 | 28,367 |
| Other..... | <u>18,179</u> | <u>18,783</u> | <u>18,657</u> | <u>21,259</u> | <u>15,499</u> |
| Total revenue | 219,472 | 203,835 | 190,355 | 158,481 | 129,838 |
| Costs and expenses (2) | | | | | |
| Gross margin | 59,474 | 97,594 | 78,571 | 84,675 | 71,581 |
| Selling, general and administrative expenses (3)..... | 62,946 | 36,584 | 38,777 | 32,115 | 29,495 |
| Research and development | 8,732 | 3,868 | 2,745 | 2,129 | 2,493 |
| Amortization of intangibles (4)..... | 4,202 | 2,585 | 5,948 | 2,701 | 2,708 |
| Loss from equity-accounted investees (5) | <u>4,811</u> | <u>683</u> | <u>6,763</u> | <u>22</u> | <u>—</u> |
| Earnings (loss) from operations | (21,217) | 53,874 | 24,338 | 47,708 | 36,885 |
| Interest income | 3,339 | 9,984 | 5,320 | 5,604 | 5,797 |
| Interest expense..... | (21,961) | (21,860) | (14,646) | (13,402) | (11,765) |
| Impairment of long-term investments (6) | (4,133) | — | — | — | — |
| Foreign exchange gain (loss)..... | <u>(1,103)</u> | <u>977</u> | <u>588</u> | <u>(623)</u> | <u>(337)</u> |
| Earnings (loss) before taxes and minority interest | (45,075) | 42,975 | 15,600 | 39,287 | 30,580 |
| Recovery of (provision for) income taxes..... | <u>13,238</u> | <u>(16,535)</u> | <u>(9,810)</u> | <u>(17,265)</u> | <u>(13,579)</u> |
| Earnings (loss) before minority interest | (31,837) | 26,440 | 5,790 | 22,022 | 17,001 |
| Minority interest..... | — | (1,207) | (1,895) | (1,357) | (1,593) |
| Earnings (loss) before extraordinary item and cumulative effect of | \$ (31,837) | \$ 25,233 | \$ 3,895 | 20,665 | 15,408 |
| Extraordinary loss on early retirement of debt, net of income tax benefit of \$1,588 (7)..... | — | — | (2,095) | — | — |
| Cumulative effect of changes in accounting principles, net of income tax benefit of \$37,286 (8)..... | <u>(61,110)</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Net earnings (loss) | <u>\$ (92,947)</u> | <u>\$ 25,233</u> | <u>\$ 1,800</u> | <u>\$ 20,665</u> | <u>\$ 15,408</u> |
| Per share data: | | | | | |
| Earnings per share – basic : | | | | | |
| Earnings (loss) before extraordinary item and cumulative effect of changes in accounting principles | \$ (1.07) | \$ 0.85 | \$ 0.10 | \$ 0.71 | \$ 0.54 |
| Extraordinary item..... | \$ — | \$ — | \$ (0.07) | \$ — | \$ — |
| Cumulative effect of changes in accounting principles | <u>\$ (2.05)</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |
| Net earnings (loss)..... | <u>\$ (3.11)</u> | <u>\$ 0.85</u> | <u>\$ 0.03</u> | <u>\$ 0.71</u> | <u>\$ 0.54</u> |
| Earnings per share – diluted : | | | | | |
| Earnings (loss) before extraordinary item and cumulative effect of changes in | \$ (1.07) | \$ 0.83 | \$ 0.09 | \$ 0.68 | \$ 0.50 |
| Extraordinary item..... | \$ — | \$ — | \$ (0.06) | \$ — | \$ — |
| Cumulative effect of changes in accounting principles | <u>\$ (2.05)</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |
| Net earnings (loss)..... | <u>\$ (3.11)</u> | <u>\$ 0.83</u> | <u>\$ 0.03</u> | <u>\$ 0.68</u> | <u>\$ 0.50</u> |

- (1) Operating statement data for 1999 includes approximately four months of DPI's operations (acquired by the Company on September 3, 1999). The full 12 months of DPI operations are included in the operating statement data for 2000.
- (2) The year ended December 31, 1998 includes a \$7.9 million charge related to rationalization of the Company's motion simulation division and \$19.1 million related to the write-down of the value of some of the films in the Company's library. The year ended December 31, 2000 includes a \$29.4 million charge which principally relates to the impairment of certain theater and fixed assets, the write down of certain films in distribution and development and the expense of film exploitation costs as required pursuant to the Statement of Position No. 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2") effective January 1, 2000.
- (3) For the year ended December 31, 2000 selling, general and administration expenses includes an \$11.5 million charge principally related to provision against uncollectible amounts due under lease.
- (4) Amortization of intangibles in 1998 includes a \$3.3 million charge related to the write-off of goodwill associated with the Ridefilm business.
- (5) Loss from equity-accounted investees in 1998 includes the Company's 50% share of the loss of Forum Ride Associates and a provision against the remaining carrying value of the Company's equity investment in Forum Ride Associates totaling \$6.1 million and a \$0.5 million provision against an equity investment in a motion simulation ride. In 2000, it includes a \$4.0 million provision related to the guarantee of a term loan undertaken by the Forum Ride Associates joint venture.
- (6) Impairment of long-term investments represents a charge of \$4.1 million relating to the impairment of certain of the Company's long-term investments.
- (7) In 1998, all of the 10% Senior Notes due 2001 were redeemed. The excess of the redemption price over the principal amount of the Notes of \$2.8 million and the write-off of the unamortized deferred financing costs of \$894,000 resulted in an extraordinary pre-tax loss of \$3.7 million in the year ended December 31, 1998.
- (8) For the year ended December 31, 2000, the Company recognized an after-tax charge of \$54.5 million in accordance with the interpretive guidance of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). In fiscal 2000, the Company also adopted Statement of Position No. 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2") and recorded an after-tax charge of \$6.6 million to reflect the adoption of this new principle.

| Balance Sheet Data: | As at December 31, | | | | |
|--|---------------------------|----------------|-------------|-------------|-------------|
| | 2000(1) | 1999(1) | 1998 | 1997 | 1996 |
| Cash, cash equivalents and investments in marketable debt securities | \$ 38,437 | \$ 123,605 | \$ 202,941 | \$ 90,530 | \$ 120,688 |
| Total assets | 492,100 | 538,237 | 490,091 | 344,359 | 308,744 |
| Total long-term indebtedness | 300,000 | 300,000 | 300,000 | 165,000 | 167,023 |
| Total shareholders' equity..... | 22,263 | 111,065 | 84,446 | 81,117 | 54,841 |

- (1) includes the assets and liabilities of DPI, acquired by the Company on September 3, 1999.

Pro Forma Amounts in Accordance with SAB 101

| Pro forma amounts assuming the new accounting principle is applied retroactively: | 2000 | 1999 | 1998 |
|---|-------------|------------|-------------|
| Revenue | \$ 219,472 | \$ 166,617 | \$ 144,437 |
| Earnings (loss) before extraordinary item..... | \$ (31,837) | \$ 7,655 | \$ (15,487) |
| Basic earnings (loss) per share | \$ (1.07) | \$ 0.26 | \$ (0.56) |
| Diluted earnings (loss) per share | \$ (1.07) | \$ 0.25 | \$ (0.56) |
| Net earnings (loss)..... | \$ (31,837) | \$ 7,655 | \$ (17,582) |
| Basic earnings (loss)per share | \$ (1.07) | \$ 0.26 | \$ (0.63) |
| Diluted earnings (loss) per share | \$ (1.07) | \$ 0.25 | \$ (0.63) |

See pro forma disclosure in note 3 of the audited financial statements contained in Item 8.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

The Company derives revenue principally from long-term theater system lease agreements, maintenance agreements, the distribution of films, film production agreements and from the sale of digital projectors. The Company also derives revenue from the operation of theaters in which the Company has an equity interest and camera rentals.

Theater Systems

The Company generally provides its theater systems on a long-term lease basis to customers with initial lease terms of typically 10 to 20 years. Lease agreements typically provide for three major sources of revenue: (i) initial rental fees; (ii) ongoing rental payments; and (iii) maintenance fees. The initial rental fees vary depending on the type of system and location and generally are paid to the Company in installments commencing upon the signing of the agreement. Ongoing rental payments are paid monthly over the term of the contract, commencing after delivery. These payments are generally equal to the greater of a fixed minimum amount per annum and a percentage of box office receipts. An annual maintenance fee is generally payable commencing in the second year of theater operations. Both minimum rental payments and maintenance fees are typically indexed to the consumer price index.

Theater system leases that transfer substantially all of the benefits and risks of ownership to customers are classified as sales-type leases as a result of meeting the criteria established by Statement of Financial Accounting Standards No. 13 ("FAS 13"). In accordance with the interpretive guidance of SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statement" ("SAB 101"), the Company, effective January 1, 2000, recognizes revenue on theater systems, whether pursuant to sales-type leases or sales, at the time that installation is complete. Prior to January 1, 2000, the Company recognized revenue from sales-type leases and sales of theater systems at the time of delivery.

The timing of installation of the theater system is largely dependent on the timing of the construction of the customer's theater. Revenues recognized at the time of installation of the theater system are derived from contracts signed prior to the date of recognition. Such revenue is shown as sales backlog until it is recognized at the time of installation. Therefore, revenue for theater systems is generally predictable on a long-term basis. However, systems revenue in any given quarter may vary significantly depending on the timing of the installation of systems.

Cash receipts received in advance of installation are recorded as deferred revenue. The associated costs of manufacturing the theater system are recorded as inventory. At the time of installation, the deferred revenue and inventory costs are recognized in income.

Sales Backlog. Sales backlog represents the sales value of all signed system sale and lease agreements that will be recognized as revenue in the future. 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.

Film Production and Distribution

The Company adopted Statement of Position 00-2 of the American Institute of Certified Public Accountants, "Accounting by Producers or Distributors of Films" ("SOP 00-2") effective January 1, 2000. Prior to January 1, 2000, revenues associated with the licensing of exhibition rights to motion pictures distributed by the Company were recognized in accordance with U.S. Statement of Financial Accounting Standard No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films ("FAS 53)". In accordance with SOP 00-2, the Company recognizes revenue from such licensing arrangements when the film is complete and has been delivered, the license period has begun, the fee is fixed

or determinable and collection is reasonably assured. Where the license fees are based on a share of the customer's revenue, and all other revenue recognition criteria are met, the Company recognizes revenue as the customer exhibits the film. Costs of producing film and acquiring film distribution rights are capitalized and amortized using the individual film-forecast-computation method, which amortizes such costs in the same ratio that current period actual revenue bears to estimated remaining unrecognized ultimate revenue as of the beginning of the fiscal year. All advertising, exploitation costs and marketing costs are expensed as incurred. The cumulative effect of the change in accounting principle was recorded as a one time, non-cash after-tax charge of \$6.6 million in the consolidated statement of income for the year ended December 31, 2000.

International Operations

A significant portion of the Company's sales are made to customers located outside of the United States and Canada. During 2000, 1999 and 1998 approximately 44.3%, 40.3% and 46.7%, respectively, of the Company's revenues were derived from sales outside the United States and Canada. The Company expects that international operations will continue to account for a substantial portion of its revenues in the future. In order to minimize exposure to exchange rate risk, the Company prices theater systems (the largest component of revenues) in U.S. dollars except in Canada and Japan where they are priced in Canadian dollars and Japanese Yen, respectively. Annual minimum royalty payments and maintenance fees follow a similar currency policy.

Accounting Policies

The Company reports its results under both United States generally accepted accounting principles ("U.S. GAAP") and Canadian generally accepted accounting principles. The financial statements and results referred to herein are reported under U.S. GAAP.

Subsequent Events

The Company and John M. Davison, its President, Chief Operating Officer and Chief Financial Officer, entered into an agreement dated February 22, 2001, in which Mr. Davison resigned from the Company effective between May 31 and June 30, 2001. Under the agreement, Mr. Davison agreed to work for the Company until his resignation date, continuing to handle a variety of financial, budgetary and other matters. The agreement provides that the Company shall continue to pay Mr. Davison his base salary and certain bonus payments through December 31, 2002. The agreement permits Mr. Davison to exercise his stock options which are vested as of the earlier of December 31, 2002 or the date he secures alternate employment, with all other options being cancelled.

Subsequent to December 31, 2000, the Company approved a formal plan to rationalize its operations and reduce staffing levels. The Company anticipates it will record charges in 2001 in the approximate range of \$15 to \$20 million to provide for severances, exit costs and to write-down certain assets to be disposed of to net realizable value.

RESULTS OF OPERATIONS

The following table sets forth the percentage of total revenue for each of the items set forth below:

| | Years Ended December 31, | | | | |
|---|--------------------------|-------|-------|-------|-------|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| | % | % | % | % | % |
| Revenue | | | | | |
| IMAX systems | 51.6 | 62.2 | 74.0 | 61.6 | 66.2 |
| Digital projection systems | 21.1 | 5.4 | — | — | — |
| Films | 19.0 | 23.2 | 16.2 | 25.0 | 21.9 |
| Other | 8.3 | 9.2 | 9.8 | 13.4 | 11.9 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Costs and expenses | 72.9 | 52.1 | 58.7 | 46.6 | 44.9 |
| Gross margin | 27.1 | 47.9 | 41.3 | 53.4 | 55.1 |
| Selling, general and administrative expenses | 28.7 | 18.0 | 20.4 | — | — |
| Research and development | 4.0 | 1.9 | 1.4 | 20.3 | 22.7 |
| Amortization of intangibles | 1.9 | 1.3 | 3.1 | 1.3 | 1.9 |
| Loss from equity-accounted investees | 2.2 | 0.3 | 3.6 | 1.7 | 2.1 |
| Earnings (loss) from operations | (9.7) | 26.4 | 12.8 | 30.1 | 28.4 |
| Earnings (loss) before extraordinary item and cumulative effect of changes in accounting principles | (14.5) | 12.4 | 2.0 | 13.0 | 11.9 |
| Net earnings (loss) | (42.4) | 12.4 | 0.9 | 13.0 | 11.9 |

Year Ended December 31, 2000 versus Year Ended December 31, 1999

In 2000, the Company had revenues of \$219.5 million and a net loss before the cumulative effect of changes in accounting principles (described above) of \$31.8 million (\$1.07 per share on a diluted basis) compared to revenues of \$203.8 million and net earnings of \$25.2 million (\$0.83 per share on a diluted basis) in 1999. Included in the net loss are charges of \$11.5 million (\$0.27 per share) associated with provisions for estimated uncollectible amounts from theater customers, \$15.3 million (\$0.36 per share) associated with the write-down for estimated impairment of certain long-term assets of the Company, \$8.6 million (\$0.20 per share) associated with the write-down of certain assets in the Company's film library and \$7.1 million (\$0.17 per share) related to the impact of adopting SOP 00-2 on current year results. The Company reported a net loss of \$92.9 million (\$3.11 per share) after the cumulative effect of accounting charges. The increase in revenues of 8% is due to the inclusion of 12 months of revenues versus four months of revenues in 1999 from DPI which more than offset a decline in systems revenue and film revenue.

Revenues

The Company's revenues in 2000 were \$219.5 million, compared to \$203.8 million in 1999, an increase of 8%. The following table sets forth the breakdown of revenue by category in thousands of dollars:

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|-----------------------------------|-------------------|-------------------|-------------------|
| IMAX Systems Revenue | | | |
| Sales and leases | \$ 87,384 | \$ 103,414 | \$ 121,042 |
| Royalties (1)..... | 12,097 | 11,747 | 10,154 |
| Maintenance..... | <u>13,745</u> | <u>11,665</u> | <u>9,678</u> |
| | <u>113,226</u> | <u>126,826</u> | <u>140,874</u> |
| Digital projection systems | <u>46,356</u> | <u>10,999</u> | <u>—</u> |
| Film Revenue | | | |
| Distribution..... | 21,221 | 23,224 | 15,052 |
| Post-production..... | <u>20,490</u> | <u>24,003</u> | <u>15,772</u> |
| | <u>41,711</u> | <u>47,227</u> | <u>30,824</u> |
| Other Revenue | <u>18,179</u> | <u>18,783</u> | <u>18,657</u> |
| | <u>\$ 219,472</u> | <u>\$ 203,835</u> | <u>\$ 190,355</u> |

(1) Includes finance income.

Systems revenue decreased to \$113.2 million in 2000 from \$126.8 million in 1999, a decrease of 11%. Revenue from sales and leases decreased to \$87.4 million from \$103.4 million in 1999 a decrease of 15%. In 2000, 24 theater systems were installed under sales and sales-type leases as compared to 35 theater systems being delivered in 1999. Royalty revenue increased 3% over 1999. Maintenance revenue increased 18% over the prior year principally due to the increased number of theater systems in the network.

Revenues from the sale of digital projection systems increased to \$46.4 million in 2000 from \$11.0 million in 1999 following the acquisition of DPI on September 3, 1999. The 1999 results include only four months of DPI results.

Film revenues decreased to \$41.7 million in 2000 from \$47.2 million in 1999. Film distribution revenues decreased to \$21.2 million in 2000 from \$23.2 million in 1999, a decrease of 9%, and film post-production activities decreased to \$20.5 million in 2000 from \$24.0 million in 1999, a decrease of 15%. The decrease in revenues was due to a decline in the number of prints released and the timing and performance of films released in the year.

Other revenue decreased slightly to \$18.2 million in 2000 from \$18.8 million in 1999. While theater operations revenue increased in 2000 versus 1999 due to the increase in the number of owned and operated theaters and the increase in camera rentals, the increases were more than offset by a decline in the Company's discontinued Ridefilm operations.

Gross Margin

Gross margin in 2000 was \$59.5 million versus \$97.6 million in 1999. Gross margin in 2000 was reduced by \$8.6 million associated with the write-down of the value of certain films in the Company's library, \$7.1 million due to the adoption of SOP 00-2 and a provision of \$13.7 million against certain of the Company's long-term assets.

The decline in the gross margin in 2000 over 1999, is due to lower system revenues on 24 theater systems in 2000 versus 35 theater systems in 1999, reduced margin on the operation of the company-owned theaters and the provisions noted above. Gross margin as a percentage of total revenues was 27% in 2000 compared to 48% in 1999. The decline in the gross margin percentage in 2000 over 1999, is due to the same reasons.

Other

Selling, general and administrative expenses were \$62.9 million in 2000 versus \$36.6 million in 1999. The selling, general and administrative expenses include a charge of \$11.5 million in 2000 associated with the provision for impairment in amounts receivable from theaters including amounts classified as net investment in leases on the balance sheet. The balance of the increase in selling, general and administrative expenses was due to the inclusion of 12 months in 2000 versus four months in 1999 of selling, general and administrative expenses of DPI, and higher corporate expenses.

Research and development expenses were \$8.7 million in 2000 versus \$3.9 million in 1999. The increase is due mainly to the inclusion of 12 months in 2000 versus four months in 1999 of research and development costs of DPI, and increased activities in developing digital technologies.

Interest income decreased to \$3.3 million in 2000 from \$10.0 million in 1999 due mainly to a decline in the average balance of cash, cash equivalents and marketable debt securities held.

The Company experienced a foreign exchange loss of \$1.1 million in 2000 compared to a gain of \$1.0 million in 1999. The foreign exchange loss in 2000 resulted primarily from fluctuations in exchange rates on Canadian dollar cash balances and Canadian dollar and Japanese Yen denominated net investment in leases, the majority of which is unrealized. The gain in 1999 resulted primarily from fluctuations in exchange rates on Canadian dollar cash balances and Canadian dollar and Japanese Yen denominated net investment in leases.

The effective tax rate on earnings before tax differs from the statutory tax rate and will vary from year to year primarily as a result of the amortization of goodwill, which is not deductible for tax purposes, the Canadian manufacturing and processing profits deduction and the provision for income taxes at different rates in foreign and other provincial jurisdictions. The effective tax rate in 2000 declined over prior years due to certain non-deductible expenses and valuation allowances against certain losses which are assumed to be not recoverable in the future.

Minority interest expense in 1999 relates to the 49% minority interest in Sonics, held by principals of Sonics, that was acquired by the Company on October 1, 1999.

Year Ended December 31, 1999 versus Year Ended December 31, 1998

In 1999, the Company had revenues of \$203.8 million and net earnings of \$25.2 million (\$0.83 per share on a diluted basis) compared to revenues of \$190.4 million and net earnings (after a \$2.1 million extraordinary loss on the early extinguishment of debt) of \$1.8 million (\$0.03 per share on a diluted basis) in 1998. The increase in revenues of 7% is due to increased film revenues and the inclusion of four months of revenues from DPI, which more than offset a decline in systems revenue. Results in 1998 were adversely affected by four significant items: a) the rationalization of the Company's motion simulation and attractions business resulted in a charge of \$0.46 per share; b) the write-down of assets in the Company's film library resulted in a charge of \$0.35 per share; c) the extraordinary loss on the early extinguishment of debt contributed a charge of \$0.07 per share; and d) the redemption premium of the Company's Class "C" preferred shares contributed a charge of \$0.02 per share.

Revenues

Systems revenue decreased to \$126.8 million in 1999 from \$140.9 million in 1998, a decrease of 10%. Revenue from sales and leases decreased to \$103.4 million from \$121.0 million, a decrease of 15%. The Company delivered 35 theater systems under sales and sales-type leases in 1999 as compared to 41 theater systems in 1998. Royalty and maintenance revenue increased 16% and 21%, respectively, over the prior year principally due to the increased number of theater systems in the network.

Revenues from the sale of digital projection systems of \$11.0 million represent the revenues earned by DPI since its acquisition by the Company on September 3, 1999.

Film revenues increased to \$47.2 million in 1999 from \$30.8 million in 1998. Film distribution revenues increased to \$23.2 million in 1999 from \$15.1 million in 1998 due to the timing of the release of films and the strong performance of *T-REX: Back to the Cretaceous* which was released late in 1998. Film post-production activities increased to \$24.0 million in 1999 from \$15.8 million in 1998, an increase of 52%. The growth in revenues was due to an increase in the number of prints released, post-production activities and extensions of products and services.

Other revenues increased slightly to \$18.8 million in 1999 from \$18.7 million in 1998.

Gross Margin

Gross margin in 1999 was \$97.6 million versus \$78.6 million in 1998. In 1998, the gross margin was adversely affected by the write-down of the Company's motion simulation assets of \$7.9 million and a write-down of its film assets of \$19.1 million.

The decline in the gross margin in 1999 over 1998, exclusive of these write-downs, is due mainly to the decline in system deliveries to 35 in 1999 from 41 in 1998.

Gross margin as a percentage of total revenues was 47.9% in 1999 compared to 41.3% in 1998. The write-downs described above reduced the gross margin in 1998 by 4.1% and 10.0% respectively. The decline in the gross margin in 1999 over 1998, exclusive of these write-downs, is due to the higher proportion of film and other revenues (which generally have lower margins than IMAX systems revenue).

Other

Selling, general and administrative expenses were \$36.6 million in 1999 versus \$38.8 million in 1998. The decrease in selling, general and administrative costs in 1999 over 1998 resulted primarily from a \$1.9 million charge in 1998 associated with the rationalization of the Company's motion simulation and attractions business.

Research and development expenses were \$3.9 million in 1999 versus \$2.7 million in 1998. The increase is due mainly to the inclusion of four months of research and development costs of DPI.

Interest income increased to \$10.0 million in 1999 from \$5.3 million in 1998 due to higher average cash, cash equivalents and marketable debt securities balances as a result of the proceeds from the \$200 million Senior Notes due 2005 issued on December 4, 1998.

Interest expense increased in 1999 as a result of the issue in December 1998 of the Senior Notes.

The Company experienced a foreign exchange gain of \$1.0 million in 1999 compared to a gain of \$0.6 million in 1998. The foreign exchange gain in 1999 resulted primarily from fluctuations in exchange rates on Canadian dollar cash balances and Canadian dollar and Japanese Yen denominated net investment in leases. The gain in 1998 resulted primarily from fluctuations in exchange rates on the Japanese Yen denominated net investment in leases.

Minority interest expense declined to \$1.2 million in 1999 from \$1.9 million in 1998 due mainly to the acquisition by the Company of the remaining 49% minority interest in Sonics on October 1, 1999.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2000, the Company's principal source of liquidity included cash and cash equivalents of \$30.9 million, marketable securities of \$7.5 million, trade accounts receivable of \$40.8 million, net investment in leases due within one year of \$12.6 million and the amounts receivable under contracts in backlog which are not yet reflected on the balance sheet.

In addition, the Company is party to an agreement with the Toronto-Dominion Bank with respect to a working capital facility. The Bank has made available to the Company a revolving loan in an aggregate amount up to Canadian \$10 million or its U.S. dollar equivalent. Loans made under the working capital facility bear interest at the prime rate of interest per annum for Canadian dollar denominated loans and, for U.S. dollar denominated loans, at the U.S. base rate of interest established by the Bank. These loans are repayable upon demand. At December 31, 2000, \$0.4 million was available for use under this facility.

In December 1998, the Company issued \$200 million of Senior Notes due December 1, 2005, part of the proceeds of which were used to redeem the \$65 million of 10% Senior Notes due 2001. The Senior Notes due 2005 bear interest at 7.875% per annum and 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. Until December 1, 2001, up to 35% of the aggregate principal amount of the Notes may be redeemed by the Company using the net proceeds of a public offering of common shares of the Company or certain other equity placements, at a redemption price of 107.875%, together with accrued interest thereon. The Company may also redeem the Senior Notes, in whole or in part, at any time prior to December 1, 2002, at a redemption price equal to 100% of the principal amount plus a "make-whole premium" calculated in reference to the redemption price on the first date that the Senior Notes may be redeemed by the Company plus accrued interest to but excluding the redemption date. If certain changes result in the imposition of withholding taxes under Canadian law, the Senior Notes are subject to redemption at the option of the Company, in whole but not in part, at a redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption. In the event of a change in control, holders of the Senior Notes may require the Company to repurchase all or part of the Senior Notes at a price equal to 101% of the principal amount thereof plus accrued interest to the date of repurchase.

In April 1996, the Company completed a private placement of \$100 million of 5 3/4% Convertible Subordinated Notes (the "Subordinated Notes") due 2003. These Subordinated Notes 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 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 (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 substantial 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.

Cash used in operating activities amounted to \$54.1 million for the year ended December 31, 2000 after the payment of \$21.5 million of interest, \$33.6 million of income taxes and working capital requirements. Changes in operating assets and liabilities include \$19.7 million that was invested in film assets, a decrease of \$9.1 million in accounts receivable, an increase of \$9.3 million in net investment in leases due to the theater systems installed under sales-type leases in 2000 and a decrease of \$42.6 million in current taxes payable due to tax payments in connection with the reorganization of the Company's lines of business in 1999. Cash provided by investing activities in 2000 amounted to \$45.3 million. Of this amount, \$81.5 million was received from the sale of marketable debt securities, \$28.8 million was invested in fixed assets, principally owned and operated theaters and theater systems contributed to joint ventured theaters, and facilities, and \$6.2 million was invested in other assets including patents, trademarks and software. Cash provided by financing activities included proceeds of \$1.4 million from the issuance of common shares pursuant to the Company's stock option plan.

Cash used by operating activities amounted to \$2.6 million for the year ended December 31, 1999 after the payment of \$21.4 million of interest, \$7.5 million of income taxes and working capital requirements. Changes in operating assets and liabilities include \$18.1 million that was invested in film assets, an increase of \$7.9 million in accounts receivable primarily related to an increase in film post production activity and an increase in DPI's activity and an increase of \$34.1 million in net

investment in leases due to the theater systems delivered under sales-type leases in 1999 partially offset by an increase in current income taxes payable of \$32.8 million due to the impact of the reorganization of the Company's lines of business, most notably the transfer of its lease portfolio to IMAX Ltd., a 100% owned subsidiary of the Company. Cash used in investing activities in 1999 amounted to \$108.2 million. Of this amount, \$25.7 million relates to the acquisition of DPI on September 3, 1999, \$12.7 million relates to the acquisition of the minority interest in Sonics on October 1, 1999, \$22.7 million was invested in capital assets, principally owned and operated theaters and theater systems contributed to joint ventured theaters, and facilities, \$29.6 million was invested in marketable debt securities and \$17.4 million was invested in other assets including an \$11.6 million investment in Mainframe Entertainment Inc., costs associated with *Fantasia/2000: The IMAX Experience* and patents, trademarks and software. Cash provided by financing activities included proceeds of \$2.2 million from the issuance of common shares pursuant to the Company's stock option plan.

The Company believes that cash flow from operations together with existing cash balances and the working capital facility will be sufficient to meet cash requirements of its existing level of operations for the foreseeable future.

Item 7a. Quantitative and Qualitative Disclosures 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 occasionally 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 for the notional amount of \$65 million to partially hedge this exposure. Subsequent to year end, the Company sold this swap for proceeds of \$190,000

The following table provides information about the Company's foreign currency and interest rate swap contracts as at December 31, 2000. The fair value represents the amount the Company would receive or pay to terminate the contracts at December 31, 2000.

| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>Total</u> | <u>Fair Value</u> |
|---|--------------------------------|-------------|-------------|-------------|-------------|--------------|-------------------|
| | (in thousands of U.S. dollars) | | | | | | |
| Foreign currency exchange contracts | | | | | | | |
| (Receive Canadian \$, pay U.S. \$) | \$20,000 | - | - | - | - | \$20,000 | (\$158) |
| Average contractual exchange Rate per one U.S. dollar | 1.48 | - | - | - | - | 1.48 | |
| (Pay Yen, receive U.S. \$) | \$318 | \$174 | \$179 | \$137 | - | \$808 | \$43 |
| Average contractual exchange Rate per one U.S. dollar | 97.85 | 97.85 | 97.85 | 97.85 | - | 97.85 | |
| (Pay FF, receive U.S. \$) | \$423 | \$435 | \$448 | \$462 | \$476 | \$2,244 | \$478 |
| Average contractual exchange Rate per one U.S. dollar | 5.07 | 5.07 | 5.07 | 5.07 | 5.07 | 5.07 | |
| Interest rate swap | | | | | | | |
| Fixed to floating | \$65,000 (1) | - | - | - | - | \$65,000 | (\$209) |
| Average pay rate | L*+ 2.09% | | | | | | |
| Receive rate | 7.875% | | | | | | |

* LIBOR

(1) Agreement sold to a third party on January 10, 2001 for proceeds of \$190,000.

Item 8. Financial Statements and Supplementary Data

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

| | <u>Page</u> |
|---|-------------|
| Report of Independent Accountants to the Shareholders of IMAX Corporation..... | 23 |
| Consolidated Balance Sheets as at December 31, 2000 and 1999..... | 24 |
| Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998..... | 25 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998. | 26 |
| Consolidated Statements of Shareholders' Equity for the years ended December 31, 2000, 1999 and 1998..... | 27 |
| Notes to Consolidated Financial Statements | 28 |

REPORT OF INDEPENDENT ACCOUNTANTS TO THE SHAREHOLDERS OF IMAX CORPORATION

We have audited the accompanying consolidated balance sheets of IMAX Corporation (the "Company") as at December 31, 2000 and 1999 and the related consolidated statements of operations, cash flows and shareholders' equity for each year in the three-year period ended December 31, 2000. These financial statements and the financial statement schedule listed in the index appearing under Item 14(a)(2) on page 57 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and cash flows for each year in the three-year period ended December 31, 2000 in accordance with accounting principles generally accepted in the United States.

In addition, in our opinion, the financial statement schedule referred to above presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements .

/s/ PricewaterhouseCoopers LLP
Chartered Accountants
Toronto, Canada
March 28, 2001

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

| | As at December 31, | |
|--|---------------------------|-------------------|
| | 2000 | 1999 |
| Assets | | |
| Cash and cash equivalents | \$ 30,908 | \$ 34,573 |
| Investments in marketable debt securities | 7,529 | 89,032 |
| Accounts receivable, less allowance for doubtful accounts of \$19,774 (1999 - \$5,276) | 34,835 | 42,619 |
| Net investment in leases (note 6) | 77,093 | 137,005 |
| Inventories (note 7) | 69,910 | 31,141 |
| Income taxes recoverable | 8,830 | — |
| Prepaid expenses | 3,650 | 2,621 |
| Film assets (note 8) | 29,749 | 38,453 |
| Fixed assets (note 9) | 89,879 | 66,897 |
| Other assets (note 10) | 32,859 | 28,232 |
| Deferred income taxes (note 16) | 46,345 | 4,913 |
| Goodwill, net of accumulated amortization of \$14,818 (1999 - \$11,463) | 60,513 | 62,751 |
| Total assets | <u>\$ 492,100</u> | <u>\$ 538,237</u> |
| Liabilities | | |
| Accounts payable | \$ 23,250 | \$ 18,361 |
| Accrued liabilities (note 20) | 40,160 | 34,910 |
| Deferred revenue | 106,427 | 40,146 |
| Income taxes payable | — | 33,755 |
| Senior notes due 2005 (note 11) | 200,000 | 200,000 |
| Convertible subordinated notes (note 13) | 100,000 | 100,000 |
| Total liabilities | <u>469,837</u> | <u>427,172</u> |
| Commitments and contingencies (notes 15 and 21) | | |
| Shareholders' equity | | |
| Common stock (note 14) – no par value. Authorized – unlimited number. Issued and outstanding – 30,051,514 (1999 – 29,757,888) | 60,136 | 57,471 |
| Retained earnings (deficit) | (38,278) | 54,669 |
| Accumulated other comprehensive income (loss) | 405 | (1,075) |
| Total shareholders' equity | <u>22,263</u> | <u>111,065</u> |
| Total liabilities and shareholders' equity | <u>\$ 492,100</u> | <u>\$ 538,237</u> |

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

IMAX CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

In accordance with United States Generally Accepted Accounting Principles

(In thousands of U.S. dollars, except per share data)

| | Years ended December 31, | | |
|--|--------------------------|------------------|-----------------|
| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
| Revenue | | | |
| IMAX systems | \$ 113,226 | \$ 126,826 | \$ 140,874 |
| Digital projection systems | 46,356 | 10,999 | — |
| Films | 41,711 | 47,227 | 30,824 |
| Other | <u>18,179</u> | <u>18,783</u> | <u>18,657</u> |
| | 219,472 | 203,835 | 190,355 |
| Costs and expenses (notes 5, 8 and 9) | <u>159,998</u> | <u>106,241</u> | <u>111,784</u> |
| Gross margin | 59,474 | 97,594 | 78,571 |
| Selling, general and administrative expenses (notes 5 and 6) | 62,946 | 36,584 | 38,777 |
| Research and development | 8,732 | 3,868 | 2,745 |
| Amortization of intangibles | 4,202 | 2,585 | 5,948 |
| Loss from equity-accounted investees (note 5) | <u>4,811</u> | <u>683</u> | <u>6,763</u> |
| Earnings (loss) from operations | (21,217) | 53,874 | 24,338 |
| Interest income | 3,339 | 9,984 | 5,320 |
| Interest expense, net of interest capitalized of \$1,393 (1999 - \$754; 1998 - \$nil) | (21,961) | (21,860) | (14,646) |
| Impairment of long-term investments (note 10) | (4,133) | — | — |
| Foreign exchange gain (loss) | <u>(1,103)</u> | <u>977</u> | <u>588</u> |
| Earnings (loss) before income taxes and minority interest | (45,075) | 42,975 | 15,600 |
| Recovery of (provision for) income taxes (note 16) | <u>13,238</u> | <u>(16,535)</u> | <u>(9,810)</u> |
| Earnings (loss) before minority interest | (31,837) | 26,440 | 5,790 |
| Minority interest | <u>—</u> | <u>(1,207)</u> | <u>(1,895)</u> |
| Earnings (loss) before extraordinary item and cumulative effect of changes in accounting principles | (31,837) | 25,233 | 3,895 |
| Extraordinary loss on early retirement of debt, net of income tax benefit of \$1,588 (note 12) | — | — | (2,095) |
| Cumulative effect of changes in accounting principles, net of income tax benefit of \$37,286 (note 3) | <u>(61,110)</u> | <u>—</u> | <u>—</u> |
| Net earnings (loss) | <u>\$ (92,947)</u> | <u>\$ 25,233</u> | <u>\$ 1,800</u> |
| Per share data (note 14) : | | | |
| Earnings (loss) per share – basic : | | | |
| Earnings (loss) before extraordinary item and cumulative effect of changes in accounting principles | \$ (1.07) | \$ 0.85 | \$ 0.10 |
| Extraordinary item | \$ — | \$ — | \$ (0.07) |
| Cumulative effect of changes in accounting principles | <u>\$ (2.05)</u> | <u>\$ —</u> | <u>\$ —</u> |
| Net earnings (loss) | <u>\$ (3.11)</u> | <u>\$ 0.85</u> | <u>\$ 0.03</u> |
| Earnings (loss) per share – diluted : | | | |
| Earnings (loss) before extraordinary item and cumulative effect of changes in accounting principles | \$ (1.07) | \$ 0.83 | \$ 0.09 |
| Extraordinary item | \$ — | \$ — | \$ (0.06) |
| Cumulative effect of changes in accounting principles | <u>\$ (2.05)</u> | <u>\$ —</u> | <u>\$ —</u> |
| Net earnings (loss) | <u>\$ (3.11)</u> | <u>\$ 0.83</u> | <u>\$ 0.03</u> |

Pro forma earnings per share data related to accounting change (note 3)

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

IMAX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

In accordance with United States Generally Accepted Accounting Principles

(In thousands of U.S. dollars)

| | Years ended December 31, | | |
|---|--------------------------|-------------------------|--------------------------|
| | 2000 | 1999 | 1998 |
| Cash provided by (used in): | | | |
| Operating Activities | | | |
| Net earnings (loss) | \$ (92,947) | \$ 25,233 | \$ 1,800 |
| Items not involving cash: | | | |
| Depreciation, amortization and write-downs (note 17) | 50,628 | 25,110 | 45,415 |
| Loss from equity-accounted investees | 4,811 | 683 | 6,763 |
| Deferred income taxes | (5,300) | (24,249) | 5,563 |
| Impairment of long-term investments (note 10) | 4,133 | — | — |
| Extraordinary loss on early extinguishment of debt | — | — | 2,095 |
| Cumulative effect of changes in accounting principles (note 3) | 61,110 | — | — |
| Minority interest | — | 1,207 | 1,895 |
| Other | — | 10 | (259) |
| Changes in operating assets and liabilities (note 17) | <u>(76,524)</u> | <u>(30,583)</u> | <u>(60,517)</u> |
| Net cash (used in) provided by operating activities | <u>(54,089)</u> | <u>(2,589)</u> | <u>2,755</u> |
| Investing Activities | | | |
| Acquisition of Digital Projection International, net of cash acquired | (900) | (25,724) | — |
| Acquisition of minority interest in Sonics Associates, Inc. | (295) | (12,740) | — |
| Net sale (purchase) of investments in marketable securities | 81,503 | (29,639) | (32,920) |
| Purchase of fixed assets | (28,782) | (22,708) | (14,021) |
| Increase in other assets | <u>(6,190)</u> | <u>(17,402)</u> | <u>(3,982)</u> |
| Net cash provided by (used in) investing activities | <u>45,336</u> | <u>(108,213)</u> | <u>(50,923)</u> |
| Financing Activities | | | |
| Issue of 7.875% Senior notes due 2005 | — | — | 200,000 |
| Repurchase of 10% Senior notes due 2001 | — | — | (67,789) |
| Deferred charges on debt financing | — | — | (4,852) |
| Paid-in-capital on stock options granted | 1,034 | — | — |
| Class C preferred shares dividends paid | — | (365) | (386) |
| Common shares issued | 1,442 | 2,235 | 2,632 |
| Redemption of Class C preferred shares | <u>—</u> | <u>—</u> | <u>(2,178)</u> |
| Net cash provided by financing activities | <u>2,476</u> | <u>1,870</u> | <u>127,427</u> |
| Effects of exchange rate changes on cash | <u>2,612</u> | <u>(61)</u> | <u>238</u> |
| Increase (decrease) in cash and cash equivalents during the year | (3,665) | (108,993) | 79,497 |
| Cash and cash equivalents, beginning of year | <u>34,573</u> | <u>143,566</u> | <u>64,069</u> |
| Cash and cash equivalents, end of year | <u>\$ 30,908</u> | <u>\$ 34,573</u> | <u>\$ 143,566</u> |

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

IMAX CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY In accordance with United States Generally Accepted Accounting Principles (In thousands of U.S. dollars)

| | Number of common shares issued and outstanding | Capital stock | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total shareholders' equity | Comprehensive income (loss) |
|--|---|--------------------------|--|--|---|--|
| Balance at December 31, 1997 | 29,115,418 | \$ 52,604 | \$ 28,642 | \$ (129) | \$ 81,117 | — |
| Issuance of common stock | 362,966 | 2,632 | — | — | 2,632 | — |
| Accrual of preferred dividends | — | — | (171) | — | (171) | — |
| Accretion of discount on preferred shares | — | — | (183) | — | (183) | — |
| Premium paid on early redemption of Class C Preferred shares | — | — | (652) | — | (652) | — |
| Net earnings | — | — | 1,800 | — | 1,800 | 1,800 |
| Foreign currency translation adjustments, net of income taxes of \$nil | — | — | — | (97) | (97) | (97) |
| | | | | | | <u>\$ 1,703</u> |
| Balance at December 31, 1998 | 29,478,384 | 55,236 | 29,436 | (226) | 84,446 | — |
| Issuance of common stock | 279,504 | 2,235 | — | — | 2,235 | — |
| Net earnings | — | — | 25,233 | — | 25,233 | 25,233 |
| Unrealized loss on available-for-sale security, net of income taxes of \$nil | — | — | — | (867) | (867) | (867) |
| Foreign currency translation adjustments, net of income taxes of \$nil | — | — | — | 18 | 18 | 18 |
| | | | | | | <u>\$ 24,384</u> |
| Balance at December 31, 1999 | 29,757,888 | 57,471 | 54,669 | (1,075) | 111,065 | — |
| Issuance of common stock | 293,626 | 1,631 | — | — | 1,631 | — |
| Adjustment in paid-in-capital for stock options granted | — | 1,034 | — | — | 1,034 | — |
| Net loss | — | — | (92,947) | — | (92,947) | (92,947) |
| Net adjustment on available-for-sale security, net of income tax benefit of \$123 | — | — | — | 586 | 586 | 586 |
| Foreign currency translation adjustments, net of income taxes of \$nil | — | — | — | 894 | 894 | 894 |
| | | | | | | <u>\$ (91,467)</u> |
| Balance at December 31, 2000 | <u>30,051,514</u> | <u>\$ 60,136</u> | <u>\$ (38,278)</u> | <u>\$ 405</u> | <u>\$ 22,263</u> | |

Components of accumulated other comprehensive income (loss) consist of :

| | December 31, 2000 | December 31, 1999 | December 31, 1998 |
|---|--------------------------|--------------------------|--------------------------|
| Foreign currency translation adjustments | \$ 686 | \$ (208) | \$ (226) |
| Unrealized gain (loss) on available-for-sale security | <u>(281)</u> | <u>(867)</u> | <u>—</u> |
| Accumulated other comprehensive income (loss) | <u>\$ 405</u> | <u>\$ (1,075)</u> | <u>\$ (226)</u> |

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

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

1. Description of the Business

IMAX Corporation provides a wide range of products and services to the network of IMAX theaters. The principal activities of the Company are:

- ?? the design, manufacture and marketing of proprietary projection and sound systems for IMAX theaters principally owned and operated by institutional and commercial customers located in 28 countries as of December 31, 2000;
- ?? the development, production, post-production and distribution of films shown in the IMAX theater network;
- ?? the operation of certain IMAX theaters located primarily in the United States;
- ?? the provision of other services to the IMAX theater network including designing and manufacturing IMAX camera equipment for rental to filmmakers and providing ongoing maintenance services for the IMAX projection and sound systems; and
- ?? the design, manufacture and marketing of digital projection systems following the acquisition of Digital Projection International on September 3, 1999.

2. Summary of Significant Accounting Policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could be materially different from these estimates. Significant accounting policies are summarized as follows:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

(b) Investments

Investments in marketable debt and equity securities categorized as available-for-sale securities are carried at fair value with unrealized gains or losses included in other comprehensive income (loss). Investments in marketable debt securities categorized as held-to-maturity securities are carried at amortized cost. Investments in joint ventures are accounted for by the equity method of accounting under which consolidated net earnings include the Company's share of earnings or losses of the investees. A loss in value of an investment, which is other than a temporary decline, is recognized as a charge to consolidated net earnings.

(c) Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Inventories

Inventories are carried at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Finished goods and work-in-process include the cost of raw materials, direct labor and an applicable share of manufacturing overhead costs.

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

2. Summary of Significant Accounting Policies – (continued)

(e) Film assets

Costs of producing films, including capitalized interest, and costs of acquiring film rights are recorded as film assets. The film assets are amortized using the individual-film forecast method as prescribed by AICPA Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2") whereby film costs are amortized in the same ratio that current gross revenues bear to anticipated total future gross revenues. Estimates of anticipated total gross revenues are reviewed regularly by management and revised where necessary to reflect more current information.

The recoverability of film costs is dependent upon commercial acceptance of the films. If events or circumstances indicate that the fair value of a film is less than the unamortized film costs, the film is written down to fair value by a charge to consolidated net earnings.

Film exploitation costs, including advertising costs, are expensed as incurred.

(f) Fixed assets

Fixed assets are stated at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

| | | |
|---------------------------------|---|--|
| Projection equipment | — | 10 to 15 years |
| Camera equipment | — | 5 to 10 years |
| Buildings | — | 20 to 25 years |
| Office and production equipment | — | 3 to 5 years |
| Leasehold improvements | — | Over the term of the underlying leases |

(g) Other assets

Other assets include an investment in Mainframe Entertainment, Inc. ("Mainframe"), patents, trademarks and other intangibles, investments in equity-accounted investees, capitalized computer software, defined pension plan intangibles and deferred charges on debt financing.

Patents, trademarks and other intangibles are recorded at cost and are amortized on a straight-line basis over estimated useful lives ranging from 10 to 13 years.

Application development costs of computer software for internal use by the Company are capitalized. Amortization commences when the software is available for use, on a straight-line basis over their estimated useful lives ranging from 3 to 5 years.

Costs of debt financing are deferred and amortized over the term of debt.

(h) Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of net assets acquired. Goodwill is amortized on a straight-line basis over its estimated life ranging from 20 years to 25 years. The carrying value of goodwill is periodically reviewed by the Company and impairments are recognized in earnings when the undiscounted expected future operating cash flows derived from the acquired businesses are less than the carrying value.

(i) Deferred revenue

Deferred revenue comprises cash received under system contracts, film production contracts, film exhibition contracts and other contracts not yet recognized as revenue.

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

2. Summary of Significant Accounting Policies – (continued)

(j) Income taxes

Income taxes are accounted for under the asset and liability method whereby deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period in which the change occurs. Investment tax credits are recognized as a reduction of income tax expense in the year the credit is earned.

(k) Revenue recognition

Sales-Type Leases of Theater Systems

Theater system leases that transfer substantially all of the benefits and risks of ownership to customers are classified as sales-type leases as a result of meeting the criteria established by Statement of Financial Accounting Standards No. 13 ("FAS 13"). Lease payments include initial rentals, which are fixed in amount, and additional rentals, which are equal to the greater of a percentage of ongoing theater admissions revenue and a minimum annual amount. "Minimum lease payments" include the initial rentals and minimum additional rental amounts. Additional rentals in excess of minimum annual amounts are recognized as revenue when the contracted portion of theater admissions due to the Company reported by theater operators exceed the minimum amounts, provided that collection is reasonably assured.

Cash installments of initial rents received in advance of the time at which installation is complete are recorded as deferred revenue. The associated costs of constructing the systems not yet recognized as revenue are included in inventories.

As described in note 3, effective January 1, 2000, revenue associated with the present value of minimum lease payments is recognized when installation of the theater system is complete. Prior to January 1, 2000, the Company recognized such revenue at the time of delivery of the theater system.

Operating Leases of Theater Systems

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

Sales of Theater Systems

Revenue from the sales of theater systems is recognized when all of the following criteria are met: persuasive evidence of an agreement exists; the price is fixed or determinable; title passes to the customer; installation of the system is complete; and collection is reasonably assured. Prior to January 1, 2000, the Company recognized such revenue on the same basis, except that the time of delivery was used instead of the time when installation was complete.

Sale of Digital Projection Systems

Revenue from the sales of digital projection systems is recognized when all of the following criteria are met: persuasive evidence of an agreement exists; the price is fixed or determinable; the system is delivered; title passes to the customer; and collection is reasonably assured.

Maintenance and Other Services

Maintenance revenues are recognized on a straight-line basis over the maintenance period. Revenues from post-production film services are recognized when the service has been completed. Revenues on camera rentals are recognized over the period the camera is used. Theater admission revenues are recognized on the date of the performance. Other service revenues are recognized when the services are performed.

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

2. Summary of Significant Accounting Policies – (continued)

Film Production and Distribution

In accordance with SOP 00-2, the Company recognizes revenue from licensing of films when the film is complete and has been delivered, the license period has begun, the fee is fixed or determinable and collection is reasonably assured. Where the license fees are based on a share of the customer's revenue, and all other revenue recognition criteria mentioned in the preceding sentence are met, the Company recognizes revenue as the customer exhibits the film.

(l) Research and development

Research and development expenditures are expensed as incurred.

(m) Foreign currency translation

Monetary assets and liabilities of the Company's operations, which are denominated in currencies other than the functional currency, are translated into the functional currency at the exchange rates prevailing at the end of the period. Non-monetary items are translated at historical exchange rates. Revenue and expense transactions are translated at exchange rates prevalent at the transaction date. Such exchange gains and losses are included in the determination of net earnings in the period in which they arise. For foreign subsidiaries with functional currencies other than the U.S. dollar, all assets and liabilities are translated at the year end exchange rates and all revenue and expense items are translated at the average rate for the period, with exchange differences arising on translation accumulated in other comprehensive income (loss).

(n) Stock-based compensation

The Company accounts for stock-based compensation under the intrinsic value method set out in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and its related interpretations and has made pro forma disclosures of net earnings and earnings per share in note 14 as if the methodology prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", had been adopted.

(o) Defined pension plan

Defined pension plan liabilities are recorded as the excess of the accumulated benefit obligation over the fair value of plan assets. Assumptions used in computing benefit obligations are regularly reviewed by management and adjusted to market conditions. Prior service costs resulting from plan inception or amendments are amortized over the expected future service of the employees while current service costs are expensed when earned.

3. Changes in Accounting Policies

(a) SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements"

In preparing its financial statements for the year ended December 31, 2000, the Company reviewed its revenue recognition accounting policies in the context of SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which is applicable for the Company's quarter ended December 31, 2000. In accordance with the interpretive guidance of SAB 101, the Company, effective January 1, 2000, recognizes revenue on theater systems, whether pursuant to sales-type leases or sales, at the time that installation is complete. Prior to January 1, 2000, the Company recognized revenue from sales-type leases and sales of theater systems at the time of delivery.

The effect of applying this change in accounting principle is a fiscal 2000 non-cash charge of \$54.5 million, net of income taxes of \$33.4 million, or \$1.83 per share, representing the cumulative impact on retained earnings as at December 31, 1999.

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

3. Change in Accounting Policies - (continued)

The following are pro forma amounts as if SAB 101 had been applied during all years presented:

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---|-------------|-------------|-------------|
| Revenue | \$ 219,472 | \$ 166,617 | \$ 144,437 |
| Earnings (loss) before extraordinary item | \$ (31,837) | \$ 7,655 | \$ (15,487) |
| Basic earnings (loss) per share | \$ (1.07) | \$ 0.26 | \$ (0.56) |
| Diluted earnings (loss) per share | \$ (1.07) | \$ 0.25 | \$ (0.56) |
| Net Earnings (loss) | \$ (31,837) | \$ 7,655 | \$ (17,582) |
| Basic earnings (loss) per share | \$ (1.07) | \$ 0.26 | \$ (0.63) |
| Diluted earnings (loss) per share | \$ (1.07) | \$ 0.25 | \$ (0.63) |

(b) AICPA Statement of Position 00-2, "Accounting by Producers or Distributors of Films"

Effective January 1, 2000, the Company adopted SOP 00-2. Prior to January 1, 2000, revenues associated with the licensing of films were recognized in accordance with Statement of Financial Accounting Standard No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films" ("FAS 53") and exploitation costs were capitalized and amortized. As a result of adopting SOP 00-2, the Company has recorded a non-cash charge of \$6.6 million, net of income taxes of \$3.9 million, or \$0.22 per share, to fiscal 2000 earnings, representing the cumulative impact on retained earnings as at December 31, 1999.

4. Acquisitions

- (a) On September 3, 1999, the Company acquired all of the common and preferred shares of Digital Projection International, ("DPI") a designer and manufacturer of digital image delivery systems. The transaction has been accounted for as a purchase and the assets acquired and the liabilities assumed were recorded at their estimated fair market value. The purchase price of approximately \$27.3 million was paid with approximately \$25.5 million of cash and 100,000 shares of the Company, valued at approximately \$1.8 million, to be issued to former shareholders of DPI over the next five years. In addition, the purchase price was subject to a valuation adjustment with the vendors to a maximum of an additional \$1.5 million, for which funds were placed in escrow by the Company.

The purchase price has been allocated to assets and liabilities acquired to record them at their estimated fair values at September 3, 1999 as follows:

| | |
|--|------------------|
| Cash | \$ 1,526 |
| Accounts receivable | 3,867 |
| Inventory | 6,654 |
| Fixed assets | 3,056 |
| Other assets | 4,000 |
| Accounts payable and accrued liabilities | (12,013) |
| Deferred income tax | 1,783 |
| Goodwill | <u>18,377</u> |
| | <u>\$ 27,250</u> |

In 2000, the Company recorded an increase of \$2.7 million to goodwill in finalizing the purchase allocation and the additional amounts arising under the escrow arrangements.

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

4. Acquisition - (continued)

- (b) On October 1, 1999, the Company acquired the remaining 49% interest of Sonics Associates, Inc. ("Sonics"), not owned by the Company. Sonics is the provider of sound systems for the Company's theater systems. The purchase price of \$12.7 million in cash was paid to Sonics management to acquire its minority interest which had a carrying value of \$6.0 million and effecting an increase in goodwill of \$6.7 million. The purchase agreement also provides for an additional earn out amount to be paid to the former shareholders over the period 2000 to 2004.

The Company increased goodwill in 2000 by \$295,000 to account for the guaranteed earn-out amount paid to the former shareholders. In 2000, no compensation costs were recognized for the earn-out.

5. Rationalization of Motion Simulation and Attractions Business

In 1998, the Company rationalized its motion simulation and attraction business and recorded costs and expenses of \$13.3 million as follows: a) amortization of intangibles of \$3.3 million for the write-off of the goodwill; b) costs and expenses of \$1.4 million for the write-down of three participating joint venture operations, \$3.7 million for the write-down of film assets, \$768,000 for the write-down of inventory and \$1.1 million for the write-down of fixed assets, and \$950,000 for other liabilities; c) selling, general and administrative expense of \$1.7 million related to a provision for doubtful accounts and \$201,000 for severance. In addition, in 1999 the Company recorded a loss from equity-accounted investees of \$543,000 for the write-down of the Company's interest in the joint venture and a deferred income tax asset valuation adjustment of \$875,000.

Included in loss from equity-accounted investees for 1998 is a charge of \$4.2 million to write-down the Company's investment in the Forum Ride Associates joint venture.

The Company has guaranteed up to \$4.0 million of a term loan undertaken by the Forum Ride Associates joint venture. The term loan, which matures in January 2009, is collateralized by the assets of the joint venture. In 2000, the Company recorded a provision of \$4.0 million representing the estimated funding required under its debt guarantee.

6. Leases

(a) Net investment in leases

The Company enters into sales-type leases, for which the customer makes initial rental payments and additional rental payments with contracted minimums, which are generally indexed with inflation. The Company's net investment in sales-type leases comprises:

| | <u>2000</u> | <u>1999</u> |
|--|------------------|-------------------|
| Gross minimum lease amounts receivable | \$ 174,124 | \$ 211,837 |
| Accumulated allowance for uncollectible amounts | <u>(6,813)</u> | <u>(301)</u> |
| Gross minimum lease amounts receivable, net of allowance | 167,311 | 211,536 |
| Residual value of equipment | 2,223 | 6,325 |
| Unearned finance income | <u>(92,411)</u> | <u>(80,856)</u> |
| Present value of net minimum lease amounts receivable | <u>\$ 77,093</u> | <u>\$ 137,005</u> |

(b) Rental amounts

Revenue includes annual rental amounts comprised of the following:

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---|------------------|------------------|------------------|
| Minimum rental amounts on operating leases | \$ 879 | \$ 875 | \$ 910 |
| Additional rentals in excess of minimum amounts, on operating and sales-type leases | 4,611 | 5,646 | 4,100 |
| Finance income on sales-type leases | <u>6,607</u> | <u>5,228</u> | <u>5,144</u> |
| | <u>\$ 12,097</u> | <u>\$ 11,749</u> | <u>\$ 10,154</u> |

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

6. Leases – (continued)

The estimated amount of gross minimum rental amounts receivable from operating and sales-type leases at December 31, 2000, for each of the next five years is as follows:

| | |
|------------|-------------------|
| 2001 | \$ 11,765 |
| 2002 | 12,984 |
| 2003 | 12,891 |
| 2004 | 13,019 |
| 2005 | 11,805 |
| Thereafter | <u>114,750</u> |
| | <u>\$ 177,214</u> |

(c) Provision for uncollectible amounts

Included in selling, general and administrative expenses for 2000 is a provision for uncollectible amounts of \$11.5 million (1999 - \$nil, 1998 - \$nil) for net investment in leases and related accounts receivable.

7. Inventories

| | <u>2000</u> | <u>1999</u> |
|-----------------|------------------|------------------|
| Raw materials | \$ 16,037 | \$ 16,831 |
| Work-in-process | 11,963 | 11,974 |
| Finished goods | <u>41,910</u> | <u>2,336</u> |
| | <u>\$ 69,910</u> | <u>\$ 31,141</u> |

Finished goods at December 31, 2000 include \$29.6 million in theater systems delivered to customers where installation was not complete.

8. Film Assets

| | <u>2000</u> | <u>1999</u> |
|---|------------------|------------------|
| Completed and released films, net of accumulated amortization | \$ 12,884 | \$ 27,775 |
| Development costs | 1,452 | 2,301 |
| Films in production | <u>15,413</u> | <u>8,377</u> |
| | <u>\$ 29,749</u> | <u>\$ 38,453</u> |

Included in costs and expenses for 2000 and 1998 are charges of \$8.6 million and \$22.7 million, respectively, to reflect write-downs of unamortized film costs.

Included in net loss for 2000 is a pre-tax charge of \$10.5 million as a result of the Company's adoption of SOP 00-2 (see note 3).

The percentage of unamortized film costs for released films that the Company expects to amortize within three years from December 31, 2000 amounts to 95%. The amount of accrued participation liabilities that the Company expects to pay during 2001 is \$979,000.

Film assets include \$843,000 of interest capitalized in 2000 (1999 - \$204,000; 1998 - \$nil).

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

9. Fixed Assets

| | 2000 | | |
|----------------------------------|-------------------|-------------------------------------|-----------------------|
| | Cost | Accumulated Depreciation | Net book value |
| Equipment leased or held for use | | | |
| Projection equipment | \$ 44,375 | \$ 12,547 | \$ 31,828 |
| Camera equipment | <u>10,447</u> | <u>7,388</u> | <u>3,059</u> |
| | <u>54,822</u> | <u>19,935</u> | <u>34,887</u> |
| Assets under construction | <u>3,936</u> | <u>—</u> | <u>3,936</u> |
| Other fixed assets | | | |
| Land | 1,949 | — | 1,949 |
| Buildings | 16,653 | 3,571 | 13,082 |
| Office and production equipment | 34,863 | 22,163 | 12,700 |
| Leasehold improvements | <u>32,116</u> | <u>8,791</u> | <u>23,325</u> |
| | <u>85,581</u> | <u>34,525</u> | <u>51,056</u> |
| | <u>\$ 144,339</u> | <u>\$ 54,460</u> | <u>\$ 89,879</u> |
| | | | |
| | 1999 | | |
| | Cost | Accumulated Depreciation | Net book value |
| Equipment leased or held for use | | | |
| Projection equipment | \$ 21,085 | \$ 10,313 | \$ 10,772 |
| Camera equipment | <u>13,760</u> | <u>3,749</u> | <u>10,011</u> |
| | <u>34,845</u> | <u>14,062</u> | <u>20,783</u> |
| Assets under construction | <u>5,638</u> | <u>—</u> | <u>5,638</u> |
| Other fixed assets | | | |
| Land | 2,431 | — | 2,431 |
| Buildings | 16,536 | 2,949 | 13,587 |
| Office and production equipment | 27,271 | 15,487 | 11,784 |
| Leasehold improvements | <u>13,610</u> | <u>936</u> | <u>12,674</u> |
| | <u>59,848</u> | <u>19,372</u> | <u>40,476</u> |
| | <u>\$ 100,331</u> | <u>\$ 33,434</u> | <u>\$ 66,897</u> |

Fixed assets include \$550,000 of interest capitalized in 2000 (1999 – \$550,000, 1998 – \$nil).

Included in costs and expenses for 2000 is an impairment provision of \$2.6 million on camera equipment. The impairment results from technological developments and declining rental revenues. The camera equipment was written down to the discounted expected future cash flows from rentals. In 2000, the Company has also recognized in costs and expenses an impairment provision of \$8.6 million on fixed assets used in certain under-performing owned and operated theaters. These fixed assets were written down to estimated fair value based on the discounted expected future cash flows of the theaters.

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

10. Other Assets

| | <u>2000</u> | <u>1999</u> |
|--|------------------|------------------|
| Investment in Mainframe Entertainment, Inc. | \$ 7,679 | \$ 10,732 |
| Patents, trademarks and other intangibles | 6,479 | 5,872 |
| Investments in equity-accounted investees | 1,462 | 1,797 |
| Computer software | 1,135 | 1,353 |
| Deferred charges on debt financing | 4,717 | 5,930 |
| Pension asset, representing unrecognized prior service costs | 8,489 | — |
| Other assets | 2,898 | 2,548 |
| | <u>\$ 32,859</u> | <u>\$ 28,232</u> |

The investment in Mainframe consists of a 19% investment in common shares and an investment in 6% convertible debentures maturing June 1, 2004.

Included in net loss for 2000 is a charge of \$3.1 million to reflect a write-down for the impairment of the common share investment in Mainframe and a charge of \$1.0 million to reflect a write-down of other investments.

11. Senior Notes due 2005

In December, 1998, the Company issued \$200 million of Senior Notes due December 1, 2005 bearing interest at 7.875% per annum with interest payable in arrears on June 1 and December 1 of each year, commencing June 1, 1999. The 7.875% Senior Notes are the senior unsecured obligation of the Company, ranking pari passu in right of payment to all existing and future senior unsecured and unsubordinated indebtedness of the Company and senior in right of payment to any subordinated indebtedness of the Company.

The 7.875% Senior Notes Indenture contains covenants that, among other things, limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, make certain investments, create certain liens, engage in certain transactions with affiliates, engage in sale and leaseback transactions, engage in mergers, consolidations or the transfer of all or substantially all of the assets of the Company. The 7.875% Senior Notes 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. Until December 1, 2001, up to 35% of the aggregate principal amount of the Senior Notes may be redeemed by the Company using the net proceeds of a public offering of common shares of the Company or certain other equity placements, at a redemption price of 107.875%, together with accrued interest thereon. The Company may also redeem the Senior Notes, in whole or in part, at any time prior to December 1, 2002, at a redemption price equal to 100% of the principal amount plus a “make-whole premium” calculated in reference to the redemption price on the first date that the Senior Notes may be redeemed by the Company plus accrued interest to, but excluding, the redemption date. If certain changes result in the imposition of withholding taxes under Canadian law, the 7.875% Senior Notes are subject to redemption at the option of the Company, in whole but not in part, at a redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption. In the event of a change in control, holders of the Senior Notes may require the Company to repurchase all or part of the Senior Notes at a price equal to 101% of the principal amount thereof plus accrued interest to the date of repurchase.

Interest expense on the 7.875% Senior Notes amounted to \$15.8 million in 2000 (1999 - \$15.8 million, 1998 - \$1.2 million).

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

12. Senior Notes due 2001

In 1998, the Company redeemed its 10% Senior Notes due 2001 for cash of \$67.8 million, which resulted in an extraordinary pre-tax loss of \$3.7 million. Interest expense on the 10% Senior Notes amounted to \$6.7 million in 1998.

13. Convertible Subordinated Notes

In April 1996, the Company issued \$100 million of Convertible Subordinated Notes due April 1, 2003 bearing interest at 5.75% payable in arrears on April 1 and October 1. The Subordinated Notes, subordinate to present and future senior indebtedness of the Company, 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 (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.

Interest expense related to the Convertible Subordinated Notes was \$5.8 million in each of the years ended December 31, 2000, 1999 and 1998.

14. Capital Stock

(a) Authorized

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of Class C preferred shares issuable in two series.

The following is a summary of the rights, privileges, restrictions and conditions of each of the classes of shares.

Redeemable Class C preferred shares, Series 1

The holders of Class C Series 1 preferred shares are entitled to a cumulative dividend at the rate of 7% to 10% per annum under certain conditions on the issue price of Canadian \$100 per share.

Except as otherwise required by law, the holders of Class C Series 1 preferred shares are not entitled to vote at any meeting of the shareholders.

Notice of redemption for all outstanding Class C Series 1 preferred shares was delivered on December 29, 1998 and all outstanding shares were redeemed on January 21, 1999.

Redeemable Class C preferred shares, Series 2

The Class C Series 1 preferred shares may be converted at any time in whole upon a resolution of the directors of the Company into the same number of Class C Series 2 preferred shares. The terms of the Series 2 shares shall be identical to the Class C Series 1 shares except that the holders of Class C Series 2 shares will be entitled to such number of votes as the directors determine subject to a maximum of six percent of the votes attaching to all voting shares of the Company outstanding immediately following the conversion.

Common shares

The holders of common shares are entitled to receive dividends if, as and when declared by the directors of the Company, subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to the common shares.

The holders of the common shares are entitled to one vote for each common share held at all meetings of the shareholders.

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

14. Capital Stock – (continued)

(b) Changes during the period

In 2000, the Company issued 281,300 common shares pursuant to the exercise of stock options for cash proceeds of \$1.4 million, 10,658 common shares with a value of \$189,000 related to the DPI acquisition (see note 4) and 1,668 common shares under the terms of an employment contract with an ascribed value of \$28,000.

In 1999, the Company issued 277,838 common shares pursuant to the exercise of stock options for cash proceeds of \$2.2 million and 1,666 common shares were issued under the terms of an employment contract with an ascribed value of \$28,000.

In 1998, the Company issued 361,300 common shares pursuant to the exercise of stock options for cash proceeds of \$2.6 million and 1,666 common shares were issued under the terms of an employment contract with an ascribed value of \$27,000.

(c) Shares held by a subsidiary

Issued common shares held by a subsidiary of the Company amounted to nil at December 31, 2000 (1999 - 148,000, 1998 - 213,000). During 2000, 148,000 (1999 - 65,000, 1998 - nil) common shares held by this subsidiary were sold to a former employee of the Company in connection with the exercise of a stock option grant for cash proceeds of \$32,000 (1999 - \$14,000, 1998 - \$nil).

(d) Stock options

The Company has reserved a total of 8,522,550 common shares for future issuance as follows:

- (i) 166,744 common shares have been reserved for issuance pursuant to stock options granted to a former officer of the Company, at an exercise price equivalent to Canadian \$0.32 per share and expire on September 1, 2002. These options are fully vested.
- (ii) 15,008 common shares have been reserved for issuance pursuant to stock options granted at an exercise price equivalent to Canadian \$1.59 per share, which options are fully vested and expire on April 8, 2004.
- (iii) 8,340,798 common shares remain reserved for issuance under the Stock Option Plan, of which options in respect of 8,071,072 common shares are outstanding at December 31, 2000. The options granted under the Stock Option Plan generally vest over a five-year period and expire 10 years from the date granted. At December 31, 2000, options in respect of 3,269,728 common shares were vested and exercisable.

| | Number of shares | | | Weighted average exercise price per share | | |
|--|-------------------------|------------------|------------------|--|-------------|-------------|
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Options outstanding, beginning of year | 5,157,400 | 3,327,300 | 2,005,600 | \$ 20.18 | \$ 19.38 | \$ 14.55 |
| Granted | 3,224,972 | 2,225,000 | 1,815,500 | 24.25 | 20.32 | 22.58 |
| Exercised | (131,300) | (201,638) | (335,900) | 9.06 | 10.82 | 7.14 |
| Forfeited | (180,000) | (193,262) | (157,900) | 26.17 | 18.09 | 19.56 |
| Options outstanding, end of year | <u>8,071,072</u> | <u>5,157,400</u> | <u>3,327,300</u> | 21.91 | 20.18 | 19.38 |

The following table summarizes certain information in respect of options outstanding under the Stock Option Plan at December 31, 2000:

| Range of exercise prices per share | Number of shares | | Average exercise price per share | Average remaining term |
|---|-------------------------|------------------|---|-------------------------------|
| | Outstanding | Vested | | |
| \$ 5.00 - \$ 9.99 | 271,300 | 249,300 | \$ 6.56 | 4½ Years |
| \$ 10.00 - \$ 14.99 | 46,000 | 32,000 | 11.82 | 5 Years |
| \$ 15.00 - \$ 19.99 | 1,385,100 | 1,187,300 | 17.55 | 8 Years |
| \$ 20.00 - \$ 24.99 | 4,605,872 | 1,519,028 | 22.28 | 8½ Years |
| \$ 25.00 - \$ 28.99 | <u>1,762,800</u> | <u>282,100</u> | 27.00 | 9 Years |
| Total | <u>8,071,072</u> | <u>3,269,728</u> | 21.91 | 8 ½ Years |

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

14. Capital Stock – (continued)

(e) Earnings per share

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---|--------------------|-------------------|-------------------|
| <i>Net earnings (loss) applicable to common shareholders:</i> | | | |
| Earnings (loss) before extraordinary loss and cumulative effect of changes in accounting principles | \$ (31,837) | \$ 25,233 | \$ 3,895 |
| Less: accrual of preferred dividends | — | — | (171) |
| accretion of discount of preferred shares | — | — | (183) |
| premium paid on early redemption of preferred shares | — | — | (652) |
| | <u>(31,837)</u> | <u>25,233</u> | <u>2,889</u> |
| Extraordinary loss on the early redemption of debt, net of income tax benefit of \$1,588 | — | — | (2,095) |
| Cumulative effect of changes in accounting principles, net of income tax benefit of \$37,286 | (61,110) | — | — |
| | <u>\$ (92,947)</u> | <u>\$ 25,233</u> | <u>\$ 794</u> |
| <i>Weighted average number of common shares:</i> | | | |
| Issued and outstanding at beginning of year | 29,757,888 | 29,478,384 | 29,115,418 |
| Weighted average number of shares issued in the year | <u>116,227</u> | <u>137,404</u> | <u>165,175</u> |
| Weighted average number of shares used in computing basic earnings (loss) per share | 29,874,115 | 29,615,788 | 29,280,593 |
| Assumed exercise of stock options, net of shares assumed | — | 897,590 | 1,192,975 |
| Assumed conversion of Convertible Subordinated Notes | — | <u>1,167,855</u> | — |
| Weighted average number of shares used in computing diluted earnings (loss) per share | <u>29,874,115</u> | <u>31,681,233</u> | <u>30,473,568</u> |

The calculation of diluted loss per share for 2000 excludes options to purchase common shares of stock which were outstanding during 2000, and common shares issuable upon conversion of the Convertible Subordinated Notes.

If the methodology prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", had been adopted by the Company, pro forma results would have been as follows:

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|----------------------------|-------------|-------------|-------------|
| Net earnings (loss) | \$ (99,314) | \$ 20,362 | \$ (2,828) |
| Earnings (loss) per share: | | | |
| Basic | \$ (3.32) | \$ 0.69 | \$ (0.13) |
| Diluted | \$ (3.32) | \$ 0.64 | \$ (0.13) |

The weighted average fair value of common share options granted in 2000 at the time of grant is \$24,108,000 (1999 - \$14,672,000, 1998 - \$11,707,000). The fair value of common share options granted is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, a risk free interest rate of 6% (1999 - 6%, 1998 - 5%), expected life of five years and expected volatility of 40% through October 12, 2000 and 200% thereafter due to the significant fluctuations in the stock price.

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

15. Commitments

- (a) Total minimum annual rental payments under operating leases for premises are as follows:

| | |
|------------|------------------|
| 2001 | \$ 5,988 |
| 2002 | 5,765 |
| 2003 | 5,614 |
| 2004 | 5,368 |
| 2005 | 2,743 |
| Thereafter | <u>17,924</u> |
| | <u>\$ 43,402</u> |

Rent expense was \$5.5 million for 2000 (1999 - \$2.9 million, 1998 - \$1.5 million).

- (b) The Company is party to an agreement with the Toronto-Dominion Bank with respect to a working capital facility. The Bank has made available to the Company a revolving loan in an aggregate amount up to Canadian \$10 million or its U.S. dollar equivalent. Loans made under the working capital facility bear interest at the prime rate of interest per annum for Canadian dollar denominated loans and, for U.S. dollar denominated loans, at the U.S. base rate of interest established by the Bank. These loans are repayable upon demand. At December 31, 2000, the Company had Canadian \$9.4 million or its U.S. dollar equivalent in letters of credit outstanding and Canadian \$580,000 or the equivalent U.S. dollars available for use under this facility. No commitment fees are payable on this facility.

The Company's primary operating headquarters is subject to a collateral charge in favor of The Toronto-Dominion Bank in connection with the working capital facility.

16. Income Taxes

- (a) Earnings (loss) before income taxes and minority interest by tax jurisdiction comprise the following:

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---------------|--------------------|------------------|------------------|
| Canada | \$ (31,884) | \$ 36,774 | \$ 16,481 |
| United States | (8,008) | 6,693 | (5,439) |
| Japan | 338 | 498 | 1,475 |
| Other | <u>(5,521)</u> | <u>(990)</u> | <u>3,083</u> |
| | <u>\$ (45,075)</u> | <u>\$ 42,975</u> | <u>\$ 15,600</u> |

- (b) The recovery of (provision for) income taxes related to income before extraordinary item and cumulative changes in accounting principles comprises the following:

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|-----------|------------------|--------------------|-------------------|
| Current: | | | |
| Canada | \$ 8,167 | \$ (38,719) | \$ (1,647) |
| Foreign | <u>(229)</u> | <u>(2,065)</u> | <u>(2,600)</u> |
| | <u>7,938</u> | <u>(40,784)</u> | <u>(4,247)</u> |
| Deferred: | | | |
| Canada | 1,915 | 24,874 | (6,944) |
| Foreign | <u>3,385</u> | <u>(625)</u> | <u>1,381</u> |
| | <u>5,300</u> | <u>24,249</u> | <u>(5,563)</u> |
| | <u>\$ 13,238</u> | <u>\$ (16,535)</u> | <u>\$ (9,810)</u> |

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

16. Income Taxes – (continued)

- (c) The recovery of (provision for) income taxes before extraordinary item and cumulative changes in accounting principles differs from the amount that would have resulted by applying the combined Canadian federal and Ontario provincial statutory income tax rates (43.95%) to earnings as described below:

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---|------------------|--------------------|-------------------|
| Income tax recovery (expense) at combined statutory rates | \$ 19,810 | \$ (19,175) | \$ (6,961) |
| (Decrease) increase resulting from: | | | |
| Non-deductible expenses, including amortization of goodwill | (3,800) | (1,901) | (2,727) |
| Manufacturing and processing credits deduction | (2,841) | 3,832 | 159 |
| Large corporations tax | (405) | (404) | (235) |
| Income tax at different rates in foreign and other provincial jurisdictions | (653) | 684 | (266) |
| Investment tax credits and other | 1,127 | 429 | 220 |
| Recovery of (provision for) income taxes as reported | <u>\$ 13,238</u> | <u>\$ (16,535)</u> | <u>\$ (9,810)</u> |

- (d) The deferred income tax asset (liability) consists of:

| | <u>2000</u> | <u>1999</u> |
|--|------------------|-----------------|
| Net operating loss carryforwards | \$ 4,672 | \$ 2,021 |
| Investment tax credit carryforwards | 1,353 | 1,977 |
| Write-downs of other assets | 2,590 | 1,688 |
| Excess book over tax depreciation and amortization of fixed assets | 43,400 | 47,474 |
| Other | <u>5,635</u> | <u>2,624</u> |
| Total deferred tax assets | 57,650 | 55,784 |
| Valuation allowance | <u>(4,265)</u> | <u>(2,927)</u> |
| | <u>53,385</u> | <u>52,857</u> |
| Income recognition on net investment in leases | <u>(7,040)</u> | <u>(47,944)</u> |
| Total deferred tax liabilities | <u>(7,040)</u> | <u>(47,944)</u> |
| Net deferred tax asset | <u>\$ 46,345</u> | <u>\$ 4,913</u> |

Net operating loss carryforwards amounting to \$11.5 million can be carried forward to reduce taxable income through to 2015. Investment tax credits of \$1.4 million can be carried forward to reduce income taxes payable through to 2010.

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

17. Consolidated Statements of Cash Flows

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|--|--------------------|--------------------|--------------------|
| (a) Changes in operating assets and liabilities were as follows: | | | |
| Decrease (increase) in: | | | |
| Accounts receivable | \$ 9,115 | \$ (7,904) | \$ (2,363) |
| Net investment in leases | (9,258) | (34,097) | (40,900) |
| Inventories | (16,997) | (5,671) | 2,476 |
| Prepaid expenses | (1,939) | 1,145 | (1,635) |
| Film assets | (19,665) | (18,051) | (21,192) |
| Increase (decrease) in: | | | |
| Accounts payable | 4,889 | 3,458 | 2,969 |
| Accrued liabilities | 8,469 | (5,338) | 5,933 |
| Deferred revenue | (8,553) | 3,079 | (5,618) |
| Income taxes payable | (42,585) | 32,796 | (187) |
| | <u>\$ (76,524)</u> | <u>\$ (30,583)</u> | <u>\$ (60,517)</u> |
| (b) Cash payments made during the year on account of: | | | |
| Income taxes | <u>\$ 33,613</u> | <u>\$ 7,464</u> | <u>\$ 4,106</u> |
| Interest | <u>\$ 21,500</u> | <u>\$ 21,369</u> | <u>\$ 14,597</u> |
| (c) Depreciation, amortization and write-downs are in respect of the following: | | | |
| Film assets | \$ 17,948 | \$ 13,595 | \$ 28,478 |
| Fixed assets | 22,283 | 5,443 | 8,459 |
| Goodwill and intangibles | 4,202 | 2,585 | 5,948 |
| Deferred financing costs | 1,213 | 1,219 | 935 |
| Other | 4,982 | 2,268 | 1,595 |
| | <u>\$ 50,628</u> | <u>\$ 25,110</u> | <u>\$ 45,415</u> |

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

18. Segmented and Other Information

The Company has four reportable segments: IMAX systems, digital projection systems, films and other. The IMAX systems segment designs, manufactures, sells or leases and maintains IMAX theater projection systems. The digital projection systems segment designs, manufactures and sells digital projectors to the staging, rental and display advertising sector. The film segment produces and distributes films, and performs film post-production. The other segment includes camera rentals and theater operations. The accounting policies of the segments are the same as those described in note 2. Segment performance is evaluated based on gross margin less selling, general and administrative expenses, research and development expenses, amortization and loss from equity-accounted investees. Inter-segment transactions are not significant.

a) Operating segments

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---|--------------------|-------------------|-------------------|
| Revenue | | | |
| IMAX systems | \$ 113,226 | \$ 126,826 | \$ 140,874 |
| Digital projection systems | 46,356 | 10,999 | — |
| Films | 41,711 | 47,227 | 30,824 |
| Other | 18,179 | 18,783 | 18,657 |
| Total | <u>\$ 219,472</u> | <u>\$ 203,835</u> | <u>\$ 190,355</u> |
| Earnings (loss) from operations | | | |
| IMAX systems | \$ 38,660 | \$ 70,403 | \$ 78,145 |
| Digital projection systems | (2,886) | (562) | — |
| Films | (13,734) | 244 | (16,458) |
| Other | (23,321) | (1,979) | (18,053) |
| Corporate overhead | (19,936) | (14,232) | (19,296) |
| Total | <u>\$ (21,217)</u> | <u>\$ 53,874</u> | <u>\$ 24,338</u> |
| Depreciation, amortization and write-downs | | | |
| IMAX systems | \$ 8,187 | \$ 5,741 | \$ 7,572 |
| Digital projection systems | 2,088 | 464 | — |
| Films | 19,810 | 14,044 | 28,646 |
| Other and corporate | 20,543 | 4,861 | 9,197 |
| Total | <u>\$ 50,628</u> | <u>\$ 25,110</u> | <u>\$ 45,415</u> |
| Purchase of fixed assets | | | |
| IMAX systems | \$ 3,600 | \$ 9,934 | \$ 4,547 |
| Digital projection systems | 1,139 | 111 | — |
| Films | 15,147 | 5,778 | 194 |
| Other | 8,896 | 6,885 | 9,280 |
| Total | <u>\$ 28,782</u> | <u>\$ 22,708</u> | <u>\$ 14,021</u> |
| Assets | | | |
| IMAX systems | \$ 222,119 | \$ 254,940 | \$ 204,349 |
| Digital projection systems | 55,852 | 40,678 | — |
| Films | 68,609 | 65,149 | 49,048 |
| Other | 38,262 | 47,099 | 26,092 |
| Corporate | 107,258 | 130,371 | 210,602 |
| Total | <u>\$ 492,100</u> | <u>\$ 538,237</u> | <u>\$ 490,091</u> |

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

(b) Geographic information

Theater system revenue, maintenance, film distribution and film post-production revenue by geographic area are based on the location of the theater, while the location of the customer determines the geographic allocation of other revenue:

Revenue

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---------------|-------------------|-------------------|-------------------|
| Canada | \$ 8,454 | \$ 15,289 | \$ 22,037 |
| United States | 113,692 | 106,469 | 79,494 |
| Europe | 54,397 | 37,624 | 45,680 |
| Japan | 5,814 | 11,144 | 12,454 |
| Rest of World | <u>37,115</u> | <u>33,309</u> | <u>30,690</u> |
| Total | <u>\$ 219,472</u> | <u>\$ 203,835</u> | <u>\$ 190,355</u> |

Long-lived assets

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---------------|-------------------|-------------------|-------------------|
| Canada | \$ 163,582 | \$ 175,990 | \$ 134,740 |
| United States | 94,385 | 83,469 | 49,888 |
| Europe | 51,039 | 63,405 | 30,012 |
| Japan | 5,059 | 4,344 | 4,820 |
| Rest of World | <u>12,545</u> | <u>16,998</u> | <u>10,727</u> |
| Total | <u>\$ 326,610</u> | <u>\$ 344,206</u> | <u>\$ 230,187</u> |

(c) Revenue and costs and expenses

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|--------------------------|-------------------|-------------------|-------------------|
| Revenue: | | | |
| Products | \$ 167,834 | \$ 152,815 | \$ 148,492 |
| Services | <u>51,638</u> | <u>51,020</u> | <u>41,863</u> |
| Total revenue | <u>\$ 219,472</u> | <u>\$ 203,835</u> | <u>\$ 190,355</u> |
| Costs and expenses: | | | |
| Products | \$ 102,512 | \$ 66,540 | \$ 74,461 |
| Services | <u>57,486</u> | <u>39,701</u> | <u>37,323</u> |
| Total costs and expenses | <u>\$ 159,998</u> | <u>\$ 106,241</u> | <u>\$ 111,784</u> |

Product revenue includes sales and sales-type leases of theater systems, sales of digital projection systems, film distribution and other products. Service revenue includes operating leases, maintenance, post-production services, camera rentals, theater operations and other services.

19. 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 Company has entered into forward exchange contracts at December 31, 2000 to hedge the conversion of \$20 million into Canadian dollars at an average exchange rate of Canadian \$1.48 per U.S. dollar. 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 79 million Yen at 98 Yen per U.S. dollar through September 2004 and on 11.4 million Francs at 5.1 Francs per U.S. dollar through September 2005. These forward contracts are accounted for as hedges of identifiable foreign currency commitments.

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

19. Financial Instruments – (continued)

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, March, June and September. The Company adjusts interest expense over each three-month period for the net amount it is to receive from or pay to the counterparty. The Company sold its entire position in the swap to a third party on January 10, 2001 for net proceeds of \$190,000.

The carrying values of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short-term maturity of these instruments. The Company's other financial instruments at December 31, 2000 are summarized as follows:

| | 2000 | | 1999 | |
|---|-----------------------------------|--|-----------------------------------|--|
| | <u>Carrying amount</u> | <u>Estimated fair value</u> | <u>Carrying amount</u> | <u>Estimated fair value</u> |
| Investments in Mainframe | \$ 7,679 | \$ 7,679 | \$ 10,732 | \$ 10,732 |
| Investments in marketable debt securities | 7,529 | 7,529 | 89,032 | 88,654 |
| Senior Notes | 200,000 | 110,000 | 200,000 | 186,500 |
| Convertible Subordinated Notes | 100,000 | 38,500 | 100,000 | 132,940 |
| Foreign currency contracts | 731 | 363 | 636 | 754 |
| Interest rate swap contracts | — | (209) | — | (1,855) |

Investments include marketable debt securities for which fair value has been based on quoted market prices or dealer quotes. The fair values of the Company's Senior Notes and Convertible Subordinated Notes are estimated based on quoted market prices for the Company's debt. The fair value of foreign currency contracts held for hedging purposes represents the estimated amount the Company would receive upon termination of the agreements, taking into consideration current exchange rates and the credit worthiness of the counterparties. The fair value of the interest rate swap contracts represents the estimated amount the Company would pay to the counterparty to terminate the agreement, taking into account the interest rate at year end.

Financial instruments consist primarily of cash, cash equivalents and those which potentially subject the Company to credit risk such as investments in marketable debt securities, accounts receivable and financial instruments used for hedging purposes. The Company maintains cash and cash equivalents with various major financial institutions. Cash equivalents and investments in marketable debt securities include investments in commercial paper of companies with high credit rating and investment in money market securities. The credit risk associated with financial instruments held for hedging purposes would be limited to all unrealized gains on contracts based on current market prices. The Company believes that dealing with highly rated institutions has minimized this credit risk.

A substantial proportion of the Company's revenues are generated from customers in the commercial exhibition industry, which experienced significant deterioration in financial condition in 2000. To minimize its credit risk in this area, the Company retains title to underlying theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectable amounts.

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

20. Employee Pension Plans

(a) Defined benefit plan

On July 12, 2000, the Company established a defined benefit pension plan covering its two Co-Chief Executive Officers. The plan provides for a lifetime retirement benefit from age 55 determined as 75% of the member's best average 60 consecutive months of earnings during the 120 months preceding retirement. Once benefit payments begin, the benefit is indexed annually to the cost of living and further provides for 100% continuance for life to the surviving spouse. The benefits are 50% vested as at July 12, 2000, the plan initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. The vesting percentage of a member whose employment terminates other than by voluntary retirement shall be 100%. Also, upon the occurrence of a change in control prior to termination of a member's employment, the vesting percentage shall become 100%. The following assumptions were used in determining the funded status of the Company's defined benefit pension plan:

| | |
|---|--------------------|
| | <u>2000</u> |
| Discount rate | 7.0% |
| Rate of increase in compensation levels | 1.5% |

The amounts accrued at December 31, since the plan initiation date of July 12, 2000, included the following components:

| | |
|--|--------------------|
| Change in projected benefit obligation: | <u>2000</u> |
| Obligation arising on initiation of plan | \$ 11,321 |
| Service cost | 831 |
| Interest cost | 411 |
| Actuarial gain | (968) |
| Obligation at end of year | <u>\$ 11,595</u> |
| Funded status: | |
| Obligation at end of year | \$ 11,595 |
| Unrecognized prior service cost | (10,622) |
| Unrecognized actuarial gain | 968 |
| Accrued pension liability | <u>\$ 1,941</u> |

In addition, included in accrued liabilities at December 31, 2000, is a minimum pension liability of \$8.5 million, representing unrecognized prior service costs.

The following table provides disclosure of pension expense for the defined benefit plan for the year ended December 31:

| | |
|------------------------------------|--------------------|
| | <u>2000</u> |
| Service cost | \$ 831 |
| Interest cost | 411 |
| Amortization of prior service cost | 699 |
| Pension expense | <u>\$ 1,941</u> |

At the time the Company established the defined benefit pension plan, it also took out life insurance policies on the two Co-Chief Executive Officers, and the Company intends to use the proceeds of such insurance policies to satisfy, in whole or in part, the survival benefits due and payable under the plan, though there can be no assurance that the Company will elect to do so.

(b) Defined contribution plans

The Company also maintains defined contribution employee pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount equal to 5% of their base salary subject to certain prescribed maximums. During 2000, the Company contributed and expensed an aggregate of \$591,000 to the Canadian plan and an aggregate of \$416,000 to the Company's defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

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

21. Contingencies

- (a) 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 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 plaintiff appealed the decision to the Quebec Court of Appeal. The Company believes that the amount of the loss, if any, suffered in connection with a successful appeal by the plaintiff 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 matter.
- (b) In January 2000, the Commission of the European Communities (the "Commission") informed the Company that Euromax, an association of European large screen cinema owners, had filed a complaint against the Company under EC competition rules. The complaint addressed a variety of alleged abuses, mainly relating to the degree of the control that the Company asserts over the projection systems it leases and the form and terms of the Company's agreements. No formal investigation has been initiated to date, and the Commission has limited itself to a request of IMAX to comment on the complaint and subsequent response. Should proceedings be initiated, it is expected that no decision would be rendered until the end of 2001 or 2002 at the earliest. Although the Commission has the power to impose fines of up to a maximum of 10% of Company revenue for breach of EC competition rules, the Company believes on the basis of currently available information and an initial review that such result would not be likely. The Company further believes that the allegations in the complaint are meritless and will accordingly defend the matter vigorously. The Company believes that the amount of the loss, if any, suffered in connection with this dispute would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of this litigation.
- (c) In April 2000, Thémax Inc., a 33% owned investee of the Company, and certain of its shareholders (collectively "Thémax") filed a claim against the Company in the Superior Court in the District of Longueuil, in the Province of Quebec, alleging breach of contract in respect of the IMAX System Lease agreement between IMAX Ltd. and Thémax dated February 5, 1996 as well as a claim for damages suffered as a result of IMAX Ltd.'s alleged failure to adequately manage the Brossard Theater during its tenure as manager. Thémax claimed damages representing a return of the original investment by Thémax as well as lost profits and costs. The Company believes that the allegations made by Thémax are entirely without merit and has and will accordingly defend the matter vigorously. The Company believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome for any such litigation.
- (d) In June 2000, a complaint was filed against the Company and a third party by Mandalay Resort Group f/k/a Circus Circus Enterprises, Inc., alleging breach of contract and express warranty, fraud and misrepresentation in connection with the installation of certain motion simulation bases in Nevada. The complaint alleges damages in excess of \$30,000. The Company believes that the allegations made against it in this complaint are meritless and will accordingly defend the matter vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome for any such litigation.
- (e) 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 CONSOLIDATED FINANCIAL STATEMENTS
In accordance with United States Generally Accepted Accounting Principles
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)

22. Impact of Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") and its subsequent amendments and interpretations will be adopted by the Company effective January 1, 2001. FAS 133 established accounting and reporting standards requiring that all derivative instruments be recorded in the balance sheet either as an asset or a liability at their fair values. The statement requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. The Company has decided not to account for the derivatives held at December 31, 2000 as hedges when it adopts FAS 133. As a result, the Company will record a transition loss of \$210,000 in its consolidated statement of earnings for 2001 as a cumulative effect of a change in accounting principle. In addition, a transition amount of \$158,000 is expected to be recorded as a charge to comprehensive loss.

23. Subsequent Events

Subsequent to December 31, 2000, the Company approved a formal plan to rationalize its operations and reduce staffing levels. The Company anticipates it will record charges in 2001 in the approximate range of \$15 to \$20 million to provide for severances, exit costs and to write-down certain assets to be disposed of to net realizable value.

24. Financial Statement Presentation

Certain comparative balances have been reclassified to conform with the presentation adopted in the current year. The consolidated balance sheets for the years ended December 31, 2000 and 1999 are now presented on an unclassified basis in accordance with industry practice for companies with significant leasing activities.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The following table sets forth certain information regarding the executive officers and directors of the Company.

| | | |
|--------------------------|----|--|
| Bradley J. Wechsler..... | 49 | Co-Chairman and Co-Chief Executive Officer and Director |
| Richard L. Gelfond..... | 45 | Co-Chairman and Co-Chief Executive Officer and Director |
| Michael J. Biondi..... | 43 | Director |
| Kenneth G. Copland..... | 63 | Director |
| J. Trevor Eyton..... | 66 | Director |
| Garth M. Girvan..... | 51 | Director |
| G. Edmund King..... | 67 | Director |
| Murray B. Koffler..... | 77 | Director |
| Sam Reisman..... | 48 | Director |
| Marc A. Utay..... | 41 | Director |
| Townsend Ziebold..... | 39 | Director |
| John M. Davison..... | 42 | President, Chief Operating Officer and Chief Financial Officer |
| Michael A. Gibbon..... | 57 | Executive Vice President, Technology |
| Richard Intrator..... | 48 | Executive Vice President and President, IMAX Enterprises |
| Mary Pat Ryan..... | 44 | Executive Vice President, Worldwide Marketing |
| Udo von Karhan..... | 58 | Executive Vice President, Theatre Development |
| Brian Critchley..... | 48 | Chief Executive and Managing Director, DPI |
| Andrew Gellis..... | 46 | Senior Vice President, Film |
| David B. Keighley..... | 52 | Senior Vice President and President, David Keighley Productions 70MM Inc. |
| Robert D. Lister..... | 32 | Senior Vice President, Legal Affairs and General Counsel |
| Mark J. Thornley..... | 43 | Senior Vice President, Finance |
| Brian E. Weisfeld..... | 33 | Senior Vice President, Operations |
| G. Mary Ruby..... | 43 | Deputy General Counsel, Vice President, Legal Affairs and Corporate Secretary |

Under the Articles of the Company, the Board of Directors is divided into three classes, each of which serves for a three year term. The term of Class III directors, currently composed of Michael J. Biondi, Richard L. Gelfond and Bradley J. Wechsler expires in 2001. The term of Class II directors, currently composed of Kenneth G. Copland, Garth M. Girvan, Murray B. Koffler and Marc A. Utay expires in 2002. The term of Class I directors, currently composed of J. Trevor Eyton, O.C., G. Edmund King, Sam Reisman and W. Townsend Ziebold expires in 2003.

Bradley J. Wechsler has been Co-Chairman of the Company since June 1999 and Co-Chief Executive Officer since May 1996. Mr. Wechsler was Chairman of the Company from March 1994 to June, 1999. In June 1999, Mr. Wechsler became Co-Chairman along with Mr. Gelfond. Mr. Wechsler also served as Interim Chief Executive Officer. Mr. Wechsler serves on the Boards of NYU Hospital, the Kernochan Center for Law, Media and the Arts, and the American Museum of the Moving Image.

Richard L. Gelfond has been Co-Chairman of the Company since June 1999 and Co-Chief Executive Officer since May 1996. From March 1994 to June 1999 Mr. Gelfond served as Vice Chairman of the Company. In 1991, Mr. Gelfond founded Cheviot Capital Advisors Inc., a financial advisory and merchant banking firm that specializes in acquisitions and venture capital investments. In addition, Mr. Gelfond serves on the boards of several private and philanthropic entities.

Michael J. Biondi has been a Director and Non-Executive Chairman of the Board of the Company since June 1999. He has been Co-Head of Dresdner Kleinwort Wasserstein, North America since January 2001. Previously, Mr. Biondi had been the Chairman and Chief Executive Officer of Wasserstein Perella & Co., Inc. since January, 1996. One of the founding partners of Wasserstein Perella & Co. Inc., Mr. Biondi oversaw Wasserstein Perella's domestic investment banking activities, and was the Chief Operating Officer of Wasserstein Perella Group, Inc. Mr. Biondi was a CEO Advisor of the Company from June 1994 to March 1996.

Kenneth G. Copland, a Director of the Company since June 1999, has been the Vice Chairman of BMO Nesbitt Burns Inc. since 1994, prior to which he was the Executive Vice President. He is Chairman of Humber College Foundation and Educational Ventures Corporation. Mr. Copland is a Canadian citizen.

The Honourable J. Trevor Eyton, a Director of the Company since June 1999, is a senior director of Brascan Corporation, and prior to May 2000 was a senior officer of Brascan Corporation in various capacities dating back to 1979 when he was appointed President and Chief Executive Officer. He is also a director of Trilon Financial Corporation, Noranda Inc., Coca-Cola Enterprises, General Motors of Canada, Limited and Ivernia West Inc., as well as a member of The Advisory Board of Nestle Canada Ltd. Senator Eyton, a Canadian citizen, has been a member of the Senate of Canada since September 1990 and is an Officer of the Order of Canada.

Garth M. Girvan, a Director of the Company since 1994, is a partner of McCarthy Tétrault, Canadian counsel to the Company. Mr. Girvan is a Canadian citizen.

G. Edmund King, a Director of the Company since June 1999, has been Deputy Chairman and a director of McCarvill Corporation since January, 1996. Mr. King is also a director of Falconbridge Ltd., Wolf Group Integrated Communications Ltd. and Afton Food Group Ltd. Prior to November 1995, he was the Chairman and Chief Executive Officer of The CIBC Wood Gundy Corporation and from June 1994 to January 1998 was Chairman of WIC Western International Communications. Mr. King is a Canadian citizen.

Murray B. Koffler, a Director of the Company since May 1996, founded Shoppers Drug Mart in 1968 and presently serves as its Honorary Chairman. Mr. Koffler co-founded Four Seasons Hotels Limited and presently serves as a Director. Since 1988, Mr. Koffler has been Chairman of the International Board of Directors of the Weizmann Institute of Science in Israel. Mr. Koffler holds numerous other directorships. Mr. Koffler is a Canadian citizen and is an Officer of the Order of Canada.

Sam Reisman, a Director of the Company since June 1999, has been the principal shareholder, Chairman and Chief Executive Officer of The Rose Corporation, a real estate finance and investment company which was previously a real estate development company, since September 1986. Mr. Reisman was the Chairman and Chief Executive Officer of the Equion Corporation, a manufacturer and distributor of vehicular climate control systems and other products for original equipment manufacturers, the aftermarket and industrial customers from 1982 to 1996. Mr. Reisman is currently the principal shareholder of Hayden Industrial Products of Corona, California, formerly a division of The Equion Corporation. Mr. Reisman is a Canadian citizen.

Marc A. Utay, a Director of the Company since May 1996, has been a Member of Clarion Capital Partners since November 1999; prior to joining Clarion, Mr. Utay was a Managing Director of Wasserstein Perella & Co. Inc. and a member of Wasserstein Perella's Policy Committee. Mr. Utay was head of Wasserstein Perella's Leveraged Finance, Retailing and Media, Telecommunication and Entertainment groups. Prior to his joining Wasserstein Perella, Mr. Utay was Managing Director at Bankers Trust Company where he specialized in leveraged finance and mergers and acquisitions. Mr. Utay is a director of P & F Industries, Inc.

W. Townsend Ziebold, a Director of the Company since June 1999, is currently President of the Venture Capital Practice of Wasserstein & Co., L.P., formerly the private equity arm of Wasserstein Perella Group Inc. Previously, Mr. Ziebold was a Managing Director of Wasserstein Perella & Co., Inc. and head of its Venture Capital Practice. Mr. Ziebold was a director of Maybelline, Inc. and Collins & Aikman Corporation and currently serves on several private company boards in the media, entertainment and Internet industries.

John M. Davison joined the Company in 1987 and was appointed President in January 2000. In 1995 Mr. Davison became Senior Vice President, Finance and Administration, responsible for the financial affairs and administrative operations of the Company. In 1997, Mr. Davison was appointed Executive Vice President, Operations and Chief Financial Officer and in 1999 was appointed Chief Operating Officer and Chief Financial Officer. He was a Director of the Company from May 1994 to June 1999. Mr. Davison is a Chartered Accountant and Chartered Business Valuator. Mr. Davison is a Canadian citizen.

Michael A. Gibbon joined the Company in 1988 and became Vice President, Technology in 1989 and Senior Vice President, Technology in 1995 and was appointed Executive Vice President, Technology in 1998. Mr. Gibbon is responsible for technology, manufacturing and client support, for both the making of films and for theaters and projection systems. Mr. Gibbon is registered as a professional engineer by the Association of Professional Engineers of Ontario. Mr. Gibbon is a Canadian citizen.

Richard Intrator joined the Company as Executive Vice President and President, IMAX Enterprises in February 2000 responsible for developing new opportunities, both for the Company's traditional business and new businesses. Mr. Intrator manages the corporate strategy and development function, oversees merger and acquisition activity and participates in the development and implementation of new business initiatives. Prior to joining the Company, Mr. Intrator was the group head at several major investment banks including The Lodestar Group/LSG Advisors, a division of Societe Generale Securities Corporation from September 1992 to January 1996 and PaineWebber from September 1997 to September 1999.

Mary Pat Ryan joined the Company in 1999 as Executive Vice President, IMAX Ltd. and President, Network Group and was appointed Executive Vice President, Worldwide Marketing in January 2001. Prior to joining the Company, Ms. Ryan was Senior Vice President, Marketing and Creative Services of Lifetime Entertainment Services, provider of one of the nations leading basic television networks Lifetime, Television for Women, and Lifetime Movie Network, a movie network targeted to women, from September 1998 to July 1999. Prior to that, Ms. Ryan was Executive Vice President, Marketing and Programming of US Satellite Broadcasting, a national satellite television provider from February 1994 to August, 1998.

Udo von Karhan joined the Company in 1988 as General Manager for Europe and was appointed Executive Vice President, Theatre Development in January 2001. Since joining the Company Mr. von Karhan has held various senior positions within the Company including Senior Vice President Sales & Marketing and General Manager for Europe, Middle East & Africa from January 1999 and Executive Vice President, Worldwide Sales and Marketing, IMAX Theatre Systems from January 2000.

Brian Critchley joined the Company in 1999 as Chief Executive and Managing Director of DPI. Prior to joining the company Mr. Critchley held various other positions within Rank Brimar (predecessor company of DPI) from 1979 to 1996 when he was appointed Managing Director of DPI.

Andrew Gellis joined the Company as Senior Vice President, Film and Distribution in January 1996. He supervises the development and production of the Company's slate of pictures for both the institutional and commercial markets. Prior to joining the Company, Mr. Gellis was with Sony Corporation and its numerous entertainment/technology divisions, where he led Sony's entrance into the large-format filmmaking arena.

David B. Keighley has been a Senior Vice President of the Company since July 1997 and is President of David Keighley Productions 70MM Inc. From January 1995 to July 1997, Mr. Keighley was a Vice President of the Company. He is responsible for motion picture post-production and image quality assurance for 15/70-format films. Mr. Keighley is a Canadian citizen.

Robert D. Lister joined the Company as Senior Vice President, Legal Affairs and General Counsel in May 1999. Prior to joining the Company, Mr. Lister was Vice President, General Counsel and Secretary of Clearview Cinemas, a film exhibitor, from March 1998 until his employment with the Company. Prior to that, Mr. Lister served as Associate General Counsel of Merit Behavioral Care Corporation, a behavioral healthcare company, from March 1996 through March 1998. Prior to that, Mr. Lister was an attorney with the New York office of Kelley Drye & Warren LLP from September 1993 through March 1996.

Mark J. Thornley joined the Company in 1996 was appointed Vice President, Planning in January 1998 and was appointed Vice President, Finance in October 1998. In January 2000, Mr. Thornley was appointed to Senior Vice President, Finance. Prior to joining the Company, Mr. Thornley was a partner in a private financial consulting and communications firm. Mr. Thornley is a Canadian citizen.

Brian E. Weisfeld joined the Company in March 1994 as Deputy to the Chief Executive Officers and Director of Investor Relations. Mr. Weisfeld was appointed Managing Director, IMAX Theatres and Communications in December 1997. In January 1999, Mr. Weisfeld was appointed Senior Vice President, Operations. Prior to joining the Company, Mr. Weisfeld was a Vice President of Cheviot Capital Advisors, Inc. a financial advisory and merchant banking firm that specializes in acquisitions and venture capital investments.

G. Mary Ruby joined the Company in 1987 as Associate General Counsel and was appointed Vice President, Legal Affairs and Corporate Secretary in 1991 and was General Counsel from February 1989 to February 1997. Ms. Ruby is Deputy General Counsel and acts as Corporate Secretary to the Board of Directors and provides advice with respect to the Company's legal affairs. Ms. Ruby is a member of the Ontario Bar and is a Canadian citizen.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference from the information under the following captions in the Company's Proxy Statement: "Summary Compensation Table", "Options Granted", "Pension Plans", "Employment Contracts", "Compensation Committee" and "Directors' Compensation".

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information with respect to the beneficial ownership of each class of the Company's securities as at December 31, 2000 or as otherwise indicated in the notes below, including (i) all beneficial owners of more than 5% of the Company's voting capital stock, (ii) all Named Executive Officers and directors individually, and (iii) all executive officers and directors as a group.

| <u>Title of Class</u> | <u>Beneficial Owners</u> | <u>Shares Beneficially Owned</u> | | |
|-----------------------|---|----------------------------------|------|----------------------|
| | | <u>Number of Shares(1)</u> | | <u>% of Class(2)</u> |
| Common Shares | Wasserstein Perella Group: Wasserstein Perella Partners, L.P. Wasserstein Perella Offshore Partners, L.P. WPPN, L.P. Michael J. Biondi solely in his capacity as Voting Trustee | 10,170,384 | (3) | 30.6 |
| | Prudential Insurance Company of America: Prudential Insurance Company of America Jennison Associates LLC | 2,875,020 | (4) | 8.7 |
| | Bradley J. Wechsler..... | 1,912,466 | (5) | 5.8 |
| | Richard L. Gelfond | 2,039,766 | (6) | 6.2 |
| | John M. Davison..... | 135,708 | (7) | * |
| | David B. Keighley..... | 76,500 | (8) | * |
| | Andrew Gellis | 47,100 | (9) | * |
| | Richard Intrator..... | 105,000 | (10) | * |
| | Michael J. Biondi..... | 9,466 | (11) | * |
| | Kenneth G. Copland | 9,466 | (11) | * |
| | J. Trevor Eyton..... | 9,466 | (11) | * |
| | Garth M. Girvan..... | 47,364 | (12) | * |
| | G. Edmund King | 9,466 | (11) | * |
| | Murray B. Koffler..... | 24,200 | (13) | * |
| | Sam Reisman..... | 46,466 | (11) | * |
| | Marc A. Utay..... | 261,466 | (12) | * |
| | W. Townsend Ziebold | 33,966 | (11) | * |
| | All executive officers and directors as a group (23 persons)..... | 5,086,754 | (14) | 15.3 |

* less than 1%

- (1) Includes number of shares owned at December 31, 2000 and common shares as to which each individual had at December 31, 2000 the right to acquire beneficial ownership through the exercise of options plus options that vested within 60 days of December 31, 2000.
- (2) Based on dividing the Number of Shares by the total shares outstanding as of December 31, 2000 adjusted for shares issuable through the exercise of options to the Beneficial Owners.
- (3) Based on information contained in a Schedule 13G/A dated February 14, 2001.
- (4) Based on information contained in a Schedule 13G dated February 5, 2001 and information provided directly to the Company by Prudential Insurance Company of America and information contained in a Schedule 13G provided by Jennison Associates LLC.
- (5) Included in the amount shown are 1,204,666 common shares as to which Mr. Wechsler had the right to acquire beneficial ownership through the exercise of options.

- (6) Included in the amount shown are 1,204,666 common shares as to which Mr. Gelfond had the right to acquire beneficial ownership through the exercise of options.
- (7) Included in the amount shown are 125,708 common shares as to which Mr. Davison had the right to acquire beneficial ownership through the exercise of options.
- (8) Included in the amount shown are 66,500 common shares as to which Mr. Keighley had the right to acquire beneficial ownership through the exercise of options.
- (9) Included in the amount shown are 47,100 common shares as to which Mr. Gellis had the right to acquire beneficial ownership through the exercise of options.
- (10) Included in the amount shown are 100,000 common shares as to which Mr. Intrator had the right to acquire beneficial ownership through the exercise of options.
- (11) Included in the amount shown are 9,466 common shares as to which Messrs. Biondi, Copland, Eyton, King, Reisman and Ziebold had the right to acquire beneficial ownership through the exercise of options.
- (12) Included in the amount shown are 21,466 common shares as to which Messrs. Girvan and Utay had the right to acquire beneficial ownership through the exercise of options.
- (13) Included in the amount shown are 20,000 common shares as to which Mr. Koffler had the right to acquire beneficial ownership through the exercise of options.
- (14) Included in the amount shown are 3,157,058 common shares as to which all directors and executive officers as a group had the right to acquire beneficial ownership through the exercise of options.

Statements as to securities beneficially owned by directors and by executive officers, or as to securities over which they exercise control or direction, are based upon information obtained from such directors and executive officers and from records available to the Company.

Shareholders' Agreements

IMAX Corporation (the "Corporation"), Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., WPPN, Inc., and the Michael J. Biondi Voting Trust (collectively "WP"), and each of Messrs. Wechsler and Gelfond are parties to a Second Amended and Restated Shareholders Agreement (the "Shareholders Agreement") dated as of February 9, 1999, which amends and restates the previous amended and restated shareholders agreement among those parties dated June 16, 1994. The Shareholders Agreement includes, among other things, certain restrictions on transfers of common shares, take-along rights and come-along rights. If WP holds at least 35% of their original holdings and WP desires to transfer all of their securities in a transaction in which a majority of the shares of outstanding common stock are to be sold, then Messrs. Gelfond and Wechsler will be required to sell their securities on the same terms as WP sells its securities.

The Shareholders Agreement also contains provisions related to the composition of the Board of Directors and committees thereof. WP is entitled, but not required, to designate individuals to be nominated for election as directors as follows: so long as WP holds 3,685,759 or more common shares, it may designate six nominees, of whom three may be employees of WP and its affiliates (the "WP Employee Designees") and three shall be independent persons and resident Canadians. If WP holds less than 3,685,759 common shares, but 1,842,879 or more common shares, it may designate four nominees, of whom two may be WP Employee Designees and two shall be independent persons and resident Canadians. If WP holds less than 1,842,879 common shares but 921,439 or more common shares, it may designate two nominees, one of whom may be a WP Employee Designee and the other of whom shall be an independent person and shall be a resident Canadian. In addition to these provisions, each of Messrs. Wechsler and Gelfond is entitled to be a director of the Corporation so long as he is either a Co-Chief Executive Officer or is the Chief Executive Officer of the Corporation or Messrs. Wechsler and Gelfond own more than 375,000 common shares. In addition, Messrs. Wechsler and Gelfond are collectively entitled, but not required, to designate individuals to be nominated for election as directors as follows: so long as they hold 1,628,000 or more common shares, they may designate three nominees, all of whom shall be independent persons and resident Canadians. If they hold less than 1,628,000 common shares, but 1,075,000 or more common shares, they may designate two nominees, both of whom shall be independent and resident Canadians. If they hold less than 1,075,000 common shares but 375,000 or more common shares, they may designate one nominee who shall be an independent person and resident Canadian. If the requirement that the Corporation have 'resident Canadian' directors is changed, then neither WP nor Messrs. Wechsler and Gelfond will be required to designate resident Canadian nominees. Each of the nominees of WP who is to be an independent person is subject to the approval by Messrs. Wechsler and Gelfond, which approval is not to be unreasonably withheld; each of the nominees of Messrs. Wechsler and Gelfond is subject to the approval of WP, which approval is in WP's sole discretion for the first nominee to serve in each such position and thereafter, is not to be unreasonably withheld. Each of WP and Messrs. Wechsler and Gelfond has agreed to use their best efforts to cause each of the individuals designated to be elected or appointed as a director of the Corporation.

The Shareholders Agreement also provides that the Corporation, WP and each of Messrs. Wechsler and Gelfond shall use their best efforts to cause the Corporation to establish a nominating committee of the Board of Directors consisting of two directors, one designated by WP and the other designated by Messrs. Wechsler and Gelfond. In addition, WP has the right, subject to the approval of Messrs. Wechsler and Gelfond, to designate a WP Employee Designee for appointment by the Board of Directors of the Corporation as the Non-Executive Chairman of the Board, as long as WP holds at least 2,948,607 common shares. Michael J. Biondi has been approved as such designee. If Mr. Biondi no longer holds that position, then WP is to propose three replacements and Messrs. Wechsler and Gelfond shall select one of those proposed for appointment by the Board as the Non-Executive Chairman. Each of Messrs. Wechsler and Gelfond is entitled to be appointed as a Co-Chairman or Chairman of the Corporation as long as he is a Co-Chief Executive Officer or the Chief Executive Officer of the Corporation. The Agreement provides that the duties of the Non-Executive Chairman and the Co-Chief Executive Officers shall be as set forth in the Bylaws, including the requirement that the following actions be approved by the Non-Executive Chairman and at least one of the Co-Chief Executive Officers: setting the dates and times of meetings of the directors and shareholders (other than normal quarterly Board of Directors, and annual shareholders' meetings), setting the agenda of such meetings, and appointing members of committees of the Board of Directors other than persons designated by WP and Messrs. Wechsler and Gelfond as provided in the Shareholders' Agreement. Each of WP and Messrs. Wechsler and Gelfond have the right to designate one director to serve on each committee of the Board of Directors of the Corporation, provided that each such person meets applicable regulatory requirements.

Each of WP and Messrs. Wechsler and Gelfond agreed to use their best efforts to cause there no longer to be CEO Advisors as of the date upon which all of the WP Employee Designees are elected as directors of the Corporation. All of the WP Employee Designees were elected as directors at the Corporation's annual and special meeting of shareholders held June 7, 1999 and the CEO Advisors were disbanded in June, 1999. After that date, none of WP or Messrs. Wechsler and Gelfond shall take any action to reestablish the CEO Advisors and the majority approval requirements described below under "Standstill Agreement" would apply.

Registration Rights Agreement

The Corporation, WP and Messrs. Wechsler and Gelfond also entered into a registration rights agreement (the "Registration Rights Agreement") dated as of February 9, 1999, which carried forward the corresponding provisions of the June 16, 1994 shareholders agreement, and pursuant to which each of WP and Messrs. Wechsler and Gelfond have certain rights to cause the Corporation to use its best efforts to register their securities under the U.S. *Securities Act* of 1933. WP is entitled to affect up to four demand registrations and Messrs. Wechsler and Gelfond are entitled to make two such demand registrations. WP and Messrs. Wechsler and Gelfond also have unlimited piggy-back rights to register their securities under the Registration Rights Agreement whenever the Corporation proposes to register any securities under the U.S. Securities Act, other than the registration of securities pursuant to an initial public offering or the registration of securities upon Form S4 or S8 under the U.S. Securities Act or filed in connection with an exchange offer or an offering of securities solely to the Corporation's existing shareholders. In addition to these provisions, if Messrs. Wechsler and Gelfond hold at least 25% of their original holdings, WP has recouped its original investment plus a 30% compounded annual return on such investment, and WP initiates the sale of the Corporation, then for 60 days thereafter, WP will enter into exclusive negotiations with Messrs. Gelfond and Wechsler, and for another 60 days thereafter WP may not enter into an agreement for the sale of the Corporation to a third party. The Registration Rights Agreement also provides that Messrs. Wechsler and Gelfond will have the right from March 1 to March 31 in any, but only one, of 1999, 2000 and 2001, to notify the Corporation of their decision to require the Corporation to take action to liquidate their common shares. The Corporation is required to use its best efforts to cause at its option either (i) the sale of the Corporation within a period of 180 days from receipt of the notice to liquidate, (ii) the filing of a registration statement pursuant to the U.S. Securities Act within a period of 120 days from its receipt of the notice to liquidate, or (iii) purchase the securities owned by Messrs. Gelfond and Wechsler for cash at the fair market value as agreed upon by the Corporation and Messrs. Gelfond and Wechsler within 20 days of the notice to liquidate, or in the event of their failure to reach an agreement, as determined by a procedure utilizing nationally recognized investment banking firms. In the event that Messrs. Gelfond and Wechsler exercise their rights to require the Corporation to take such action, they may be entitled to certain cash bonus payments as described in the Proxy Statement under "Executive Compensation - Employment Contracts".

The former shareholders of the Corporation have substantially similar piggyback registration rights that commenced on March 1, 1996 pursuant to the terms of the Selling Shareholders' Agreement (as defined below).

WP, Messrs. Gelfond and Wechsler, and the former shareholders of Predecessor IMAX have entered into another shareholders' agreement (the "Selling Shareholders' Agreement") which includes, among other things, registration rights, tag along rights and drag along rights.

Item 13. Certain Relationships and Related Transactions

Standstill Agreement

The Corporation, each of Messrs. Wechsler and Gelfond and WP entered into an Amended and Restated Standstill Agreement (the "Standstill Agreement") as of February 9, 1999 which amended and restated the previous Standstill Agreement dated June 16, 1994. Under the terms of the Standstill Agreement, WP agreed to vote in any election for directors in favour of each person nominated by the then current Board of Directors, not to participate in or facilitate proxy contests, not to deposit into a voting trust or subject voting securities to an agreement with respect to voting such securities, not to acquire or affect or attempt to acquire or affect control of the Corporation or to participate in a "group" as defined pursuant to Section 13(d) of the U.S. *Securities Exchange Act* of 1934, which owns or seeks to acquire beneficial ownership or control of the Corporation, and not to attempt to influence the Corporation except through normal Board of Directors' processes. In addition, the parties agreed that the CEO Advisors currently provided for in the Articles and By-laws of the Corporation would cease to exist upon the election of those directors (the "WP Employee Designees") WP is to have the right to designate as provided in the Second Amended and Restated Shareholders' Agreement (the "Shareholders' Agreement"), which was also entered into by those same and special parties as of February 9, 1999. To accomplish this, the Corporation agreed to submit to its shareholders at its annual meeting of shareholders (held June 7, 1999) resolutions to amend the Articles and Bylaws to delete reference to the CEO Advisors, and each of the parties to the Standstill Agreement agreed to use its best efforts so to amend the Articles and Bylaws as of the date on which all of the WP Employee Designees are elected or appointed as directors of the Corporation. The Articles and Bylaws were amended effective June 7, 1999. The Standstill Agreement continues in effect until the earlier of June 30, 2001, unless extended by WP at its option for successive one year terms until March 1, 2004, or the date upon which WP holds less than 700,000 common shares.

The Articles of the Corporation set forth the requirement that certain matters be approved by 75% of the directors then in office. These matters are: (i) hiring or terminating the employment of the Chief Executive Officer or any Co-Chief Executive Officer of the Corporation; (ii) issuing any shares of capital stock for a purchase price, or incurring indebtedness, in an amount of \$25 million or more; (iii) disposing of any material single asset, or all or substantially all of the assets of the Corporation or approving the sale or merger of the Corporation; (iv) acquiring a substantial interest in any other entity or entering into any major strategic alliance; and (v) entering into or changing the terms of any agreement or transaction with WP or Messrs. Wechsler and Gelfond (other than agreements in the ordinary course of business, such as employment agreements).

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) Financial Statements

The consolidated financial statements filed as part of this Report are included in Part II.

(a)(2) Financial Statement Schedules

Financial Statement Schedule for each of the three years in the period ended December 31, 2000

II. Valuation and Qualifying Accounts

(a)(3) Exhibits

The Items listed as Exhibits 10.1 to 10.14 relate to management contracts or compensatory plans or arrangements.

| <u>Exhibit No.</u> | <u>Description</u> |
|---------------------------|---|
| 2.1 | Agreement of Purchase and Sale dated August 4, 1999 among IMAX Corporation, the Vendors as defined therein and Digital Projection International, PLC. Incorporated by reference to Form 8-K filed on September 17, 1999. |
| 3.1 | Articles of Incorporation of IMAX Corporation. Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form F-1 (File No. 33-77536)(the "Registration Statement"). |
| 3.2 | Articles of Amendment dated June 7, 1999, to the Restated Articles of Incorporation of IMAX Corporation. Incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended September 30, 1999. |
| 3.3 | By-Law No.1 of IMAX Corporation. Incorporated by reference to Exhibit 3.2 to the Registration Statement. |
| 3.4 | New By-Law No.1 of IMAX Corporation enacted on June 7, 1999. Incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended September 30, 1999. |
| *4.1 | Share Option Agreement, dated as of March 1, 1994, between WGIM Acquisition Corporation and Douglas Trumbull. |
| *4.2 | Shareholders' Agreement, dated as of January 3, 1994, among WGIM Acquisition Corporation, the Selling Shareholders as defined therein, Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., Bradley J. Wechsler, Richard L. Gelfond and Douglas Trumbull (the "Selling Shareholders' Agreement"). |
| *4.3 | Amendment, dated as of March 1, 1994, to the Selling Shareholders' Agreement. |
| 4.4 | Indenture, dated as of April 9, 1996, between IMAX Corporation and Chemical Bank, as Trustee, related to the issue of the 5 3/4% Convertible Subordinated Notes due April 1, 2003. Incorporated by reference to Exhibit 4.3 to Amendment No.1 to the Company's Registration Statement on Form F-3 (File No.333-5212). |
| 4.5 | Indenture, dated as of December 4, 1998 between IMAX Corporation and U.S. Bank Trust, N.A., as Trustee, related to the issue of the 7.875% Senior Notes due December 1, 2005. Incorporated by reference to Exhibit 4.9 to Form 10-K for the year ended December 31, 1998. Registrant agrees to provide copies of instruments with respect to long-term debt and its workingcapital facility, which do not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis, to the Commission upon request. |
| 4.6 | Amended and Restated Shareholders Agreement, dated as of February 9, 1999 by and among Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., WPPN Inc., the Michael J. Biondi Voting Trust, Bradley J. Wechsler and Richard L. Gelfond and IMAX Corporation. Incorporated by reference to Exhibit 4.10 to Form 10-K for the year ended December 31, 1998. |
| 4.7 | Amended and Restated Standstill Agreement, dated as of February 9, 1999 by and among Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., WPPN Inc., and the Michael J. Biondi Voting Trust, IMAX Corporation, Richard L. Gelfond and Bradley J. Wechsler. Incorporated by reference to Exhibit 4.11 to Form 10-K for the year ended December 31, 1998. |
| 4.8 | Registration Rights Agreement, dated as of February 9, 1999, by and among IMAX Corporation, Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., WPPN Inc., the Michael J. Biondi Voting Trust, Bradley J. Wechsler and Richard L. Gelfond. Incorporated by reference to Exhibit 4.12 to Form 10-K for the year ended December 31, 1998. |
| 10.1 | Employment Agreement, dated as of January 16, 1991, and amending letter of August 31, 1992 between IMAX Corporation and John M. Davison. Incorporated by reference to Exhibit 10.6 to Form 10-K for the year ended December 31, 1997. |
| 10.2 | Employment Agreement, dated as of July 15, 1997 between David Keighley Productions 70MM Inc. and David B. Keighley. Incorporated by reference to Exhibit 10.7 to Form 10-K for the year ended December 31, 1997. |
| *10.3 | Share Option Agreement, dated as of April 8, 1994 between IMAX Corporation and John M. Davison. |
| 10.4 | Employment Agreement, dated July 1, 1998 between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 1998. |

- 10.5 Employment Agreement, dated July 1, 1998 between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended September 30, 1998.
- *10.6 Employment Agreement, dated October 8, 1998 between IMAX Corporation and Andrew Gellis.
- 10.7 Stock Option Plan of IMAX Corporation, dated June 7, 1999. Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 1999.
- 10.8 Amended Employment Agreement, dated July 12, 2000 between IMAX Corporation and Richard L. Gelfond. Incorporated by reference to Exhibit 10.9 to Form 10-Q for the quarter ended September 30, 2000.
- 10.9 Amended Employment Agreement, dated July 12, 2000 between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.10 to Form 10-Q for the quarter ended September 30, 2000.
- 10.10 Amended Employment Agreement, dated April 4, 2000 between IMAX Corporation and John M. Davison. Incorporated by reference to Exhibit 10.11 to Form 10-Q for the quarter ended September 30, 2000.
- *10.11 Amended Employment Agreement, dated August 17, 2000 between IMAX Corporation and Andrew Gellis.
- *10.12 Employment Agreement, dated February 17, 2000 between IMAX Corporation and Richard L. Intrator.
- *10.13 Letter Agreement, dated August 21, 2000 between IMAX Corporation and John M. Davison
- *10.14 Letter Agreement dated February 22, 2001 between IMAX Corporation and John M. Davison.
- *21 Subsidiaries of IMAX Corporation.
- *23 Consent of PricewaterhouseCoopers LLP.
- *24 Power of Attorney of certain directors.

 * Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By /s/ JOHN M. DAVISON
John M. Davison
President, Chief Operating Officer and Chief Financial Officer
(Principal Financial Officer)

Date: March 30, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 30, 2001.

 /s/ BRADLEY J. WECHSLER
Bradley J. Wechsler
Director and
Co-Chief Executive Officer
(Principal Executive Officer)

 /s/ RICHARD L. GELFOND
Richard L. Gelfond
Director and
Co-Chief Executive Officer
(Principal Executive Officer)

 /s/ JOHN M. DAVISON
John M. Davison
President,
Chief Operating Officer
Chief Financial Officer

 /s/ MARK J. THORNLEY
Mark J. Thornley
Senior Vice President, Finance
(Principal Accounting Officer)

 MICHAEL J. BIONDI*
Michael J. Biondi
Director

 KENNETH G. COPLAND*
Kenneth G. Copland
Director

 J. TREVOR EYTON*
J. Trevor Eyton
Director

 GARTH M. GIRVAN*
Garth M. Girvan
Director

 G. EDMUND KING*
G. Edmund King
Director

 MURRAY B. KOFFLER*
Murray B. Koffler
Director

 SAM REISMAN*
Sam Reisman
Director

 MARC A. UTAY*
Marc A. Utay
Director

 W. TOWNSEND ZIEBOLD*
W. Townsend Ziebold
Director

By * /s/ JOHN M. DAVISON
John M. Davison (as attorney-in-fact)

CORPORATE INFORMATION

Share Listing
Trading Symbol
Nasdaq: **IMAX**
TSE: **IMX**

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Investor Relations
Stephen G. Abraham
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Auditors
**PricewaterhouseCoopers
LLP**

Annual Meeting Date
June 7, 2001

DIRECTORS

Richard L. Gelfond
Co-Chairman, Co-CEO

Bradley J. Wechsler*
Co-Chairman, Co-CEO

Michael J. Biondi
Non-Executive Chairman
of the Board, Co-Head
Dresdner Kleinwort
Wasserstein, North America

Kenneth G. Copland
Vice Chairman of
BMO Nesbitt Burns Inc.

J. Trevor Eyton
Senior Director of
Brascan Corporation

Garth M. Girvan*†
Partner of McCarthy Tétrault

G. Edmund King*
Deputy Chairman and
a director of McCarvill
Corporation

Murray B. Koffler†
Honorary Chairman of
Shoppers Drug Mart

Sam Reisman
Chairman and
Chief Executive Officer of
The Rose Corporation

Marc A. Utay
Managing Partner of
Clarion Capital Partners

W. Townsend Ziebold†
President of the Venture
Capital Practice
of Wasserstein & Co., L.P.

* Member of the Audit Committee
† Member of the Compensation
Committee

OFFICERS

Richard L. Gelfond
Co-Chairman, Co-CEO

Bradley J. Wechsler
Co-Chairman, Co-CEO

John M. Davison
President, COO and CFO

Michael A. Gibbon
Executive Vice President,
Technology

Richard Intrator
Executive Vice President and
President, IMAX Enterprises

Robert D. Lister
Executive Vice President,
Legal Affairs, General Counsel
and Corporate Secretary

Mary Pat Ryan
Executive Vice President,
Worldwide Marketing

Udo von Karhan
Executive Vice President,
Theatre Development

Brian R. Critchley
Senior Vice President and
Chief Executive and
Managing Director, Digital
Projection International

Andrew Gellis
Senior Vice President, Film

David B. Keighley
Senior Vice President and
President, David Keighley
Productions 70MM Inc.

Mary C. Sullivan
Senior Vice President, Human
Resources and Administration

Mark J. Thornley
Senior Vice President, Finance

Brian E. Weisfeld
Senior Vice President,
Operations

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SPECIAL NOTE REGARDING 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 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. 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; and 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 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.

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