

IMAX[®]

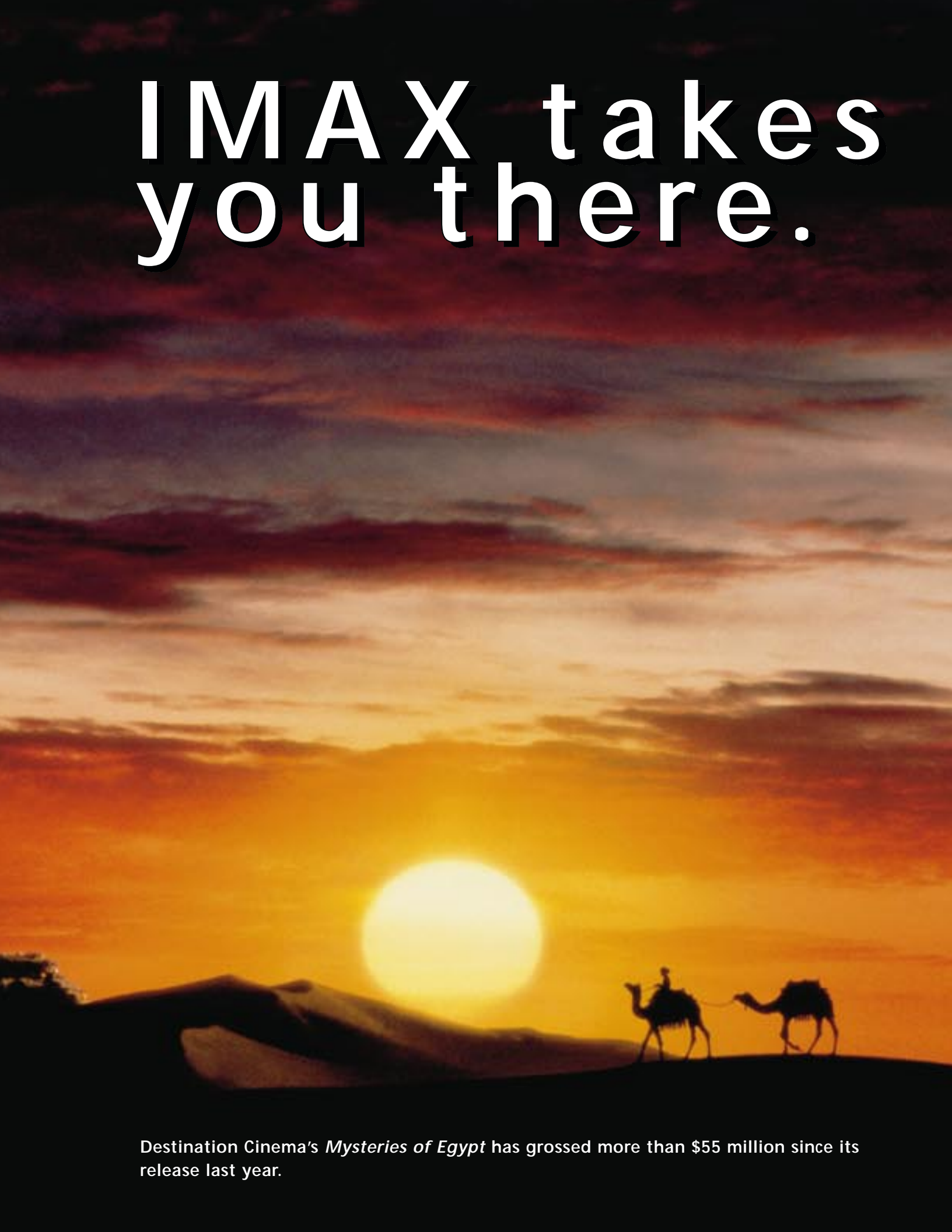


MATT GROENING

From the majesty of *Mysteries of Egypt's* pyramids to the spectacular animated worlds we visit in *Fantasia 2000: The IMAX Experience*® to the Academy Award®-winning and hauntingly beautiful landscapes we enter in *Old Man and the Sea*, only IMAX takes you there. More than 70 million people a year travel on journeys of discovery through the wonder of The IMAX Experience.



IMAX takes you there.



Destination Cinema's *Mysteries of Egypt* has grossed more than \$55 million since its release last year.

The logo for the magazine Variety, featuring the word "VARIETY" in a stylized, red, serif font with a white outline.

As many as 10 of the 60 highest-grossing films in North America in a single week, according to *Variety*, were large-format films, demonstrating the growth of the IMAX theatre network's box office and how the IMAX brand is permeating the mainstream film industry.

Message to Shareholders

1999 was a year of tremendous accomplishment for Imax Corporation in which major strides were made for the future growth of the Company. For almost a decade, one of our major goals has been for IMAX® theatres to exhibit Hollywood films and establish IMAX theatres as another release window for Hollywood. Just after midnight in Japan on January 1, 2000, we began to accomplish this goal as *Fantasia /2000: The IMAX Experience®* began an exclusive four-month run in 75 IMAX theatres around the world. The film's resounding success has proven that IMAX theatres can be a profitable release window for commercial Hollywood films. This should lead to even more Hollywood film releases which, in turn, should drive further growth in the IMAX theatre network and the Company's earnings.

Unlocking the potential

It's appropriate that Imax began the new millennium with such a ringing confirmation. For the Company, its employees, business partners and shareholders, the best is yet to come.

Within days of *Fantasia /2000's* release, it became evident that the IMAX launch of the film would be a runaway success. The film is the fastest-grossing large-format film in history. In January alone, it grossed more than \$20 million, or more than \$50,000 per screen per week, compared to conventional films which average less than \$5,000 per screen each week.

Fantasia /2000 is projected to gross more than \$60 million in only 75 IMAX theatres over four months. Based on *Fantasia /2000's* success we can look to the future and see even greater potential. For instance, if 150 IMAX theatres, out of the more than 250 theatres in operation by 2001, decide to run the next commercial release, we feel that the gross for that film could be well over \$100 million.

Fantasia /2000's success should lead to more Hollywood films being released in IMAX theatres, which should drive demand for more theatres, increase our royalties, increase our owned-and-operated theatre results and drive the Company's earnings.



CyberWorld

Big box office for big screens

USA Today



MATT GROENING

CyberWorld is a compilation of eight segments of IMAX 3D computer-generated animation converted from 2D.
THE SIMPSONS™, "Homer³", courtesy Twentieth Century Fox Film Corporation/PDI, USA.

Coming to a city near you.

Samuel C. Johnson IMAX® Theater at
National Museum of Natural History,
Washington, D.C.

This is the Smithsonian's second IMAX theatre and is the first IMAX 3D theatre to open in Washington, D.C. The National Museum of Natural History is the nation's largest research museum, having an annual attendance of more than seven million visitors.



Cinemark IMAX® Theatre at Cinemark 17, Dallas, TX

The first of 13 Cinemark IMAX Theatres to open, this IMAX theatre was built as an addition to an existing multiplex and has helped to boost the multiplex's attendance. There are Cinemark IMAX Theatres in Rochester, NY; Woodridge, IL; and Tulsa, OK.



Regal IMAX® Theatre, New Rochelle, NY

In June 1997, Regal Cinemas announced an agreement to open 10 IMAX 3D theatres. New Rochelle is the third location. Regal also operates IMAX theatres in Lincolnshire, IL; Atlanta, GA; and Buffalo, NY.



Science Museum of Minnesota IMAX®/IMAX Dome Theatre

A new convertible IMAX/IMAX Dome theatre, replacing the original one opened in 1978, was built as part of the new Science Museum of Minnesota and opened in December 1999.




BFI London IMAX® Cinema, London, UK

The BFI London IMAX Cinema opened at the end of April 1999. Located in the heart of London, on the South Bank, the architecturally innovative building is on its way to becoming a local landmark.



Galapagos



高科技与文教事业“强强结合”
IMAX 影院即将落户上海

Two Giants Join Forces
IMAX theatres find home in Shanghai
Asia-Pacific Economic Times

Another key milestone

The past year saw another important milestone, as well. In September 1999, we announced the acquisition of U.K.-based Digital Projection International PLC (“DPI”), one of the world’s leading designers and manufacturers of digital image delivery systems, opening up a whole new avenue of growth for Imax.

DPI will be the cornerstone of Imax’s digital future and the key to another long-term objective – leverage our years of experience in creating leading-edge film technologies into a dominant role in the coming digitalization of the image delivery and projection business. Currently, DPI’s systems project high-quality images at rock concerts, casinos and trade shows, in business and corporate conferences, in museum displays, electronic billboards, and on the set of nearly every major news network. However, there are significant opportunities for a number of other potentially lucrative applications for DPI, including replacing the traditional 35mm film-based projection systems used by commercial movie theatres and forming a backbone of digital media networks.

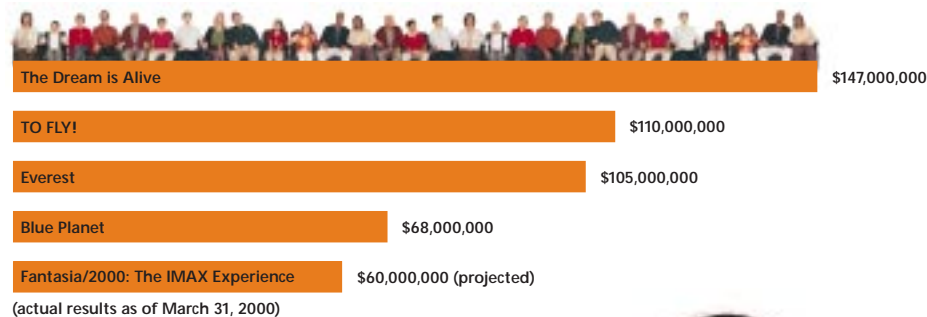
We believe that over time, virtually every film projector in every movie theatre in the world will be replaced by a digital projection system. With DPI, Imax now has the leading technology. There are roughly 75,000 commercial movie screens around the world that are expected to be converted to digital technology in the next 10 years for a total cost of \$4 billion to \$5 billion. We expect DPI to be one of the leading players in this market.



In London, England, Prince Charles donned IMAX 3D glasses during the opening of the British Film Institute London IMAX® Cinema in April. This is the fourth IMAX theatre in the U.K.



TOP FIVE HIGHEST-GROSSING LARGE-FORMAT FILMS



America Online entered into an agreement with the Smithsonian and Imax to be the exclusive sponsor of the groundbreaking new IMAX 3D experience, *Galapagos*, expanding the audience for the film’s marketing to include AOL’s more than 22 million members throughout the world.





Imax's *T-REX: Back to the Cretaceous* made motion picture history by becoming the first IMAX 3D film to crack *Variety's* box office top 20. *T-REX* has been leased by more than 100 IMAX theatres worldwide.

AdvertisingAge

In 1999, *Advertising Age* magazine's special 'Marketing 100' issue listed IMAX® among their top 100 brands, products and services which have captured the interest of the North American public. IMAX was listed along with eBay, *Star Wars: The Phantom Menace* and the VW Beetle, to name a few.

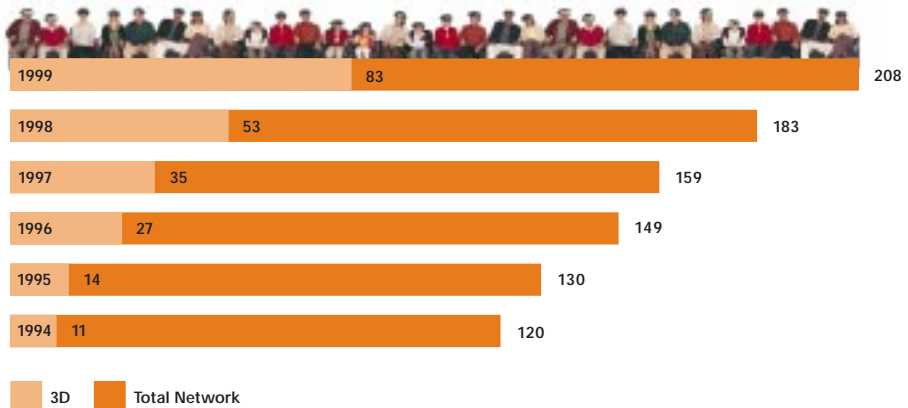
Another major opportunity lies in the area of digital media networks. New digital technologies will allow shopping malls, movie theatres and public transit systems to establish advertising networks that can show different advertisements at different times of the day – for instance, a coffee ad during the morning, a supermarket ad in the afternoon and a pitch for the late-night news in the evening – allowing for dramatic increases in advertising revenues. Digital projectors form the backbone of these networks and we believe this could be a multi-billion dollar market within a few years. These are just a few examples of why we are so excited about DPI's potential.

Strong results to end 1999

To cap off 1999, we reported our best quarterly performance ever during the last three months of the year. Revenues were up 35% in the quarter over the same period a year earlier, as the Company registered the most profitable three months in its 32-year history.

For the year as a whole, revenues rose 7% to \$204 million. Earnings were \$25.2 million, or \$0.83 per share, compared with \$1.8 million, or \$0.03 per share, in 1998 after non-cash and one-time charges.

IMAX THEATRE NETWORK



The IMAX theatre network continues to expand around the world with an ever-increasing proportion of IMAX 3D theatres. The IMAX 3D theatre network is the world's only large-scale 3D distribution network.

A photograph of Michael Jordan in a white Chicago Bulls jersey with the number 23, performing a dunk. He is in mid-air, holding the basketball above the hoop. The background shows a crowded arena with spectators and other players on the court. The court floor is red with white lines, and the Bulls logo is visible on the right side.

Michael Jordan to the Max

Es gibt keinen
besseren Ersatz für
die Wirklichkeit

There's no better substitute for reality

Die Welt Berlin

New Film Releases

All Access

AN IMAX EXPERIENCE

All Access, presented by CERTS®, a once-in-a-lifetime giant-screen rock concert film, takes audiences backstage and behind-the-scenes with performers such as mega Grammy®-winner Carlos Santana, George Clinton and B.B. King performing together in unprecedented duos with contemporary artists like Sheryl Crow, Mary J. Blige, Kid Rock, Trey Anastasio from Phish and Macy Gray. Produced by IDEAL Entertainment. Distributed by Imax Ltd.



Galapagos

AN IMAX 3D EXPERIENCE

The Galapagos archipelago is unique: more than half the plants, at least a third of the fish and almost all the reptiles are found nowhere else on Earth. Experience this amazing land in this Smithsonian Institution and Imax Ltd. presentation of a Mandalay Media Arts Production in association with the National Science Foundation.

Experience the classic adventure.

GULLIVER'S TRAVELS

- IN 3D & 2D -



Gulliver's Travels

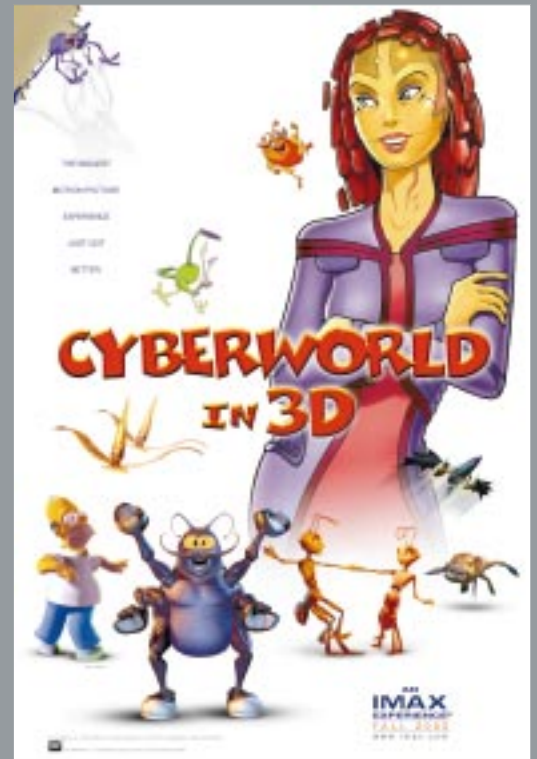
AN IMAX 3D EXPERIENCE

From Mainframe Entertainment, the creators of the innovative TV series *ReBoot*®, and Imax Ltd. comes a 3D animated version of Jonathan Swift's classic story. Take an amazing journey with Gulliver to the land of Lilliput and beyond. A Mainframe Entertainment Production. Distributed by Imax Ltd.

CyberWorld

AN IMAX 3D EXPERIENCE

Imax has joined forces with several of Hollywood's major studios, including DreamWorks SKG, Twentieth Century Fox and Sony Pictures Imageworks, to bring some of the world's most popular and beloved animated characters to the giant IMAX screen in *CyberWorld*, Imax's first full-length 3D animated motion picture. Produced and distributed by Imax Ltd.



Michael Jordan to the Max

AN IMAX EXPERIENCE

This film captures the real-life story of Michael Jordan, the most spectacular athlete of the 20th century and the world's most recognizable person. The audience will experience the drama and excitement of Jordan's basketball career as well as a rare intimate look at Jordan off the court. A new film by Giant Screen Sports, James D. Stern Productions and NBA Entertainment.





Digital Projection: a growth engine for the future.

The acquisition of Digital Projection International ("DPI") in September 1999 has positioned Imax as a major player in the growing digital image delivery marketplace.

Imax, through DPI, is developing the next generation of advanced Digital Light Processing™-based projectors, which will not only revolutionize the way movies are shown at commercial theatres around the world but will create a multitude of new applications including digital media networks.

Digital projectors will allow theatres to replace traditional 35mm film reel systems with digital systems capable of delivering exceptional picture quality at significant cost savings. There are estimated to be more than 75,000 movie projectors around the world, which are expected to be converted to digital systems over the next 10 years at a cost of billions of dollars.

This newly acquired technology also has very interesting and profitable potential in the area of digital media networks. Digital media networks allow companies to set up private networks of billboards in shopping malls, subway stations or movie theatres to show targeted advertisements during different parts of the day, and substantially boost advertising revenue. These ads target different markets at different times of the day and the same ad space can be sold multiple times during the day. This is an emerging business that holds great promise.

DPI played an important role in Texas Instruments' initial development of the Digital Micromirror Device™ technology that drives these new projectors and that features silicon chips capable of reflecting enormous amounts of light from high-definition sources with millions of tiny mirrors – creating well over one billion shades of color digitally.

DPI's systems have been showcased at premiere events and film festivals around the world such as the Oscars®, the Emmys® (shown above) and the Grammys®.

The Company's sales backlog increased 10% to \$193 million at December 31, 1999 compared with \$176 million a year earlier, and included 77 theatre systems. Imax signed contracts for 44 third-party theatre locations valued at \$120 million in 1999, highlighted by eight additional theatres with United Cinemas International, six theatres with Italian chain Medusa, and new signings in China, Egypt, Greece, Scotland, France, Germany and South Africa.

Most of the new signings were for 3D theatres. Imax believes strongly in the future of 3D, and the 83 IMAX 3D theatres in operation form the world's only large-scale 3D distribution network. As part of its commitment to 3D, Imax made an important strategic investment in Mainframe Entertainment Inc. in 1999. Mainframe is one of the leading producers of computer-generated 3D animation for television, motion pictures and interactive media, and will play a significant role in creating exciting new product for giant-screen IMAX 3D animation. The first 3D animated co-production between Imax and Mainframe will be *Gulliver's Travels*, scheduled for release in summer 2001.

To further strengthen its technology base, Imax acquired the remaining 49% interest in Sonics Associates, Inc. in October. Sonics is a worldwide leader in super-fidelity audio and the provider of sound systems for IMAX theatres. The Company has developed a number of digital sound technologies that may have applications in DPI's digital projection technologies.

The success of *Fantasia/2000* was made possible by the growth of the IMAX theatre network in 1999. More than 70 million people around the world visited an IMAX theatre in 1999, generating a total box office of more than \$350 million. One of the films many turned out to see was *T-REX: Back to the Cretaceous*, which made motion picture history by becoming the first IMAX 3D film to rank among the top 20 highest-grossing films over the April 2-4 weekend in 1999. In June, 10 of the top 60 highest-grossing films in North America were large-format motion pictures, an industry first. The growth in Imax's reach has started to attract major sponsors to the industry, such as America Online, which became the exclusive sponsor of our 3D film *Galapagos*, and is distributing educational and promotional materials about the film to its more than 22 million on-line members around the world.

Imax is committed to maintaining a strong educational film component in its 15/70 library. Research has shown that one of the reasons audiences return to IMAX theatres is that the films are perceived as "entertainment that enlightens". In 1999, with our partners at the Smithsonian Institution and America Online, we premiered *Galapagos* at the National Museum of Natural History. The film attracted new audiences and provided a solid and entertaining curriculum for students of all ages. This year, *Space Station 3D*, *China: The Panda Adventure*, and *Gulliver's Travels* are in various stages of production and we intend to have accompanying educational support materials ready for each film's roll-out.



Imax completed a strategic investment in Mainframe Entertainment, one of the world's leading producers of 3D computer-generated animation and the creators of the hit TV series *ReBoot*[®] (shown above). We are convinced more than ever that 3D animation will play a significant role in Imax's future.



Imax acquired the remaining 49% of its sound subsidiary Sonics Associates, making Sonics a wholly-owned subsidiary of Imax. Sonics is the provider of sound systems for giant-screen IMAX theatres around the world.

Looking ahead to 2000 and beyond

2000 has certainly started off with a bang, and we expect the pace to continue. On May 5, 2000 *Michael Jordan to the Max* makes its debut on IMAX screens, backed by more than 100 TV commercials, during NBA games and the NBA playoff finals. In October, we will be releasing *CyberWorld*, Imax's first full-length completely 3D animated film, featuring 3D segments from Dreamworks' hit film *Antz* and Fox's perennial TV ratings leader *The Simpsons*. Get ready for an eight-story-tall Homer Simpson in 3D!

Forty-five new IMAX theatres are expected to open in 2000, bringing the total to more than 250 worldwide. In 2000, the number of commercial theatres will exceed the number of institutional theatres for the first time in our history, paving the way for the release of even more Hollywood films to IMAX theatres.

Finally, a big part of Imax's future will come out of our digital projection business, in which exciting new technologies are re-inventing image projection and delivery. We believe that DPI's revenues will grow significantly in 2000, and the potential to the end of the decade and beyond is even greater.

As always, all our accomplishments are made possible by the dedication of Imax employees, the support of our partners and most importantly, the enthusiasm of millions of theatre-goers who have made The IMAX Experience their entertainment choice. Thank you for your continued support.

March, 2000

Bradley J. Wechsler
CO-CHAIRMAN AND CO-CHIEF
EXECUTIVE OFFICER

Richard L. Gelfond
CO-CHAIRMAN AND CO-CHIEF
EXECUTIVE OFFICER



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 was 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. Mr. Wechsler is also a Managing Partner of Clarion Capital Partners, which seeks out private equity investment opportunities for its principals and third-party investors.



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. Mr. Gelfond is also a Managing Partner of Clarion Capital Partners, which seeks out private equity investment opportunities for its principals and third-party investors.



Imax 1999 Financial Performance

Installing the screen in Houston's new Edwards IMAX Theatre.

Management's report to shareholders

Management is responsible for the preparation, integrity, presentation and consistency of financial information contained in this Annual Report. The financial statements and accompanying notes, prepared in accordance with United States generally accepted accounting principles, are considered by management to present fairly the Company's consolidated financial position, its results of operations and changes to its financial position. Management maintains the necessary system of internal controls to provide assurance that transactions are authorized, assets are safeguarded and records are properly maintained.

The Audit Committee meets regularly with the Company's management as well as its external auditors to review matters relating to the quality of financial reporting and internal accounting control and the nature, extent and results of the audit effort. In addition, this Committee is responsible for reviewing consolidated financial statements and reporting thereon to the Board of Directors.

Independent auditors appointed by the shareholders of the Company examine the consolidated financial statements in accordance with generally accepted auditing standards. Their report on the audited consolidated financial position and results of operations of the Company appears on page 30. The external auditors have free and independent access to the Audit Committee and meet with the Committee and with management to consider matters relating to financial presentation, internal controls and audit procedure.

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

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

John M. Davison
*President,
Chief Operating Officer and
Chief Financial Officer*

Five year review

(IN THOUSANDS OF U.S. DOLLARS EXCEPT PER SHARE AND SYSTEMS DATA)

| Years ended December 31, | 1999 ¹ | 1998 | 1997 | 1996 | 1995 |
|--|-------------------|-----------------|------------------|------------------|-----------------|
| Operating statement data: | | | | | |
| Revenue | | | | | |
| IMAX systems | \$ 126,826 | \$ 140,874 | \$ 97,539 | \$ 85,972 | \$ 51,968 |
| Digital projection systems | 10,999 | – | – | – | – |
| Films | 47,227 | 30,824 | 39,683 | 28,367 | 28,835 |
| Other | 18,783 | 18,657 | 21,259 | 15,499 | 7,694 |
| Total revenue | 203,835 | 190,355 | 158,481 | 129,838 | 88,497 |
| Costs and expenses² | | | | | |
| Gross margin | 97,594 | 78,571 | 84,675 | 71,581 | 44,149 |
| Loss from equity-accounted investees ³ | (683) | (6,763) | (22) | – | – |
| Selling, general and administrative expenses ⁴ | 36,584 | 38,777 | 32,115 | 29,495 | 25,925 |
| Research and development | 3,868 | 2,745 | 2,129 | 2,493 | 2,808 |
| Amortization of intangibles ⁵ | 2,585 | 5,948 | 2,701 | 2,708 | 2,541 |
| Earnings from operations | 53,874 | 24,338 | 47,708 | 36,885 | 12,875 |
| Interest income | 9,984 | 5,320 | 5,604 | 5,797 | 3,377 |
| Interest expense | (21,860) | (14,646) | (13,402) | (11,765) | (7,337) |
| Foreign exchange gain (loss) | 977 | 588 | (623) | (337) | 193 |
| Earnings before taxes and minority interest | 42,975 | 15,600 | 39,287 | 30,580 | 9,108 |
| Provision for income taxes | (16,535) | (9,810) | (17,265) | (13,579) | (5,458) |
| Earnings before minority interest | 26,440 | 5,790 | 22,022 | 17,001 | 3,650 |
| Minority interest | (1,207) | (1,895) | (1,357) | (1,593) | – |
| Earnings before extraordinary item | \$ 25,233 | \$ 3,895 | \$ 20,665 | \$ 15,408 | \$ 3,650 |
| Extraordinary loss on early retirement of debt (net of income tax benefit of \$1,588) ⁶ | – | (2,095) | – | – | – |
| Net earnings | \$ 25,233 | \$ 1,800 | \$ 20,665 | \$ 15,408 | \$ 3,650 |
| Earnings per share⁷ | | | | | |
| before extraordinary item | | | | | |
| Basic | \$ 0.85 | \$ 0.10 | \$ 0.71 | \$ 0.54 | \$ 0.12 |
| Diluted | \$ 0.83 | \$ 0.09 | \$ 0.68 | \$ 0.50 | \$ 0.11 |
| Net earnings | | | | | |
| Basic | \$ 0.85 | \$ 0.03 | \$ 0.71 | \$ 0.54 | \$ 0.12 |
| Diluted | \$ 0.83 | \$ 0.03 | \$ 0.68 | \$ 0.50 | \$ 0.11 |
| Systems and other data: | | | | | |
| Total systems signed ⁸ | 44 | 43 | 48 | 26 | 24 |
| Value of systems signed (in millions) | \$ 120.2 | \$ 129.2 | \$ 128.4 | \$ 89.6 | \$ 64.6 |
| New systems delivered | 35 | 41 | 24 | 26 | 11 |
| Total systems in operation | 208 | 183 | 159 | 149 | 130 |
| Total systems in sales backlog ⁹ | 77 | 76 | 77 | 45 | 44 |
| Revenue in sales backlog ¹⁰ | \$ 192,468 | \$ 175,756 | \$ 175,394 | \$ 131,835 | \$ 107,238 |

¹ Operating statement data for 1999 includes approximately four months of DPI's operations (acquired by the Company on September 3, 1999) and excludes approximately three months of the minority interest in Sonics (acquired by the Company on October 1, 1999).

² The costs and expenses for the years ended December 31, 1995, 1996, 1997 and 1998 include \$2.5 million, \$1.9 million, \$1.4 million, and \$0.5 million respectively, of charges for the amortization of purchase accounting adjustments associated with the original acquisition of the Company in 1994. Costs and expenses for the year ended December 31, 1999 were reduced by \$1.5 million relating to the amortization of purchase accounting adjustments associated with the acquisitions of DPI and the minority interest in Sonics (see note 3 to the financial statements). 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.

³ 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.

⁴ For the year ended December 31, 1998 selling, general and administrative expenses include a \$1.9 million charge related to the rationalization of Ridefilm.

⁵ Amortization of intangibles in 1998 includes a \$3.3 million charge related to the write-off of goodwill associated with the Ridefilm business.

⁶ 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 \$2,789,000 and the write-off of the unamortized deferred financing costs of \$894,000 resulted in an extraordinary pre-tax loss of \$3,683,000 in the year ended December 31, 1998.

⁷ Earnings per share in the current and prior periods give retroactive effect to (a) the 2-for-1 stock split which became effective by May 27, 1997 and (b) the adoption of FASB Statement of Standards No. 128 which became effective by December 31, 1997.

⁸ Represents the number of theatre systems which were the subject of sale or lease agreements entered into by the Company in the years indicated. The 1996, 1997, 1998 and 1999 signings exclude three, twelve, one and one theatres in which the Company has an equity interest, respectively.

⁹ 1996, 1997, 1998 and 1999 systems in backlog include two, thirteen, thirteen and seven theatres in which the Company has an equity interest, respectively.

¹⁰ Represents the minimum revenue on signed system sale and lease agreements that is expected to be recognized as revenue as the associated theatre systems are delivered. Does not include revenues from wholly-owned, partnership or joint venture theatres.

Management's discussion and analysis of financial condition and results of operations

1999 highlights

- In February 1999, the Company announced an agreement with The Walt Disney Company for an exclusive four-month release of Disney's *Fantasia/2000: The IMAX Experience*® to IMAX theatres beginning January 1, 2000. The film has set box office records since its opening in January 2000.
- The Company acquired U.K.-based Digital Projection International ("DPI"), one of the world's leading designers and manufacturers of digital image delivery systems. DPI will be the cornerstone of Imax's digital future, and its products have opportunities for a number of potentially lucrative applications, including replacing the traditional 35mm film-based projection systems used by commercial theatres and in digital media networks.
- The Company made a strategic investment in Mainframe Entertainment Inc., one of the world's leading producers of 3D computer-generated animation, to provide a source of 3D animated films for IMAX theatres.
- Imax acquired the remaining 49% interest in Sonics Associates, Inc., the provider of sound systems for giant-screen IMAX theatres and a worldwide leader in super-fidelity audio.
- Fourth-quarter earnings of \$0.53 per share were the highest earnings in any quarter in the Company's history.
- The Company signed agreements with Medusa Film S.p. A. for six IMAX 3D theatres in Italy, and with United Cinemas International for an additional eight IMAX 3D theatres at commercial locations in the United Kingdom, Europe, the Far East and South America. In total, Imax signed contracts for 44 third-party theatre locations valued at \$120.2 million.
- Sales backlog at December 31, 1999 was a record \$192.5 million, up 10% from a year earlier, representing the value of contracts for 70 theatre systems. There are an additional seven systems in backlog in which the Company has an equity interest, and therefore no dollar value has been ascribed to these systems. Systems currently in backlog represent an expansion into 15 new countries for Imax.
- In April 1999, *T-REX: Back to the Cretaceous* became the first IMAX 3D presentation to rank among the 20 highest-grossing films over a weekend. The film has been leased by more than 100 IMAX theatres. Another large-format 3D film, *Galapagos*, opened in October with exclusive educational and promotional sponsorship from America Online.

Business of the Company

Imax Corporation and 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”) theatres based on proprietary and patented technology, and is the largest producer and distributor of films for giant-screen theatres. The Company, through its recent acquisition of 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 HDTV source. The IMAX® brand name enjoys widespread recognition, with more than 500 million viewers throughout the world having experienced the Company’s high-quality, giant-screen theatre attractions since 1970 including over 70 million viewers in 1999.

The Company has experienced substantial growth in the IMAX theatre network as a result of the increased worldwide demand for IMAX 3D theatres located in commercial locations. The increased number of commercial IMAX theatres 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 theatres around the world for a four-month period ending 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 theatres. The Company believes that the success of *Fantasia/2000* has the potential to lead to additional Hollywood films being released to IMAX theatres which, the Company believes, could create further demand worldwide for commercial IMAX theatres.

The IMAX theatre network is the most extensive giant-screen theatre network in the world, with 208 theatres operating in 25 countries as of December 31, 1999. The Company generally does not own IMAX theatres but leases its projection and sound systems and licenses the use of its trademarks. IMAX theatre 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 theatres. In addition, the Company’s IMAX 3D theatre systems combine the same projection and sound systems and up to eight-story 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 theatres is the largest out-of-home 3D distribution network in the world.

In addition to the existing library of entertaining and educational 15/70-format films, recent film productions have included commercial films such as *Everest*, which was produced and distributed by MacGillivray Freeman Films and was the first 15/70-format film to break into *Variety*’s top 10 highest-grossing films in North America; *T-REX: Back to the Cretaceous*, which was produced by the Company and features giant computer-generated 3D images of dinosaurs; and The Walt Disney Company’s animated feature *Fantasia/2000: The IMAX Experience*.

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 new markets are emerging for DPI’s products, including applications for digital cinema in conventional movie theatres 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. Imax effected a corporate reorganization in December 1998 to better align employees and operations to the Company’s lines of business. As a result of this reorganization, Imax Ltd., a 100%-owned subsidiary of Imax Corporation, is responsible for the functions of system leasing, film marketing and distribution, systems maintenance, camera rental, marketing and administration.

The Company derives revenue principally from long-term theatre system lease agreements, maintenance agreements, the distribution of films, from film production agreements and, commencing in 1999, from the sale of digital projectors. The Company also derives revenue from the operation of theatres in which the Company has an equity interest, the Company's motion simulation operations, camera rentals, and the sale of sound systems for applications other than for IMAX theatres.

Theatre systems

The Company generally provides its theatre 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) upfront fees, (ii) ongoing royalty payments, and (iii) maintenance fees. The upfront 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 and continuing through the delivery of the theatre system. Ongoing royalty 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 theatre operations. Both minimum royalty payments and maintenance fees are typically indexed to the local consumer price index.

SALES AND SALES-TYPE LEASES

Revenues from the Company's theatre system sale agreements and from theatre system lease agreements which transfer substantially all of the benefits and risks of ownership ("sales-type leases") are recognized on the completed contract method (that is, upon delivery of the system). Revenues recognized at the time of the theatre system delivery consist of upfront fees and the present value of minimum royalties on sales-type leases over the initial term of the lease. For leases with initial terms greater than 10 years, the Company's practice is to establish a valuation allowance related to the present value of minimum royalties beyond the initial 10 years at the time of delivery of the system. Management assesses this allowance on an annual basis based on the credit history of each individual lease. The timing of theatre system delivery is largely dependent on the timing of the construction of the customer's theatre which is used to fix the delivery date in the contract. The delivery of the theatre system stated in the contract may be before the actual opening of the theatre and as of December 31, 1999, the Company had delivered 38 theatre systems to theatres that had not yet begun operations. Revenues recognized at the time of the theatre system delivery generally are derived from contracts signed 12 to 24 months prior to the date of recognition. Such revenue is shown as sales backlog until it is recognized upon delivery. Therefore, revenue for theatre systems is generally predictable on a long-term basis given the relationship to projected theatre system deliveries. However, systems revenue in any given quarter may vary significantly depending on the nature and timing of the delivery of systems.

Cash receipts under upfront fees are generally received in advance of deliveries over the average of 12 to 24 months from initial contract signing to final delivery and are recorded as deferred revenue. The associated costs of manufacturing the theatre system are recorded as inventory and systems under construction. Upon delivery, the deferred revenue and inventory costs are recognized in income.

Cash receipts under royalty payments are received after delivery. Typically, ongoing royalties are received over the 10 to 20 year life of the system agreements and under any renewal periods. The Company recognizes up to 10 years of the present value of the minimum royalties on sales-type leases upon delivery of the theatre system. The discounted minimum royalties are recorded on the Company's balance sheet as an increase in net investment in leases. For financial reporting purposes, the actual cash received for minimum royalties in each year is divided into two components representing both a repayment of the net investment in leases (which has no income effect but reduces net investment in leases) and finance income on the net investment in leases balance (which is recorded as royalty revenue as earned). In the event of default of payment of minimum contracted royalties, the Company may repossess the system and refurbish it for resale. Royalties in excess of minimums are recorded as revenue when due under the terms of the lease agreement.

SALES BACKLOG

Sales backlog represents the minimum revenues on signed system sale and lease agreements that will be recognized as revenue as the associated theatre systems are delivered. The minimum revenue comprises the upfront fees plus the present value of the minimum royalties due under sales-type lease agreements for the first 10 years of the initial lease term. The value of sales backlog does not include revenues from theatres in which the Company has an equity interest, letters of intent or long-term conditional theatre commitments.

Film distribution

Revenues from the distribution of films are recognized when films are exhibited by theatres. The costs of films are charged as expenses using the individual-film-forecast method in accordance with the Financial Accounting Standards Board Statement No. 53 ("FAS 53"). The individual-film-forecast method amortizes film costs (reflected on the balance sheet as film assets) in the same ratio that current gross revenues bear to anticipated total gross revenues. The costs of distribution of films are charged against the specific license to which they relate. Estimates of anticipated total gross revenues are reviewed quarterly by the Company and revised where necessary to reflect more current information.

Film production

Revenue from films produced for third parties is recognized when the film is completed and delivered to the sponsor. The associated production costs are deferred and charged against the associated revenue when the revenue is recognized. The completion of films for third parties depends upon the contracted delivery dates with film sponsors. Thus, both film revenues and film income in any given period will vary significantly depending upon the timing of the completion of films and the number of films produced for third parties. When the Company invests in films, costs incurred are deferred and shown on the balance sheet as film assets. Cash received from sales of the film in advance of delivery is shown as deferred revenue until the film is complete and delivered to the exhibitor. The film assets are amortized against revenues using the individual-film-forecast method in accordance with FAS 53.

International operations

A significant portion of the Company's sales are made to customers located outside of the United States and Canada. During 1997, 1998 and 1999 approximately 47.6%, 46.7% and 40.3%, 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 theatre 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.

Results of operations

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 7.1% 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.

Theatre network and sales backlog

The Company signed agreements for 44 theatre systems in 1999, excluding one theatre in which it will have an equity interest, which represents expected future minimum revenues of \$120.2 million. In 1998, the Company signed agreements for 43 theatre systems excluding one theatre in which it had an equity interest, for expected future minimum revenues of \$129.2 million. The majority of signings in 1999 continued to be for 3D systems: 82% in 1999 versus 91% in 1998. Signings of commercial operators were 84% in 1999 versus 88% in 1998 and for theatres to be located outside of North America: 61% in 1999 versus 66% in 1998. As of December 31, 1999, there were IMAX theatres operating in 25 countries, with theatres to be located in a further 15 countries once the theatres in backlog open. Strong theatre signings contributed to the 10% increase in the Company's sales backlog from \$175.8 million at December 31, 1998 to \$192.5 million at December 31, 1999.

The IMAX theatre network increased to 208 theatres in operation at December 31, 1999 from 183 theatres at the beginning of the year. The following is a geographic, market and product breakdown of the IMAX theatres in operation and theatres in backlog at December 31, 1999:

| | Existing theatres | | Backlog ¹ | |
|-----------------------------|-------------------|-------------|----------------------|-------------|
| | Theatres | Percentage | Theatres | Percentage |
| Geographic: | | | | |
| United States | 103 | 50% | 34 | 44% |
| Europe | 32 | 15 | 21 | 27 |
| Japan | 20 | 10 | 3 | 4 |
| Canada | 24 | 11 | 3 | 4 |
| Asia (excluding Japan) | 12 | 6 | 4 | 5 |
| Mexico | 8 | 4 | 1 | 1 |
| Australia | 8 | 4 | – | – |
| South Africa | 1 | – | 3 | 4 |
| Middle East | – | – | 5 | 7 |
| South America | – | – | 3 | 4 |
| Total | 208 | 100% | 77 | 100% |
| Market: | | | | |
| Science and natural history | 97 | 47% | 8 | 10% |
| Commercial | 80 | 38 | 68 | 88 |
| Theme parks | 20 | 10 | – | – |
| Destination sites | 5 | 2 | – | – |
| Zoos and aquaria | 6 | 3 | 1 | 2 |
| Total | 208 | 100% | 77 | 100% |
| Product: | | | | |
| 2D | 125 | 60% | 6 | 8% |
| 3D | 83 | 40 | 71 | 92 |
| Total | 208 | 100% | 77 | 100% |

¹ Backlog includes one upgrade from IMAX to IMAX 3D.

Film library

There were 15 new films released in the 15/70-format in 1999, bringing the total number of available films to 154 at the end of the year. The Company has the distribution rights to 51 of these films. In 1999, the Company released three films: *Siegfried & Roy*, *Galapagos* and *Island of the Sharks*.

The Company currently has three films in production which are scheduled for release in 2000 through 2002, and more than 15 films in development and pre-production. As of December 31, 1999 there were more than 30 films in production in the 15/70-format industry wide, including the three being produced by the Company.

Revenues

The Company's revenues in 1999 were \$203.8 million, compared to \$190.4 million in 1998, an increase of 7%. The following table sets forth the breakdown of revenue by category in thousands of dollars:

| | 1999 | 1998 | 1997 |
|----------------------------|------------|------------|------------|
| IMAX systems revenue | | | |
| Sales and leases | \$ 103,414 | \$ 121,042 | \$ 78,672 |
| Royalties ¹ | 11,747 | 10,154 | 10,285 |
| Maintenance | 11,665 | 9,678 | 8,582 |
| | 126,826 | 140,874 | 97,539 |
| Digital projection systems | 10,999 | – | – |
| Film revenue | | | |
| Production | – | 352 | 6,459 |
| Distribution | 23,224 | 15,052 | 21,953 |
| Post-production | 24,003 | 15,420 | 11,271 |
| | 47,227 | 30,824 | 39,683 |
| Other revenue | 18,783 | 18,657 | 21,259 |
| | \$ 203,835 | \$ 190,355 | \$ 158,481 |

¹ Includes finance income.

SYSTEMS REVENUES

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

DIGITAL PROJECTION SYSTEMS

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

FILM REVENUES

Film revenues increased from \$30.8 million in 1998 to \$47.2 million in 1999. Film distribution revenues increased from \$15.1 million in 1998 to \$23.2 million in 1999 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 from \$15.4 million in 1998 to \$24.0 million in 1999, an increase of 56%. The growth in revenues was due to an increase in the number of prints released, post-production activities and extensions of products and services. The Company did not deliver any films produced for third parties in 1999 or 1998.

OTHER REVENUES

Other revenues increased slightly from \$18.7 million in 1998 to \$18.8 million in 1999. Theatre operations revenue more than doubled in 1999 versus 1998 due to the increase in the number of owned and operated theatres, which offset a decrease in camera and other revenues related to the rationalization of the motion simulation and attractions business.

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, was due mainly to a decline in system deliveries from 41 in 1998 to 35 in 1999.

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 revenues).

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. Increases in costs in 1999 over 1998 resulted from the expansion of the network group and the inclusion of four months of selling, general and administrative expenses of DPI, which were more than offset by decreases in executive compensation and other corporate expenses.

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 from \$5.3 million in 1998 to \$10.0 million in 1999 due to higher average cash and marketable 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 of the Senior Notes in December 1998.

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.

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, 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 1999 decreased over prior years due to increased manufacturing and processing credits resulting from a corporate reorganization which occurred in December 1998 which better aligned employees and operations to the Company's lines of business. The effective tax rate in 1998 was much higher than in prior years due to the large amount of non-deductible goodwill and deferred tax charge associated with the rationalization of Ridefilm as well as being affected by the \$6.1 million loss associated with Forum Ride Associates which is provided for at a lower tax rate than the Company's statutory tax rate.

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 Associates, Inc. on October 1, 1999.

Year ended December 31, 1998 versus year ended December 31, 1997

Rationalization of motion simulation and attractions business

Included in earnings for the year ended December 31, 1998 is a pre-tax charge of \$13.6 million related to the Company's investment in the motion simulation and attractions business. Low returns in the industry, the high cost of producing films, high manufacturing and installation costs, declining sales and sales cancellations contributed to the Company's decision to rationalize the Ridefilm activity in 1998 to reduce future potential losses.

Also included in earnings for the year ended December 31, 1998 is a loss of \$1.9 million representing the Company's 50% share of the 1998 loss of Forum Ride Associates, a joint venture with Starwood Hotels and Resorts Worldwide Inc., operating an IMAX 3D Simulator Ride at the Forum Shops at Caesars Palace in Las Vegas, Nevada. The Company also took a charge of \$4.2 million to write-off its remaining investment in the joint venture after considering the 1998 operating loss and a projection that indicated future continuing losses.

Revenues

The Company's revenues in 1998 were \$190.4 million compared to \$158.5 million in 1997, an increase of 20%.

Systems revenue increased from \$97.5 million in 1997 to \$140.9 million in 1998, an increase of 44%. Revenue from sales and leases increased from \$78.7 million to \$121.0 million, an increase of 54%. The Company recognized revenues on the delivery of 41 theatre systems under sales and sales-type leases in 1998 compared to 24 theatre systems in 1997. Royalty revenue, excluding arrears billings, and maintenance revenue increased 7% and 13%, respectively, over the prior year, principally due to the increased number of theatre systems in the network.

Film revenues declined from \$39.7 million in 1997 to \$30.8 million in 1998. Film distribution revenues declined from \$22.0 million in 1997 to \$15.1 million in 1998, a decrease of 31%. Film distribution revenues decreased in 1998 over 1997 due to the timing of film releases, including the strong performance of three films released in the latter half of 1996 and the fact that the Company's major 1998 release, *T-REX: Back to the Cretaceous*, was not released until the fourth quarter. Film post-production activities generated revenues of \$15.4 million in 1998 versus \$11.3 million in 1997, an increase of 37%. The growth in revenues was due to an increase in the number of post-production projects, an increase in the number of prints released and extensions of related products and services.

Other revenues of \$18.7 million in 1998 represented a decrease of 12% over 1997. The decline in other revenues was primarily due to a decline in the number of IMAX *Ridefilm* systems delivered, partially offset by increases in camera rentals and revenues from Company-owned theatre operations.

Gross margin

Gross margin in 1998 was \$78.6 million versus \$84.7 million in 1997. The number of systems delivered in 1998 increased to 41 from 24 in 1997. The resulting increase in the gross margin was more than offset by the write-down in 1998 of the Company's motion simulation assets of \$7.9 million and a write-down of its film assets of \$19.1 million. Gross margin as a percentage of total revenues decreased from 53.4% in 1997 to 41.3% in 1998. An increase in the higher proportion of systems revenue (which generally has higher margins than film and other revenues) was more than offset by the charges noted above, which reduced the gross margin by 4.1% and 10%, respectively.

Other

Loss from equity-accounted investees in 1998 includes \$6.1 million of the Company's share of the loss of Forum Ride Associates (a 50% joint venture with Starwood Resorts Worldwide Inc. operating an IMAX 3D Simulator Ride) and a write-off of the Company's remaining investment in the joint venture.

Selling, general and administrative expenses were \$38.8 million in 1998 versus \$32.1 million in 1997. The increase in selling, general and administrative costs in 1998 over 1997 resulted primarily from increases in performance-based compensation expenses, marketing, branding and affiliate relations initiatives and staffing additions to the Company's film department, particularly marketing, partially offset by declines in litigation expense. Also included in 1998 is \$1.9 million in costs related to the rationalization of the Company's motion simulation and attractions unit.

Research and development expenses were \$2.7 million in 1998 versus \$2.1 million in 1997. In 1997 the Company's technical staff were engaged in the design and production of the new IMAX 3D SR system and not in typical research and development activities.

Amortization of intangibles in 1998 includes a non-recurring charge of \$3.3 million to write-off the remaining goodwill associated with the Company's motion simulation business.

Interest expense increased in 1998 as a result of the \$200 million Senior Notes due 2005 which were issued on December 4, 1998.

The Company experienced a foreign exchange gain of \$0.6 million in 1998 compared to a loss of \$0.6 million in 1997. The foreign exchange gain in 1998 resulted primarily from fluctuations in exchange rates on the Japanese yen denominated net investment in leases, while the loss in 1997 resulted primarily from fluctuations in exchange rates on Canadian dollar, Japanese yen and French franc denominated cash balances and net investment in leases.

Liquidity and capital resources

At December 31, 1999, the Company's principal source of liquidity included cash and cash equivalents of \$34.6 million, marketable securities of \$89.0 million, trade accounts receivable of \$42.6 million, net investment in leases due within one year of \$33.9 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, 1999, \$0.8 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 (the "Notes") 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 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 Notes may be redeemed by the Company plus accrued interest up 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 Notes may require the Company to repurchase all or part of the 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 a \$100 million offering of 5¾% 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 (1999 - 103.286%; 2000 - 102.464%; 2001 - 101.643%; 2002 - 100.821%) plus accrued interest. The Subordinated Notes may only be redeemed by the Company between April 1, 1999 and April 1, 2001 if the last reported market price of the Company's common shares is equal to or greater than \$30 per share for any 20 of the 30 consecutive trading days prior to the notice of redemption. The Subordinated Notes may be redeemed at any time on or after April 1, 2001 without limitation.

The Company partially funds its operations through cash flow from operations. Under the terms of the Company's typical theatre 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 provided by operating activities amounted to \$15.5 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. Working capital requirements include 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, an increase of \$34.1 million in net investment in leases due to the theatre 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 \$126.3 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, \$18.1 million was invested in film assets, principally *Siegfried & Roy*, *Galapagos* and *CyberWorld*, \$22.7 million was invested in capital assets, principally owned and operated theatres and theatre systems contributed to joint ventured theatres, and facilities, \$29.6 million was invested in marketable 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.

Cash provided by operating activities amounted to \$23.9 million for the year ended December 31, 1998 after the payment of \$14.6 million of interest, \$4.1 million of income taxes and working capital requirements. Working capital requirements include an increase of \$2.4 million in accounts receivable, primarily related to an increase in upfront fees billed in connection with increased signings and the growth in the number of systems in backlog, and an increase of \$40.9 million in net investment in leases due to the theatre systems delivered under sales-type leases in 1998. Cash used in investing activities in 1998 amounted to \$72.1 million. Of this amount, \$21.2 million was invested in film assets, principally *T-REX: Back to the Cretaceous* and *Galapagos*, \$14.0 million was invested in capital assets, principally space and 3D cameras and owned and operated theatres, \$4.0 million was invested in other assets, principally joint ventured and owned and operated theatres and \$32.9 million was invested in marketable securities. Cash provided by financing activities includes proceeds of \$200 million from the issuance of Senior Notes, part of the proceeds of which were used to repay the \$65 million 10% Senior Notes, the \$2.8 million redemption premium thereon, the debt financing costs of \$4.9 million and the redemption of Class C preferred shares amounting to \$2.2 million. Cash provided by financing activities also included \$2.6 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.

Impact of the year 2000

The Year 2000 issue involved the possibility that computer programs and embedded chips, which use two digit date fields, would fail or create errors as a result of the change in the century. The Company formed a Year 2000 committee in 1998 and throughout 1999, it assessed the impact of the Year 2000 issue on its operations including information technology systems (cost accounting and financial software systems), non-information technology systems (projection and sound systems) and the readiness of facility and utility suppliers.

The Company experienced no failures of its information technology systems or its non-information technology systems and experienced no interruption in service from its facility and service providers nor any delivery delays from other suppliers at the turn of the century, and continued to experience no errors, delays or interruptions throughout the first quarter of 2000.

*Report of independent accountants
to the shareholders of Imax Corporation*

We have audited the accompanying consolidated balance sheets of Imax Corporation as at December 31, 1999 and 1998 and the related consolidated statements of operations, shareholders' equity and cash flows for each year in the three-year period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and cash flows for each year in the three-year period ended December 31, 1999 in accordance with United States generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Toronto, Canada
February 9, 2000

Consolidated balance sheets
in accordance with United States generally accepted accounting principles

(IN THOUSANDS OF U.S. DOLLARS)

| As at December 31, | 1999 | 1998 |
|--|-------------------|------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (note 5) | \$ 34,573 | \$ 143,566 |
| Short-term marketable securities | 49,159 | 39,305 |
| Accounts receivable | 42,619 | 30,848 |
| Current portion of net investment in leases (note 6) | 33,918 | 23,672 |
| Inventories and systems under construction (note 7) | 31,141 | 18,747 |
| Prepaid expenses | 2,621 | 3,766 |
| Total current assets | 194,031 | 259,904 |
| Long-term marketable securities | 39,873 | 20,070 |
| Net investment in leases (note 6) | 103,087 | 79,124 |
| Film assets (notes 4 and 8) | 38,453 | 34,885 |
| Capital assets (note 9) | 66,897 | 46,563 |
| Goodwill (notes 3, 4 and 10) | 62,751 | 38,129 |
| Other assets (note 11) | 28,232 | 11,416 |
| Deferred income taxes (note 17) | 4,913 | – |
| Total assets | \$ 538,237 | \$ 490,091 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | \$ 18,361 | \$ 9,882 |
| Accrued liabilities | 34,910 | 30,153 |
| Current portion of deferred revenue | 17,284 | 22,062 |
| Income taxes payable | 33,755 | 435 |
| Total current liabilities | 104,310 | 62,532 |
| Deferred revenue | 22,862 | 15,005 |
| Senior notes due 2005 (note 12) | 200,000 | 200,000 |
| Convertible subordinated notes (note 14) | 100,000 | 100,000 |
| Deferred income taxes (note 17) | – | 23,263 |
| Total liabilities | 427,172 | 400,800 |
| Minority interest (note 3) | – | 4,845 |
| Commitments and contingencies (notes 3, 16, 20 and 21) | | |
| Shareholders' equity | | |
| Capital stock (note 15) | 57,471 | 55,236 |
| Retained earnings | 54,669 | 29,436 |
| Accumulated other comprehensive items | (1,075) | (226) |
| Total shareholders' equity | 111,065 | 84,446 |
| Total liabilities and shareholders' equity | \$ 538,237 | \$ 490,091 |

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

Approved on behalf of the Board

Bradley J. Wechsler
 Director

Richard L. Gelfond
 Director

*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, | 1999 | 1998 | 1997 |
|---|--------------------------|------------------|------------|-----------|
| Revenue | | | | |
| IMAX systems | | \$ 126,826 | \$ 140,874 | \$ 97,539 |
| Digital projection systems | | 10,999 | – | – |
| Films | | 47,227 | 30,824 | 39,683 |
| Other | | 18,783 | 18,657 | 21,259 |
| | | 203,835 | 190,355 | 158,481 |
| Costs and expenses (notes 4 and 8) | | 106,241 | 111,784 | 73,806 |
| Gross margin | | 97,594 | 78,571 | 84,675 |
| Loss from equity-accounted investees (notes 4 and 11) | | (683) | (6,763) | (22) |
| Selling, general and administrative expenses (note 4) | | 36,584 | 38,777 | 32,115 |
| Research and development | | 3,868 | 2,745 | 2,129 |
| Amortization of intangibles (notes 3 and 4) | | 2,585 | 5,948 | 2,701 |
| Earnings from operations | | 53,874 | 24,338 | 47,708 |
| Interest income | | 9,984 | 5,320 | 5,604 |
| Interest expense | | (21,860) | (14,646) | (13,402) |
| Foreign exchange gain (loss) | | 977 | 588 | (623) |
| Earnings before income taxes and minority interest | | 42,975 | 15,600 | 39,287 |
| Provision for income taxes (notes 4 and 17) | | (16,535) | (9,810) | (17,265) |
| Earnings before minority interest | | 26,440 | 5,790 | 22,022 |
| Minority interest (note 3) | | (1,207) | (1,895) | (1,357) |
| Earnings before extraordinary item | | \$ 25,233 | \$ 3,895 | \$ 20,665 |
| Extraordinary loss on early retirement of debt, net of income tax benefit of \$1,588 (note 13) | | – | (2,095) | – |
| Net earnings | | \$ 25,233 | \$ 1,800 | \$ 20,665 |
| Earnings per share (note 15) | | | | |
| Earnings before extraordinary item: | | | | |
| Basic | | \$ 0.85 | \$ 0.10 | \$ 0.71 |
| Diluted | | \$ 0.83 | \$ 0.09 | \$ 0.68 |
| Net earnings: | | | | |
| Basic | | \$ 0.85 | \$ 0.03 | \$ 0.71 |
| Diluted | | \$ 0.83 | \$ 0.03 | \$ 0.68 |

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

*Consolidated statements of cash flows
in accordance with United States generally accepted accounting principles*

(IN THOUSANDS OF U.S. DOLLARS)

| Years ended December 31, | 1999 | 1998 | 1997 |
|--|-----------|------------|-----------|
| Cash provided by (used in): | | | |
| Operating Activities | | | |
| Net earnings | \$ 25,233 | \$ 1,800 | \$ 20,665 |
| Items not involving cash: | | | |
| Depreciation and amortization (note 18) | 25,110 | 22,677 | 15,075 |
| Loss from equity-accounted investees | 683 | 6,763 | 22 |
| Deferred income taxes | (24,249) | 3,975 | 14,015 |
| Unrecoverable film costs (note 8) | - | 22,738 | - |
| Extraordinary loss on early extinguishment of debt | - | 3,683 | - |
| Minority interest | 1,207 | 1,895 | 1,357 |
| Other | 10 | (259) | 548 |
| Changes in deferred revenue on film production | 5,187 | 8,046 | (5,840) |
| Changes in other operating assets and liabilities (note 18) | (17,719) | (47,371) | (34,254) |
| Net cash provided by operating activities | 15,462 | 23,947 | 11,588 |
| Investing Activities | | | |
| Acquisition of Digital Projection International, net of cash acquired (note 3) | (25,724) | - | - |
| Acquisition of minority interest in Sonics Associates, Inc. (note 3) | (12,740) | - | - |
| Increase in marketable securities | (29,639) | (32,920) | (8,250) |
| Increase in film assets | (18,051) | (21,192) | (28,056) |
| Purchase of capital assets | (22,708) | (14,021) | (12,654) |
| Increase in other assets | (17,402) | (3,982) | (4,502) |
| Net cash used in investing activities | (126,264) | (72,115) | (53,462) |
| 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) | - |
| Class C preferred shares dividends paid | (365) | (386) | - |
| Common shares issued | 2,235 | 2,632 | 5,758 |
| Redemption of Class C preferred shares | - | (2,178) | - |
| Repayment of long-term debt | - | - | (2,326) |
| Net cash provided by financing activities | 1,870 | 127,427 | 3,432 |
| Effects of exchange rate changes on cash | (61) | 238 | (78) |
| Increase (decrease) in cash and cash equivalents during the year | (108,993) | 79,497 | (38,520) |
| Cash and cash equivalents, beginning of year | 143,566 | 64,069 | 102,589 |
| Cash and cash equivalents, end of year | \$ 34,573 | \$ 143,566 | \$ 64,069 |

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

*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 | Accumulated other comprehensive income (loss) | Total shareholders' equity | Comprehensive income (loss) |
|--|---|------------------|----------------------|--|----------------------------------|--------------------------------|
| Balance at December 31, 1996 | 27,885,218 | \$ 46,810 | \$ 8,307 | \$ (276) | \$ 54,841 | – |
| Issuance of common stock | 1,230,200 | 5,758 | – | – | 5,758 | – |
| Accrual of stock compensation benefit | – | 36 | – | – | 36 | – |
| Accrual of preferred dividends | – | – | (170) | – | (170) | – |
| Accretion of discount on preferred shares | – | – | (160) | – | (160) | – |
| Net earnings | – | – | 20,665 | – | 20,665 | 20,665 |
| Foreign currency translation adjustments | – | – | – | 147 | 147 | 147 |
| | | | | | | \$ 20,812 |
| 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 | – | – | – | (97) | (97) | (97) |
| | | | | | | \$ 1,703 |
| 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 | – | – | – | (867) | (867) | (867) |
| Foreign currency translation adjustments | – | – | – | 18 | 18 | 18 |
| | | | | | | \$ 24,384 |
| Balance at December 31, 1999 | 29,757,888 | \$ 57,471 | \$ 54,669 | \$ (1,075) | \$ 111,065 | |

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

*Notes to consolidated financial statements
in accordance with United States generally accepted accounting principles
for the years ended December 31, 1999, 1998 and 1997*

(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® theatres. The principal activities of the Company are:

- the design, manufacture and marketing of proprietary projection and sound systems for IMAX theatres;
- the development, production, post-production and distribution of films shown in the IMAX theatre network;
- the provision of other services to the IMAX theatre 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
- commencing in 1999, the design, manufacture and marketing of digital projector 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. The most significant estimates are related to the recoverability of film assets, capital assets, goodwill and the measurement of contingencies. 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 securities categorized as available-for-sale securities are carried at fair value with unrealized gains or losses included in a separate component of shareholders' equity. Investments in marketable 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. The carrying values of the investments are adjusted for the Company's share of undistributed income or losses since acquisition and dividends received are recorded as a reduction in the investments. Write-downs are only made for declines in value which are other than temporary.

[c] Inventories

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

[d] Film assets

Film assets represent costs incurred in producing and distributing films net of accumulated amortization. The film costs are charged as expenses using the individual-film forecast method as prescribed by Statement of Financial Accounting Standards No. 53 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 quarterly by management and revised where necessary to reflect more current information.

The recoverability of film costs is dependent upon commercial acceptance of the films. Any capitalized costs of a film that are determined to be unrecoverable are charged to operations in the period that determination is made.

[e] Capital assets

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

| | |
|---------------------------------|--|
| Imax 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 |

[f] Other assets

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

The investment in Mainframe is carried at cost. Unrealized gains or losses on the quoted market value of the equity portion of the investment are recorded in a separate component of shareholders’ equity. The amount invested in Mainframe convertible debentures is classified as “held to maturity”.

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

The Company capitalizes computer software production costs related to the costs of software to be marketed or to be used internally by the Company. Amortization will commence when the products are available for general release to customers or for use by the Company, on a straight-line basis over their useful lives of approximately three to five years.

Deferred charges on debt financing are amortized on a straight-line basis over the term of debt.

[g] Goodwill

Goodwill represents the excess 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.

[h] Deferred revenue

Deferred revenue comprises receipts under systems sales and lease contracts, film production contracts and film exhibition contracts not yet recognized as revenue. The current portion of deferred revenue represents the estimated amount to be recognized in earnings during the following 12-month period.

[i] 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.

[j] Revenue and cost recognition

SALES AND SALES-TYPE LEASES

Revenues from theatre system sales and leases that transfer substantially all of the benefits and risks of ownership to the customer (“sales-type leases”) are recognized on the completed contract method (that is, upon delivery of the system). Revenues include initial advance payments and contracted minimum rental payments discounted to their present value.

Cash payments received in advance of delivery are recorded as deferred revenue. The associated costs are recorded as inventories and systems under construction. Upon delivery of the theatre system, the deferred revenue and deferred costs, net of estimated asset residual value at the end of the lease term, are recognized in earnings.

The Company recognizes the present value of the minimum rental payments on sales-type leases upon delivery of the theatre system where collectibility is reasonably assured. Cash receipts under minimum rental payments are received after delivery. Typically, ongoing rental payments are received over the life of the system agreement and under any renewal periods. In the event of default of payment of minimum contracted rental payments, the Company may repossess the system and refurbish it for resale. Royalties in excess of minimum rental payments are recorded as revenue when due under the terms of the lease agreement.

OPERATING LEASES

Revenues from leases that do not transfer substantially all of the benefits and risks of ownership to the customer are treated as operating leases where revenues and direct expenses are recognized over the term of the lease and costs of leased assets are amortized over their estimated useful lives.

FILM PRODUCTION REVENUES

Revenues from films produced for third parties are recognized when the film is completed and delivered to the sponsor. The associated production costs are deferred and subsequently charged to earnings when the film is delivered and the revenue is recognized.

[k] Research and development

Research and development expenditures are expensed as incurred.

[l] Foreign currency translation

Monetary assets and liabilities of the Company's operations which are denominated in currencies other than the U.S. dollar are translated into U.S. dollars 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. All 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 a separate component of shareholders' equity.

[m] Stock-based compensation

Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, became effective for the Company for the year ended December 31, 1996. This statement allows enterprises to continue to measure compensation cost for employee stock option plans using the methodology currently prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*. The Company elected to remain with the accounting in Opinion No. 25 and has made pro forma disclosures of net earnings and earnings per share in note 15 as if the methodology prescribed by Statement No. 123 had been adopted.

3. 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 with operations in Manchester, England and Atlanta, Georgia. The transaction has been accounted for as a purchase and the assets acquired and the liabilities assumed were recorded at their fair market values on September 3, 1999. The purchase price of approximately \$27.3 million was paid with approximately \$25.5 million in cash, \$1.5 million in contingent escrow funds subject to a net asset adjustment, and 100,000 restricted shares of the Company, valued at approximately \$1.8 million, to be issued to former shareholders of DPI over the next five years.

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 |
| Capital assets | 3,056 |
| Other assets | 4,000 |
| Accounts payable and accrued liabilities | (12,013) |
| Deferred income tax | 1,783 |
| Goodwill | 18,377 |
| | \$ 27,250 |

[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 theatre systems. The purchase price of \$12.7 million in cash was paid to Sonics management, which will continue as the senior management of this 100% owned subsidiary. 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 earn out is contingent on Sonics’ level of earnings over that period, a guaranteed percentage of which will be considered an addition to the purchase price when earned, with the remainder accounted for as a compensation expensed when earned.

The purchase price has been allocated to assets and liabilities acquired to record them at October 1, 1999 as follows:

| | |
|--|-----------|
| Inventory and other assets | \$ 541 |
| Accounts payable and accrued liabilities | (3,468) |
| Deferred income tax | 1,082 |
| Minority interest | 6,053 |
| Goodwill | 8,532 |
| | \$ 12,740 |

4. Rationalization of motion simulation and attractions business

Included in earnings for the year ended December 31, 1998 is a pre-tax charge of \$13,569,000 related to the Company's investment in its motion simulation and attractions business. The Company's decision to rationalize its activities in this business was based upon declining sales of its motion simulation products and continued operating losses within the business unit.

As a result, management determined in 1998 that there had been a permanent impairment of the Ridefilm assets amounting to \$13,293,000 based on the estimated present value of future cash flows of the operations. As a result of the re-valuation and write-down of Ridefilm assets, the 1998 Consolidated Statement of Operations for the Company reflect the following costs and expenses: a) amortization of intangibles includes \$3,266,000 related to the write-off of the remaining unamortized goodwill; b) costs and expenses include \$1,427,000 related to the write-down of three participating joint venture operations, \$3,665,000 related to a write-down of film assets, \$768,000 related to the write-down of inventory, leaving the historical cost of assets contracted to be delivered in 1999, and \$1,067,000 related to the write-off of obsolete fixed assets; c) selling, general and administrative expense includes \$1,682,000 related to a provision for doubtful accounts as the future collectibility of amounts is expected to be impaired by the decision to rationalize the business; d) loss from equity-accounted investees includes \$543,000 representing the write-down of the assets to fair market value of the Company's 50% equity share of a joint venture; and e) income tax expense includes a write-down of deferred state tax assets amounting to \$875,000 relating to losses considered unlikely to be utilized. In addition to the impairment of assets, costs and expenses includes a provision for costs totaling \$950,000 that will provide no future economic benefit, and included in selling, general and administrative expense for the year ended December 31, 1998 is a provision for severance of \$201,000 for seven management, sales and administrative staff, which was paid in 1999.

5. Cash and cash equivalents

At December 31, 1999, cash and cash equivalents includes a total of \$4.4 million of cash held in escrow.

6. Net investment in leases and lease payments receivable

The Company enters into sales-type leases which have initial advance payments and annual rental payments with contracted minimums that are generally indexed to inflation. The Company's net investment in sales-type leases comprises:

| | 1999 | 1998 |
|--|-------------------|------------|
| Total minimum lease payments receivable | \$ 230,457 | \$ 173,791 |
| Residual value of equipment | 6,325 | 5,004 |
| Unearned finance income | (80,856) | (62,792) |
| Present value of minimum lease payments receivable | 155,926 | 116,003 |
| Valuation allowance | (18,921) | (13,207) |
| | 137,005 | 102,796 |
| Less current portion | 33,918 | 23,672 |
| | \$ 103,087 | \$ 79,124 |

Income recognized on systems from annual rental payments comprised the following:

| | 1999 | 1998 | 1997 |
|---|------------------|-----------|-----------|
| Minimum rental payments on operating leases | \$ 875 | \$ 910 | \$ 1,073 |
| Contingent rentals ¹ | 5,646 | 4,100 | 4,971 |
| Finance income | 5,228 | 5,144 | 4,241 |
| Total | \$ 11,749 | \$ 10,154 | \$ 10,285 |

¹ 1997 contingent rentals include \$832,000 of arrears billings.

The estimated amount of gross minimum rental payments receivable from all delivered leases at December 31, 1999 for each of the next five years is as follows:

| | |
|------|-----------|
| 2000 | \$ 12,843 |
| 2001 | 15,173 |
| 2002 | 15,061 |
| 2003 | 15,104 |
| 2004 | 14,874 |

7. Inventories and systems under construction

| | 1999 | 1998 |
|-----------------|-----------|-----------|
| Raw materials | \$ 16,831 | \$ 7,555 |
| Work-in-process | 11,974 | 10,686 |
| Finished goods | 2,336 | 506 |
| | \$ 31,141 | \$ 18,747 |

8. Film assets

| | 1999 | 1998 |
|--------------------------------------|-----------|-----------|
| Completed films, net of amortization | \$ 27,775 | \$ 25,687 |
| Films in production | 10,678 | 9,198 |
| | \$ 38,453 | \$ 34,885 |

Included in costs and expenses for the year ended December 31, 1998 is a charge of \$22.7 million to reflect a write-down for unrecoverable film costs.

9. Capital assets

| | 1999 | | |
|---------------------------------|-------------------|--------------------------|------------------|
| | Cost | Accumulated depreciation | Net book value |
| Equipment held for lease: | | | |
| Projection equipment | \$ 17,681 | \$ 7,050 | \$ 10,631 |
| Motion simulation equipment | 3,404 | 3,263 | 141 |
| Camera equipment | 13,760 | 3,749 | 10,011 |
| | 34,845 | 14,062 | 20,783 |
| Assets under construction | 5,638 | – | 5,638 |
| Other capital assets: | | | |
| Land | 2,431 | – | 2,431 |
| Buildings | 29,003 | 3,144 | 25,859 |
| Office and production equipment | 27,271 | 15,487 | 11,784 |
| Leasehold improvements | 1,143 | 741 | 402 |
| | 59,848 | 19,372 | 40,476 |
| | \$ 100,331 | \$ 33,434 | \$ 66,897 |
| | | | |
| | | | 1998 |
| | Cost | Accumulated depreciation | Net book value |
| Equipment held for lease: | | | |
| Projection equipment | \$ 11,131 | \$ 6,324 | \$ 4,807 |
| Motion simulation equipment | 3,403 | 3,263 | 140 |
| Camera equipment | 12,373 | 2,870 | 9,503 |
| | 26,907 | 12,457 | 14,450 |
| Assets under construction | 6,605 | – | 6,605 |
| Other capital assets: | | | |
| Land | 2,431 | – | 2,431 |
| Buildings | 17,227 | 2,368 | 14,859 |
| Office and production equipment | 18,389 | 10,255 | 8,134 |
| Leasehold improvements | 376 | 292 | 84 |
| | 38,423 | 12,915 | 25,508 |
| | \$ 71,935 | \$ 25,372 | \$ 46,563 |

Capital assets include \$754,000 of interest capitalized in 1999 (1998 – nil, 1997 – nil).

10. Goodwill

The accumulated amortization of goodwill was \$11,463,000 and \$9,176,000 at December 31, 1999 and 1998, respectively. Added to goodwill in 1999 was \$18,377,000 arising on the acquisition of DPI and \$8,532,000 arising on the acquisition of the minority interest in Sonics (see note 3). Unamortized goodwill related to Ridefilm was fully written off in 1998 (see note 4).

11. Other assets

| | 1999 | 1998 |
|--|-----------|-----------|
| Investments in Mainframe Entertainment, Inc. | \$ 10,732 | \$ – |
| Patents, trademarks and other intangibles | 5,872 | 1,565 |
| Investments in equity-accounted investees | 1,797 | 2,454 |
| Computer software | 1,353 | 457 |
| Deferred charges on debt financing | 5,930 | 6,794 |
| Other assets | 2,548 | 146 |
| | \$ 28,232 | \$ 11,416 |

The investment in Mainframe, a producer of 3D computer-generated animation, consists of a cash investment of Cdn\$8.0 million in common shares, which provided the Company with a 19% interest in Mainframe, and an investment of Cdn\$8.0 million in 6% convertible debentures maturing June 1, 2004.

The equity portion of the investment has been reduced by \$867,000 to reflect the unrealized loss on the investment based on the quoted market price of the stock on December 31, 1999.

Patents, trademarks and other intangibles includes other intangibles of approximately \$3.9 million resulting from the acquisition of DPI.

Included in loss from equity-accounted investees for the year ended December 31, 1998 is a loss of \$1,937,000 representing the Company's share of the loss of Forum Ride Associates, a 50% joint venture with Starwood Hotels & Resorts Worldwide, Inc., operating an IMAX 3D Simulator Ride at the Forum Shops at Caesars Palace in Las Vegas, Nevada. The Company also took a charge of \$4,208,000 to write-off its remaining investment in the joint venture after considering current-period operating losses combined with a projection that indicated future continuing losses.

Investments in joint ventures accounted for under the equity method as at December 31, 1998 also reflect the charge to write down a Ridefilm joint venture (see note 4).

12. 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 or consolidations and 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 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 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 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 Notes may require the Company to repurchase all or part of the 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 \$15,750,000 and \$1,181,000 in 1999 and 1998, respectively.

13. Senior Notes due 2001

In December 1998, the Company provided all holders of the 10% Senior Notes due 2001 with a notice of redemption at a price in accordance with the terms of the 10% Senior Notes of 104.29% of the principal amount. As of December 31, 1998, all of the 10% Senior Notes due 2001 had been redeemed for a total of \$67,789,000. The excess of the redemption price over the principal amount of the 10% Senior Notes of \$2,789,000 and the write-off of the remaining unamortized deferred financing costs of \$894,000 resulted in an extraordinary pre-tax loss of \$3,683,000 in the year ended December 31, 1998.

Interest expense on the 10% Senior Notes amounted to nil in 1999 (1998 – \$6,681,000; 1997 – \$6,175,000).

14. 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 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 Notes) at any time prior to maturity.

The Notes are redeemable at the option of the Company on or after April 1, 1999 at redemption prices expressed as percentages of the principal amount (1999 – 103.286%; 2000 – 102.464%; 2001 – 101.643%; 2002 – 100.821%) plus accrued interest. The 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 Notes may be redeemed at any time on or after April 1, 2001 without limitation.

Interest expense related to the Convertible Subordinated Notes was \$5,750,000 during the years ended December 31, 1999, 1998 and 1997.

15. Capital stock and redeemable preferred shares

[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.

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.

REDEEMABLE CLASS C PREFERRED SHARES, SERIES 1

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

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

Notice of redemption for all outstanding Class C 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 Series 2 shares shall be identical to the Series 1 shares except that the holders of 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.

[b] Changes during the period

Pursuant to shareholders' approval at the Annual and Special Meeting held on May 6, 1997, the Company's shares were split on a 2-for-1 basis in May 1997. Common share, stock option and earnings per share data for the comparative periods give retroactive effect to the stock split as if it had taken place at the beginning of the period.

In 1999, the Company issued 277,838 common shares pursuant to the exercise of stock options for cash proceeds of \$2,207,000 and 1,666 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 \$2,605,000 and 1,666 shares were issued under the terms of an employment contract with an ascribed value of \$27,000.

In 1997, the Company issued 778,200 common shares pursuant to the exercise of stock options for cash proceeds of \$5,616,000 and 5,000 shares were issued under the terms of an employment contract with an ascribed value of \$37,000.

[c] Shares held for other than retirement

As at December 31, 1999, 148,000 (1998 and 1997 – 213,000) issued common shares are held by a subsidiary of the Company for other than retirement. During 1999, 65,000 (1998 – nil, 1997 – 447,000) common shares held by a subsidiary of the Company were sold to a former employee of the Company in connection with the exercise of a stock option grant for cash proceeds of \$14,000 (1998 – nil, 1997 – \$105,000).

[d] Stock options

The Company has reserved a total of 6,303,850 common shares for future issuance as follows:

(i) 316,744 common shares have been reserved for issuance pursuant to stock options granted in connection with the employment of Douglas Trumbull, former Vice Chairman of the Company, at an exercise price equivalent to Cdn\$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 Cdn\$1.59 per share which options are fully vested and expire on April 8, 2004.

(iii) 5,972,098 common shares remain reserved for issuance under the Stock Option Plan, of which options in respect of 5,157,400 common shares are outstanding at December 31, 1999. The options granted under the Stock Option Plan generally vest over a five-year period and expire 10 years from the date granted. As at December 31, 1999, options in respect of 2,514,634 common shares were vested and exercisable.

| | Number of shares | | | Weighted average exercise price per share | | |
|--|------------------|-----------|-----------|---|----------|----------|
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Options outstanding, beginning of year | 3,327,300 | 2,005,600 | 2,126,800 | \$ 19.38 | \$ 14.55 | \$ 8.99 |
| Granted | 2,225,000 | 1,815,500 | 711,000 | 20.32 | 22.58 | 23.10 |
| Exercised | (201,638) | (335,900) | (749,200) | 10.82 | 7.14 | 7.45 |
| Canceled or expired | (193,262) | (157,900) | (83,000) | 18.09 | 19.56 | 9.36 |
| Options outstanding, end of year | 5,157,400 | 3,327,300 | 2,005,600 | \$ 20.18 | \$ 19.38 | \$ 14.55 |

The weighted average fair value of common share options granted in 1999 is \$14,672,000 (1998 – \$11,707,000; 1997 – \$5,604,000). 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% (1998 – 5%; 1997 – 6%), expected life of the options ranging from two to five years and expected volatility of 40%. The following table summarizes certain information in respect of options outstanding under the Stock Option Plan as at December 31, 1999:

| | Number of shares outstanding | Number of shares vested | Average exercise price per share | Average remaining term |
|-------------------------------------|------------------------------|-------------------------|----------------------------------|------------------------|
| Range of exercise prices per share: | | | | |
| \$5.00–\$9.99 | 343,800 | 298,400 | \$ 6.79 | 5 years |
| \$10.00–\$14.99 | 49,000 | 21,000 | 11.85 | 6 years |
| \$15.00–\$19.99 | 1,406,200 | 863,034 | 17.55 | 9 years |
| \$20.00–\$24.99 | 2,886,100 | 1,121,800 | 22.09 | 9 years |
| \$25.00–\$28.99 | 472,300 | 210,400 | 27.03 | 8 years |
| Total | 5,157,400 | 2,514,634 | \$ 20.18 | 8½ years |

[e] Earnings per share

| | 1999 | 1998 | 1997 |
|--|------------|------------|------------|
| <i>Net earnings available to common shareholders:</i> | | | |
| Earnings before extraordinary loss | \$ 25,233 | \$ 3,895 | \$ 20,665 |
| Less: accrual of preferred dividends | - | (171) | (170) |
| accretion of discount of preferred shares | - | (183) | (160) |
| premium paid on early redemption of preferred shares | - | (652) | - |
| | \$ 25,233 | \$ 2,889 | \$ 20,335 |
| Extraordinary loss on the early redemption of debt, net of income tax benefit of \$1,588 | - | (2,095) | - |
| | \$ 25,233 | \$ 794 | \$ 20,335 |
| <i>Weighted average number of common shares:</i> | | | |
| Issued and outstanding at beginning of year | 29,478,384 | 29,115,418 | 27,885,218 |
| Weighted average shares issued in the year | 137,404 | 165,175 | 659,065 |
| Weighted average used in computing basic earnings per share | 29,615,788 | 29,280,593 | 28,544,283 |
| Assumed exercise of stock options, net of Shares assumed acquired under the Treasury Stock Method | 897,590 | 1,192,975 | 1,575,410 |
| Assumed conversion of Convertible Subordinated Notes | 1,167,855 | - | - |
| Weighted average used in computing diluted earnings per share | 31,681,233 | 30,473,568 | 30,119,693 |

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

| | 1999 | 1998 | 1997 |
|----------------------------|-----------|------------|-----------|
| Net earnings (loss) | \$ 20,362 | \$ (2,828) | \$ 19,499 |
| Earnings (loss) per share: | | | |
| Basic | \$ 0.69 | \$ (0.13) | \$ 0.67 |
| Diluted | \$ 0.64 | \$ (0.13) | \$ 0.64 |

16. Commitments

[a] Total minimum annual rental payments under operating leases for premises are as follows:

| | |
|------|----------|
| 2000 | \$ 3,806 |
| 2001 | \$ 4,230 |
| 2002 | \$ 4,217 |
| 2003 | \$ 4,253 |
| 2004 | \$ 4,274 |

Rent expense was \$2,853,000 for the year ended December 31, 1999 (1998 – \$1,478,000; 1997 – \$1,033,000).

[b] The Company has unused lines of credit amounting to Cdn\$1.1 million, or the equivalent in U.S. dollars. No commitment fees are payable on these lines of credit.

The Company's facility in Mississauga is subject to a collateral secured charge in favour of The Toronto-Dominion Bank in connection with the working capital facility.

The Company has guaranteed up to \$5.3 million of a term loan undertaken by the Forum Ride Associates joint venture to which it is a party in connection with the development and construction of the IMAX *Race For Atlantis* attraction in Las Vegas. The term loan, which matures in January 2009, bears interest at LIBOR plus 3% and is collateralized by the assets of the joint venture.

17. Income taxes

[a] Earnings before income taxes and minority interest by tax jurisdiction comprise the following:

| | 1999 | 1998 | 1997 |
|---------------|-----------|-----------|-----------|
| Canada | \$ 36,774 | \$ 16,481 | \$ 31,872 |
| United States | 6,693 | (5,439) | 6,512 |
| Japan | 498 | 1,475 | 1,424 |
| Other | (990) | 3,083 | (521) |
| Total | \$ 42,975 | \$ 15,600 | \$ 39,287 |

[b] The provision for income taxes comprises the following:

| | 1999 | 1998 | 1997 |
|----------|-------------|------------|-------------|
| Current | \$ (40,784) | \$ (4,247) | \$ (3,250) |
| Deferred | 24,249 | (5,563) | (14,015) |
| Total | \$ (16,535) | \$ (9,810) | \$ (17,265) |

[c] The provision for income taxes before extraordinary item differs from the amount that would have resulted by applying the combined Canadian federal and Ontario provincial statutory income tax rates (44.62%) to earnings as described below:

| | 1999 | 1998 | 1997 |
|---|-------------|------------|-------------|
| Income tax expense at combined statutory rates | \$ (19,175) | \$ (6,961) | \$ (17,530) |
| (Increase) decrease resulting from: | | | |
| Non-deductible expenses, including amortization of goodwill | (1,901) | (2,727) | (985) |
| Manufacturing and processing profits deduction | 3,832 | 159 | 684 |
| Large corporations tax | (404) | (235) | (335) |
| Income tax at different rates in foreign and other provincial jurisdictions | 684 | (266) | 292 |
| Investment tax credits and other | 429 | 220 | 609 |
| Provision for income taxes as reported | \$ (16,535) | \$ (9,810) | \$ (17,265) |

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

| | 1999 | 1998 |
|--|----------|-------------|
| Net operating loss carry forwards | \$ 2,021 | \$ 2,346 |
| Investment tax credit carry forwards | 1,977 | 5,492 |
| Asset write-downs | 1,688 | 1,688 |
| Income recognition on systems deliveries | (47,944) | (74,994) |
| Excess book over tax depreciation and amortization | 47,474 | 43,405 |
| Other | 2,624 | 1,611 |
| | 7,840 | (20,452) |
| Valuation allowance | (2,927) | (2,811) |
| | \$ 4,913 | \$ (23,263) |

18. Consolidated statements of cash flow

| | 1999 | 1998 | 1997 |
|---|-------------|-------------|-------------|
| <i>[a] Changes in other operating assets and liabilities were as follows:</i> | | | |
| Decrease (increase) in: | | | |
| Accounts receivable | \$ (7,904) | \$ (2,363) | \$ (15,081) |
| Net investment in leases | (34,097) | (40,900) | (18,674) |
| Inventories and systems under construction | (5,671) | 2,476 | (1,365) |
| Prepaid expenses | 1,145 | (1,635) | (604) |
| Increase (decrease) in: | | | |
| Accounts payable | 3,458 | 2,969 | 2,428 |
| Accrued liabilities | (5,338) | 5,933 | 7,543 |
| Income taxes payable | 32,796 | (187) | (2,423) |
| Other deferred revenue | (2,108) | (13,664) | (6,078) |
| | \$ (17,719) | \$ (47,371) | \$ (34,254) |
| <i>[b] Cash payments made during the year on account of:</i> | | | |
| Income taxes | \$ 7,464 | \$ 4,106 | \$ 5,145 |
| Interest | \$ 21,369 | \$ 14,597 | \$ 11,402 |
| <i>[c] Depreciation and amortization comprise the following:</i> | | | |
| Film assets | \$ 13,595 | \$ 5,740 | \$ 4,905 |
| Capital assets | 5,443 | 8,459 | 5,560 |
| Goodwill and intangibles | 2,585 | 5,948 | 2,701 |
| Deferred financing costs | 1,219 | 935 | 882 |
| Acquired systems contracts in process | – | – | 1,027 |
| Other | 2,268 | 1,595 | – |
| | \$ 25,110 | \$ 22,677 | \$ 15,075 |

19. Segmented information

The Company has three reportable segments: IMAX systems, films and other. The systems segment designs, manufactures and sells or leases and maintains projection systems. The film segment performs production, post-production and distribution of films. The other segment includes camera rentals, theatre operations and since the acquisition of DPI, the design, manufacture and sale of digital projectors to the staging, rental and display advertising sectors. 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, and goodwill amortization. Inter-segment transactions are not significant.

[a] Business segments

| | 1999 | 1998 | 1997 |
|--|-------------------|-------------------|-------------------|
| Revenue | | | |
| Systems | \$ 126,826 | \$ 140,874 | \$ 97,539 |
| Films | 47,227 | 30,824 | 39,683 |
| Other | 29,782 | 18,657 | 21,259 |
| Total consolidated revenues | \$ 203,835 | \$ 190,355 | \$ 158,481 |
| Earnings (loss) from operations | | | |
| Systems | \$ 70,403 | \$ 78,145 | \$ 52,594 |
| Films | 244 | (16,458) | 11,452 |
| Other | (1,979) | (18,053) | 1,000 |
| Corporate overhead | (14,794) | (19,296) | (17,338) |
| Consolidated earnings from operations | \$ 53,874 | \$ 24,338 | \$ 47,708 |
| Depreciation and amortization | | | |
| Systems | \$ 5,741 | \$ 7,572 | \$ 6,741 |
| Films | 14,044 | 5,908 | 5,100 |
| Other and corporate | 5,325 | 9,197 | 3,234 |
| | \$ 25,110 | \$ 22,677 | \$ 15,075 |
| Purchase of capital assets | | | |
| Systems | \$ 9,934 | \$ 4,547 | \$ 6,103 |
| Films | 5,778 | 194 | 206 |
| Other | 6,996 | 9,280 | 6,345 |
| | \$ 22,708 | \$ 14,021 | \$ 12,654 |
| Assets | | | |
| Systems | \$ 254,940 | \$ 204,349 | \$ 167,926 |
| Films | 65,149 | 49,048 | 52,199 |
| Other | 87,777 | 26,092 | 28,116 |
| Corporate | 130,371 | 210,602 | 96,118 |
| | \$ 538,237 | \$ 490,091 | \$ 344,359 |

In 1999, other revenue included four months of digital projection systems revenue following the acquisition of DPI.

In 1998, the loss in the film segment includes a write-down of \$19,073,000 for unrecoverable film costs. In 1998, the Other segment includes a charge of \$13,569,000 relating to rationalization of the motion simulation and attractions business (note 4) and a loss of \$6,145,000 from the Company's 50% share of Forum Ride Associates' loss for the year and the write-off of the remaining carrying value of this equity-accounted investee (note 11).

[b] Geographic segments

Systems revenue and film distribution and post-production revenues by geographic area are based on the location of the theatre, while the location of the customer determines the geographic allocation of film production revenues:

| | 1999 | 1998 | 1997 |
|--------------------------|-------------------|-------------------|-------------------|
| Revenues | | | |
| Canada | \$ 15,289 | \$ 22,037 | \$ 12,890 |
| United States | 106,469 | 79,494 | 70,070 |
| Europe | 37,624 | 45,680 | 38,238 |
| Japan | 11,144 | 12,454 | 11,986 |
| Rest of world | 33,309 | 30,690 | 25,297 |
| | \$ 203,835 | \$ 190,355 | \$ 158,481 |
| Long-lived assets | | | |
| Canada | \$ 175,990 | \$ 134,740 | \$ 131,600 |
| United States | 83,469 | 49,888 | 43,109 |
| Europe | 63,405 | 30,012 | 17,910 |
| Japan | 4,344 | 4,820 | 6,787 |
| Rest of world | 16,998 | 10,727 | 7,896 |
| | \$ 344,206 | \$ 230,187 | \$ 207,302 |

20. Financial instruments

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

To fund Canadian dollar costs in 2000, the Company had entered into forward exchange contracts as at December 31, 1999 to hedge the conversion of \$24 million of its cash flow into Canadian dollars at an average exchange rate of Cdn\$1.47 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 110 million yen at 98 yen per U.S. dollar through September 2004 and on 13.5 million francs at 5.1 francs per U.S. dollar through September 2005.

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 counterparty may cancel the remaining payments on the swap transaction prior to May 31, 2000 with no early termination cost to either party. The Company adjusts interest expense over each three-month period for the net amount it is to receive from or pay to the counterparty.

The estimated fair values of the Company's financial instruments at December 31, 1999 are summarized as follows:

| | Carrying amount | Estimated fair value |
|--------------------------------|-----------------|----------------------|
| Cash and cash equivalents | \$ 34,573 | \$ 34,573 |
| Marketable securities | 89,032 | 88,654 |
| Senior notes | 200,000 | 186,500 |
| Convertible subordinated notes | 100,000 | 132,940 |
| Foreign currency contracts | 636 | 754 |
| Interest rate swap contract | – | (1,855) |

The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these instruments. Marketable securities, which principally represent investments in corporate bonds maturing through 2001, have been categorized as held to maturity securities and are carried at amortized cost. The fair values of the Company's Senior Notes and Convertible 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 represents the estimated amount the Company would pay to the counterparty to terminate the agreement, taking into account the interest rate on December 31, 1999.

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 theatre in Quebec City, Quebec, Canada. Until December 1993, Predecessor Imax was in negotiations with the plaintiff and another unrelated party for the establishment of an IMAX theatre in Quebec City. In December 1993, Predecessor Imax executed a system lease agreement with the other party. During the negotiations, both parties were aware of the other party's interest in also establishing an IMAX theatre in Quebec City. The plaintiffs claimed damages of Cdn\$4.6 million, representing the amount of profit they claim they were denied due to their inability to proceed with an IMAX theatre in Quebec City, together with expenses incurred in respect of this project and pre-judgment interest.

Compagnie France Film had also incorporated a shell company, 3101-8450 Quebec Inc. ("3101"). 3101 was to, among other things, enter into a lease for the proposed IMAX theatre site. In November 1993, while negotiations between Compagnie France Film and the Company were still ongoing, 3101 entered into a lease for the site. 3101 defaulted on the lease and the landlord sued 3101 in an unrelated action to which the Company was not a party. In February 1996, 3101 was found liable to pay the landlord damages in the amount of Cdn\$2.5 million. Subsequent to that judgment 3101 intervened in the lawsuit between Compagnie France Film and the Company in order to claim from the Company damages in the amount of Cdn\$2.5 million.

The Company disputed these claims and the suit went to trial in January 1998. In a decision rendered in April 1998, the Court dismissed the plaintiffs' claims with costs. In May 1998, Compagnie France Film Inc. and 3101 both filed appeals of the April 1998 decision to the Court of Appeal. The Company believes that it will be successful in responding to these appeals and the ultimate loss, if any, will not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of this litigation.

[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. Should proceedings be initiated, it is expected that no decision would be rendered until late 2001 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 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 of this litigation.

[c] 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.

22. Impact of recently issued accounting standards

Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, will become effective in the first quarter of the Company's 2001 fiscal year. The Company is evaluating the impact that the requirements of this Statement will have on the accounting for its hedging activities.

23. Restatement of prior year balances

Certain balances in accounts receivable have been reclassified to net investment in leases in the 1998 balance sheet to conform with the presentation adopted in the current year.

Forward-looking statements

This report contains forward-looking statements that are based on management assumptions and existing information and involve certain risks and uncertainties which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. These factors and other risks and uncertainties are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and in the subsequent reports filed by the Company with the Securities and Exchange Commission.

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Annual Meeting Date
June 7, 2000

Directors

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Co-Chairman, Co-CEO

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

Michael J. Biondi
*Non-Executive Chairman
of the Board, Chairman and CEO of
Wasserstein Perella & Co., Inc.*

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

J. Trevor Eyton
*Chairman,
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