WASHINGTON TRUST BANCORP INC
Form 4
June 07, 2013

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
BESSETTE STEPHEN M

(Last) (First) (Middle)

11 COBLEIGH STREET

(Street)

CHARLESTOWN, RI 02813

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WASHINGTON TRUST BANCORP INC [WASH]

3. Date of Earliest Transaction (Month/Day/Year)
06/04/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP Retail Lending

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	06/04/2013		S		500	D	$ 28.1808	6,078.163	D	
Common Stock	06/04/2013		S		500	D	$ 28.0038	5,578.163	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Pri Deriv Secur (Instr.
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Options (Right to Buy)	$ 26.81							06/13/2005	06/13/2015	Common Stock	3,800	
Stock Options (Right to Buy)	$ 28.16							12/12/2005	12/12/2015	Common Stock	3,800	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BESSETTE STEPHEN M 11 COBLEIGH STREET CHARLESTOWN, RI 02813			EVP Retail Lending	

Signatures

/s/ Maria N. Janes, Attorney-in-Fact	06/07/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. t; font-family: 'Times New Roman', Times; color: #000000; background: #FFFFFF"> The Company s Senior Notes are fully and unconditionally guaranteed, jointly and severally by specific wholly-owned subsidiaries of the Company (the Guarantor Subsidiaries). The main Guarantor Subsidiaries are David Keighley Productions 70MM Inc., Sonics Associates Inc., and the subsidiaries that own and operate certain theaters. These

guarantees are full and unconditional. The information under the column headed Non-Guarantor Subsidiaries relates to the following subsidiaries of the Company: IMAX Japan Inc. and IMAX B.V. (the Non-Guarantor Subsidiaries), which have not provided any guarantees of the Senior Notes.

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

Table of Contents

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

Supplemental condensed consolidating balance sheets as at September 30, 2008:

	IMAX Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Adjustments and Eliminations	Consolidated Total
Assets					
Cash and cash equivalents	$ 29,272	$ 7,677	$ 702	$	$ 37,651
Accounts receivable	19,977	5,051	185		25,213
Financing receivables	56,566	617			57,183
Inventories	18,872	98	82		19,052
Prepaid expenses	2,526	368	23		2,917
Intercompany receivables	15,185	46,671	12,679	(74,535)	
Film assets	3,178				3,178
Property, plant and equipment	35,871	833	1		36,705
Other assets	15,048				15,048
Goodwill	39,027				39,027
Other intangible assets	2,310				2,310
Investments in subsidiaries	40,829			(40,829)	
Total assets	$ 278,661	$ 61,315	$ 13,672	$ (115,364)	$ 238,284
Liabilities					
Bank Indebtedness	$ 20,000	$	$	$	$ 20,000
Accounts payable	12,366	4,366	27		16,759
Accrued liabilities	58,611	5,898	35		64,544
Intercompany payables	54,216	37,088	7,552	(98,856)	
Deferred revenue	64,415	2,956	137		67,508
Senior Notes due 2010	160,000				160,000
Total liabilities	$ 369,608	$ 50,308	$ 7,751	$ (98,856)	$ 328,811
Shareholders deficit					
Capital stock	$ 141,505	$	$ 117	$ (117)	$ 141,505
Other equity	3,542	46,960		(45,926)	4,576
Retained earnings (deficit)	(237,966)	(35,339)	5,804	29,535	(237,966)
Accumulated other comprehensive income (loss)	1,972	(614)			1,358
	$ (90,947)	$ 11,007	$ 5,921	$ (16,508)	$ (90,527)

Total shareholders equity (deficiency)										
Total liabilities & shareholders equity (deficiency)	$	278,661	$	61,315	$	13,672	$	(115,364)	$	238,284

In certain Guarantor Subsidiaries, accumulated losses have exceeded the original investment balance. As a result of applying equity accounting, the parent company has consequently reduced intercompany receivable balances with respect to these Guarantor Subsidiaries in the amounts of $40.8 million as at September 30, 2008.

Table of Contents

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

Supplemental condensed consolidating balance sheets as at December 31, 2007:

	IMAX Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Adjustments and Eliminations	Consolidated Total
Assets					
Cash and cash equivalents	$ 11,182	$ 5,329	$ 390	$	$ 16,901
Accounts receivable	22,450	2,821	234		25,505
Financing receivables	58,428	664			59,092
Inventories	21,874	90	86		22,050
Prepaid expenses	2,010	156	21		2,187
Intercompany receivables	29,538	45,455	11,962	(86,955)	
Film assets	2,042				2,042
Property, plant and equipment	22,894	814			23,708
Other assets	15,093				15,093
Goodwill	39,027				39,027
Other intangible assets	2,377				2,377
Investments in subsidiaries	32,864			(32,864)	
Total assets	$ 259,779	$ 55,329	$ 12,693	$ (119,819)	$ 207,982
Liabilities					
Accounts payable	$ 6,989	$ 5,309	$ 2	$	$ 12,300
Accrued liabilities	55,797	6,132	38		61,967
Intercompany payables	66,770	42,478	7,061	(116,309)	
Deferred revenue	56,013	2,956	116		59,085
Senior Notes due 2010	160,000				160,000
Total liabilities	345,569	56,875	7,217	(116,309)	293,352
Shareholders deficiency					
Capital stock	122,455		117	(117)	122,455
Other equity	3,055	46,959		(45,926)	4,088
Retained earnings (deficit)	(213,407)	(47,892)	5,359	42,533	(213,407)
Accumulated other comprehensive income (loss)	2,107	(613)			1,494
Total shareholders equity (deficiency)	$ (85,790)	$ (1,546)	$ 5,476	$ (3,510)	$ (85,370)

Total liabilities and shareholders equity (deficiency)	$	259,779	$	55,329	$	12,693	$	(119,819)	$	207,982

In certain Guarantor Subsidiaries, accumulated losses have exceeded the original investment balance. As a result of applying equity accounting, the parent company has consequently reduced intercompany receivable balances with respect to these Guarantor Subsidiaries in the amounts of $32.9 million.

32

Table of Contents

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

Supplemental condensed consolidating statements of operations for the three months ended September 30, 2008:

	IMAX Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Adjustments and Eliminations	Consolidated Total
Revenues					
Equipment and product sales	$ 7,223	$ 116	$ 2	$ (187)	$ 7,154
Services	15,763	6,908	199	(168)	22,702
Rentals	2,487	20	31	(6)	2,532
Finance income	1,069	10			1,079
Other revenues	(77)	(182)		259	
	26,465	6,872	232	(102)	33,467
Cost of goods sold, services and rentals					
Equipment and product sales	4,278	(45)	1	(137)	4,097
Services	6,859	5,903	40	(147)	12,655
Rentals	1,691				1,691
Other		(182)		182	
	12,828	5,676	41	(102)	18,443
Gross margin	13,637	1,196	191		15,024
Selling, general and administrative expenses	10,025	415	70		10,510
Research and development	1,619				1,619
Amortization of intangibles	119				119
(Income) loss from equity-accounted investees	(894)			894	
Receivable provisions, net of recoveries	265				265
Earnings (loss) from operations	2,503	781	121	(894)	2,511
Interest income	82				82
Interest expense	(4,472)	1			(4,471)
(Loss) earnings from continuing operations before income taxes	(1,887)	782	121	(894)	(1,878)
Provision for income taxes	(220)	(9)			(229)

Net (loss) earnings	$	(2,107)	$	773	$	121	$	(894)	$	(2,107)

33

Table of Contents

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

Supplemental condensed consolidating statements of operations for the nine months ended September 30, 2008:

	IMAX Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Adjustments and Eliminations	Consolidated Total
Revenues					
Equipment and product sales	$ 18,306	$ 376	$ 7	$ (600)	$ 18,089
Services	33,871	16,530	627	(513)	50,515
Rentals	5,880	146	57	(371)	5,712
Finance income	3,205	29			3,234
Other revenues	16	(568)		1,163	611
	61,278	16,513	691	(321)	78,161
Cost of goods sold, services and rentals					
Equipment and product sales	10,593	(130)	3	(438)	10,028
Services	20,038	13,848	184	(451)	33,619
Rentals	3,388				3,388
Other	98	(568)		568	98
	34,117	13,150	187	(321)	47,133
Gross margin	27,161	3,363	504		31,028
Selling, general and administrative expenses	33,132	957	60		34,149
Research and development	6,155				6,155
Amortization of intangibles	389				389
(Income) loss from equity-accounted investees	(7,959)			7,959	
Receivable provisions, net of (recoveries)	6,236	(5,122)			1,114
(Loss) earnings from operations	(10,792)	7,528	444	(7,959)	(10,779)
Interest income	281		1		282
Interest expense	(13,309)	2			(13,307)
(Loss) earnings from continuing operations before income taxes	(23,820)	7,530	445	(7,959)	(23,804)
Provision for income taxes	(739)	(16)			(755)

Net (loss) earnings	$	(24,559)	$	7,514	$	445	$	(7,959)	$	(24,559)

34

Table of Contents

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

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

	IMAX Corporation	Guarantor Subsidiaries (note 15(a))	Non-Guarantor Subsidiaries	Adjustments and Eliminations	Consolidated Total
Revenues					
Equipment and product sales	$ 7,873	$	$ 7	$ (9)	$ 7,871
Services	12,986	5,033	164	(447)	17,736
Rentals	2,009	(15)	9		2,003
Finance income	1,194	14			1,208
Other revenues	750				750
	24,812	5,032	180	(456)	29,568
Cost of goods sold, services and rentals					
Equipment and product sales	5,360		5	(9)	5,356
Services	9,469	4,607	88	(447)	13,717
Rentals	613				613
Other	31				31
	15,473	4,607	93	(456)	19,717
Gross margin	9,339	425	87		9,851
Selling, general and administrative expenses (recovery)	10,143	262	(150)		10,255
Research and development	1,563				1,563
Amortization of intangibles	129				129
(Income) loss from equity-accounted investees	(219)			219	
Receivable provisions, net of (recoveries)	718				718
(Loss) earnings from operations	(2,995)	163	237	(219)	(2,814)
Interest income	194				194
Interest expense	(4,342)	1			(4,341)
	(7,143)	164	237	(219)	(6,961)

(Loss) earnings from continuing operations before income taxes					
Provision for income taxes	(379)	(4)			(383)
(Loss) earnings from continuing operations	(7,522)	160	237	(219)	(7,344)
Loss from discontinued operations		(178)			(178)
Net (loss) earnings	$ (7,522)	$ (18)	$ 237	$ (219)	$ (7,522)

Table of Contents

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

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

	IMAX Corporation	Guarantor Subsidiaries (note 15(a))	Non-Guarantor Subsidiaries	Adjustments and Eliminations	Consolidated Total
Revenues					
Equipment and product sales	$ 21,696	$ 627	$ 11	$ (607)	$ 21,727
Services	35,550	16,878	489	(1,940)	50,977
Rentals	4,868	70	22		4,960
Finance income	3,499	77			3,576
Other revenues	2,289				2,289
	67,902	17,652	522	(2,547)	83,529
Cost of goods sold, services and rentals					
Equipment and product sales	13,113	598	9	(607)	13,113
Services	21,605	14,884	210	(1,940)	34,759
Rentals	1,904				1,904
Other	50				50
	36,672	15,482	219	(2,547)	49,826
Gross margin	31,230	2,170	303		33,703
Selling, general and administrative expenses	30,897	751	77		31,725
Research and development	4,180				4,180
Amortization of intangibles	406				406
(Income) loss from equity-accounted investees	(1,314)			1,314	
Receivable provisions, net of (recoveries)	695	(2)			693
(Loss) earnings from operations	(3,634)	1,421	226	(1,314)	(3,301)
Interest income	599	48			647
Interest expense	(12,966)	1			(12,965)
(Loss) earnings from continuing operations before income taxes	(16,001)	1,470	226	(1,314)	(15,619)

Provision for income taxes	(797)	(13)			(810)
(Loss) earnings from continuing operations	(16,798)	1,457	226	(1,314)	(16,429)
Loss from discontinued operations		(369)			(369)
Net (loss) earnings	$ (16,798)	$ 1,088	$ 226	$ (1,314)	$ (16,798)

Table of Contents

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

Supplemental condensed consolidating statements of cash flows for the nine months ended September 30, 2008:

	IMAX Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Adjustments and Eliminations	Consolidated Total
Cash provided by (used in):					
Operating Activities					
Net (loss) earnings	$ (24,559)	$ 7,514	$ 445	$ (7,959)	$ (24,559)
Gain on sale of property, plant and equipment	(43)				(43)
Items not involving cash:					
Depreciation and amortization	12,610	189			12,799
Write-downs (recoveries)	6,946	(5,122)			1,824
(Income) loss from equity-accounted investees	(7,959)			7,959	
Change in deferred income taxes	51				51
Stock and other non-cash compensation	2,821				2,821
Foreign currency exchange loss	722				722
Change in cash surrender value of life insurance	(251)				(251)
Investment in film assets	(7,038)				(7,038)
Changes in other non-cash operating assets and liabilities	8,814	(5,009)	(114)	5,039	8,730
Net cash (used in) provided by operating activities	(7,886)	(2,428)	331	5,039	(4,944)
Investing Activities					
Investment in joint revenue sharing equipment	(9,580)				(9,580)
Purchase of property, plant and equipment	(2,115)	(208)	(2)		(2,325)
Proceeds on sale of property, plant and equipment	43				43
Acquisition of other assets	(835)				(835)
Acquisition of other intangible assets	(322)				(322)
Investment in subsidiaries		5,039		(5,039)	
	(12,809)	4,831	(2)	(5,039)	(13,019)

Net cash (used in) provided by investing activities					
Financing Activities					
Increase in bank indebtedness	20,000				20,000
Common shares issued private offering, net	17,931				17,931
Common shares issued stock options exercised	1,123				1,123
Net cash provided by financing activities	39,054				39,054
Effects of exchange rate changes on cash	(269)	(55)	(17)		(341)
Increase in cash and cash equivalents, during the period	18,090	2,348	312		20,750
Cash and cash equivalents, beginning of period	11,182	5,329	390		16,901
Cash and cash equivalents, end of period	$ 29,272	$ 7,677	$ 702	$	$ 37,651

Table of Contents

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

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

	IMAX Corporation	Guarantor Subsidiaries (note 15(a))	Non-Guarantor Subsidiaries	Adjustments and Eliminations	Consolidated Total
Cash provided by (used in):					
Operating Activities					
Net (loss) earnings	$ (16,798)	$ 1,088	$ 226	$ (1,314)	$ (16,798)
Net loss from discontinued operations		369			369
Items not involving cash:					
Depreciation and amortization	12,468	310	16		12,794
Write-downs (recoveries)	695	(2)			693
(Income) loss from equity-accounted investees	(1,314)			1,314	
Change in deferred income taxes	(224)				(224)
Stock and other non-cash compensation	3,059				3,059
Foreign currency exchange gain	(1,125)				(1,125)
Accrued interest on short-term investments	(10)				(10)
Change in cash surrender value of life insurance	(202)				(202)
Investment in film assets	(8,165)				(8,165)
Changes in other non-cash operating assets and liabilities	8,287	(2,274)	(29)		5,984
Net cash used in operating activities from discontinued operations		(1,144)			(1,144)
Net cash (used in) provided by operating activities	(3,329)	(1,653)	213		(4,769)
Investing Activities					
Purchases of short-term investments	(6,457)				(6,457)
Proceeds from maturities of short-term investments	6,390				6,390
Purchase of property, plant and equipment	(1,196)	(135)	(2)		(1,333)
Acquisition of other assets	(717)				(717)

Acquisition of other intangible assets		(351)							(351)
Net cash used in investing activities		(2,331)		(135)		(2)			(2,468)
Financing Activities									
Financing costs related to Senior Notes due 2010		(2,084)							(2,084)
Common shares issued stock options exercised		148							148
Net cash used in financing activities		(1,936)							(1,936)
Effects of exchange rate changes on cash		46		(18)		3			31
(Decrease) increase in cash and cash equivalents, during the period		(7,550)		(1,806)		214			(9,142)
Cash and cash equivalents, beginning of period		16,402		8,556		165			25,123
Cash and cash equivalents, end of period	$	8,852	$	6,750	$	379	$	$	15,981

38

Table of Contents

IMAX CORPORATION

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

OVERVIEW

The principal business of IMAX Corporation, together with its wholly-owned subsidiaries (the Company) is the design, manufacture, sale or lease of theater systems based on proprietary and patented technology for large-format 15 perforation film frame, 70mm format (15/70 format) theaters, as well as for large format digitally-based theaters, including commercial theaters, museums and science centers, and destination entertainment sites. At September 30, 2008, there were 320 IMAX theaters (200 commercial, 120 institutional) operating in 42 countries, compared to 296 (177 commercial, 119 institutional) theatres in 40 countries at September 30, 2007. Included among these 320 theaters, operating at September 30, 2008 are 14 theaters which use the Company s proprietary digital projectors, all in commercial settings. To date, the Company has installed 35 digital projection systems.

The Company derives revenue principally from the sale or long-term lease of its theater systems and associated maintenance and extended warranty services, the provision of film production and digital re-mastering services, the distribution of certain films, and the provision of post-production services. The Company also derives revenue from theaters it either owns or operates, the rental of its equipment, the provision of aftermarket parts for its system components and its joint revenue sharing arrangements.

Important factors that the Company s Co-Chief Executive Officers (Co-CEOs) use in assessing the Company s business and prospects include the signing of new theater systems arrangements, revenue, gross margins from the Company s operating segments, earnings from operations as adjusted for unusual items that the Company views as non-recurring and the success of strategic initiatives such as the securing of new film projects, particularly IMAX DMR films, and the subsequent performance of such films, the signing and financial performance of joint revenue sharing arrangements and the progress of the Company s roll-out of its proprietary digital projectors, which commenced in the third quarter of 2008, and the development of related technologies.

Theater Systems

The Company provides its theater systems to customers on a sale or long-term lease basis, typically with initial terms of 7 to 20 years. These agreements typically provide for three major sources of cash flows: initial fees, ongoing fees (which include a fixed minimum amount per annum and contingent fees in excess of the minimum payments) and maintenance and extended warranty fees. The initial fees vary depending on the system configuration and location of the theater and generally are paid to the Company in installments commencing upon the signing of the agreement. Finance income is derived over the term of the sale or sales-type lease arrangement as the unearned income on the financed sales or sales-type leases is earned. Ongoing fees are paid monthly over the term of the contract, commencing after the theater system has been installed and opened and are generally equal to the greater of a fixed minimum amount per annum and a percentage of box-office receipts. An annual maintenance and extended warranty fee is generally payable commencing in the second year of theater operations. Ongoing fees and maintenance and extended warranty fees are typically indexed to the local consumer price index.

The Company is increasingly offering certain commercial clients joint revenue sharing arrangements, in which the Company receives a portion of a theater s box-office and concession revenue in exchange for placing a theater system at the theater operator s venue. As at September 30, 2008, 26 joint revenue sharing theater systems were in operation.

Revenue on theater system arrangements are recognized at a different time from when cash is collected. See Critical Accounting Policies below for further discussion on the Company s revenue recognition policies.

Sales Backlog

The Company s sales backlog will vary from quarter to quarter depending on the signing of new theater system arrangements, which adds to backlog, and the installation and acceptance of theater systems and the settlement of contracts, both of which reduce backlog. Sales backlog typically represents the fixed contracted revenue under

Table of Contents

IMAX CORPORATION

signed theater system sale and lease agreements that the Company believes will be recognized as revenue when the associated theater systems are installed and accepted. Sales backlog includes initial fees along with the present value of contractual ongoing fees due over the lease term, but excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of ongoing contractual fees that may be received in the future. Operating leases and joint revenue sharing arrangements are assigned no value in the sales backlog. The value of sales backlog does not include revenue from long-term conditional theater commitments, theaters in which the Company has an equity interest, or letters of intent.

During the third quarter of 2008, the Company signed contracts for 11 theater systems which are included in backlog as at September 30, 2008; 3 under sales and sales-type lease arrangements valued at $4.5 million, 1 under a sales-type lease arrangement which is conditional, where conditions have not yet lapsed and 7 under joint revenue sharing arrangements, 2 of which are conditional and where conditions have not yet lapsed. During the third quarter of 2007, the Company signed contracts for 18 theater systems; 13 under sales and sales-type lease arrangements valued at $11.9 million and 5 under joint revenue sharing arrangements.

During the nine months ended September 30, 2008, the Company signed contracts for 83 theater systems, which are included in backlog as at September 30, 2008; 40 under sales and sales-type lease arrangements valued at $53.6 million, 1 under a sales-type lease arrangement which is conditional and where conditions have not yet lapsed and 42 under joint revenue sharing arrangements, 2 of which are conditional and where conditions have not yet lapsed. During the nine months ended September 30, 2007, the Company signed contracts for 37 theater systems; 27 theater systems under sales and sales-type lease arrangements valued at $31.7 million and 10 under joint revenue sharing arrangements.

At September 30, 2008, the sales backlog included 238 theater systems consisting of arrangements for 106 sales and sales-type lease systems, valued at $149.2 million (including one theater system under a sales-type lease arrangement which is conditional and where conditions have not yet lapsed), and 132 theater systems under joint revenue sharing arrangements (including 2 theater systems which are conditional and where conditions have not yet lapsed), for which there is no assigned backlog value. In comparison, at September 30, 2007, the sales backlog included 90 theater systems consisting of arrangements for 83 sales and sales-type lease systems, valued at $126.4 million, and 7 theater systems under joint revenue sharing arrangements, for which there was no assigned backlog value. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

The following chart shows the number of the Company s theater systems by configuration, opened theater network base and backlog as at September 30:

	2008					
		2D Theater Network			**3D Theater Network**	
	System	**Base**	**Backlog**	**System**	**Base**	**Backlog**
Flat Screen	IMAX	40		IMAX 3D GT	85	7
				IMAX 3D SR	49	4
				IMAX MPX	59	32

				IMAX DIGITAL	14	193
Dome Screen	IMAX Dome	67	2	IMAX 3D Dome	6	
				Total	320	238

40

IMAX CORPORATION

	2007					
	System	2D Theater Network Base	Backlog	System	3D Theater Network Base	Backlog
Flat Screen	IMAX	41	2	IMAX 3D GT	87	10
				IMAX 3D SR	50	9
				IMAX MPX	44	54
				IMAX DIGITAL		13
Dome Screen	IMAX Dome	68	2	IMAX 3D Dome	6	
				Total	296	90

CRITICAL ACCOUNTING POLICIES

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

The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to fair values associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; provisions for inventory obsolescence; ultimate revenues for film assets; estimates of fair values for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historic experience, future expectations and other assumptions that are believed to be reasonable at the date of the condensed consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and the differences may be material. The Company s significant accounting policies are discussed in note 2 to its audited consolidated financial statements in the Company s 2007 Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K), and are summarized below.

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

Revenue Recognition

The Company generates revenue from various sources as follows:

Design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 42 countries as at September 30, 2008;

Placement of theater systems at venues in return for a portion of the theater s box-office and concession revenue;

Production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;

Operation of certain IMAX theaters primarily in the United States and Canada;

Provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems; and

Other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

41

Table of Contents

IMAX CORPORATION

Multiple Element Arrangements

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

Theater Systems

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

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

Sales Arrangements

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

The initial revenue recognized consists of the initial payments received and the present value of any future initial payments and fixed minimum ongoing payments that have been attributed to this unit of accounting.

42

IMAX CORPORATION

Contingent payments in excess of the fixed minimum ongoing payments are recognized when reported by theater operators, provided collection is reasonably assured.

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

In certain sales arrangements for MPX theater systems, the Company provides customers with an option to acquire, for a specified period of time, digital upgrades (each upgrade consisting of a projector, certain sound system components and screen enhancements) at a fixed or variable discount towards a future price of such digital upgrades. At the current period-end, the Company has not yet established the fair value for such digital upgrades. Accordingly, the Company defers all consideration received and receivable under such arrangements, except for the amount allocated to maintenance and extended warranty services being provided to the customers for the installed system, until the maximum amount of the discount, if any, and the fair value of digital upgrades are determinable or the option expires, if applicable. When the maximum amount of the discount, if any, and the fair value of the digital upgrades are determinable, the Company allocates the actual or implied discount between the delivered MPX theater system and the option to acquire the digital upgrade ordered on a relative fair value basis and recognizes the discounted amount as revenue for the delivered MPX system, provided all of the other conditions for recognition of a theater system are met. The remaining consideration allocated to the digital upgrade is deferred until all of the conditions required for the recognition of revenue for the sale of a theater system have been met or the option expires, if applicable. Costs related to the installed MPX system for which revenue has not been recognized are included in inventories until the conditions for revenue recognition are met. The Company also provides customers, in certain cases, with sales arrangements for multiple systems consisting of a combination of MPX theater systems and complete digital theater systems for a specified price. The Company allocates the actual or implied discount between the delivered and undelivered theater systems on a relative fair value basis, provided all of the other conditions for recognition of a theater system are met.

Lease Arrangements

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

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

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

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

Table of Contents

IMAX CORPORATION

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

Joint Revenue Sharing Arrangements

For joint revenue sharing arrangements, where the Company receives a portion of a theater s box-office and concession revenue in exchange for placing a theater system at the theater operator s venue, revenue is recognized when reported by the theater operator, provided that collection is reasonably assured. Revenue recognized related to these arrangements for the three and nine months ended September 30, 2008 included in rental revenue was $1.2 million and $2.0 million, respectively (2007 $0.6 million and $1.6 million). The Company installed 14 systems under joint revenue sharing arrangements in the third quarter of 2008, including 8 which opened in September 2008. The revenue generated by these 14 systems was $0.1 million for the three and nine months ended September 30, 2008. As at September 30, 2008, 26 theaters were operating under joint revenue sharing arrangements, as compared to 9 last year.

Equipment and components allocated to be used in future joint revenue sharing arrangements, as well as direct labour costs and an allocation of direct production costs, are included in assets under construction until such equipment is installed and in working condition, at which time the equipment is depreciated on a straight-line basis over the lesser of the term of the joint revenue sharing arrangement and the equipment s anticipated useful life.

Finance Income

Finance income is recognized over the term of the lease or financed sales receivable, provided that collection is reasonably assured. Finance income recognition ceases when the Company determines that the associated receivable is not recoverable.

Terminations, Consensual Buyouts and Concessions

The Company enters into theater system arrangements with customers that contain customer payment obligations prior to the scheduled installation of the theater system. During the period of time between signing and the installation of the theater system, which may extend several years, certain customers may be unable to, or elect not to, proceed with the theater system installation for a number of reasons including business considerations, or the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the arrangement may be terminated under the default provisions of the arrangement or by mutual agreement between the Company and the customer (a Consensual Buyout). Terminations by default are situations when a customer does not meet the payment obligations under an arrangement and the Company retains the amounts paid by the customer. Under a Consensual Buyout, the Company and the customer agree, in writing, to a settlement and to release each other of any further obligations under the arrangement or an arbitrated settlement is reached. Any initial payments retained or additional payments received by the Company are recognized as revenue when the settlement arrangements are executed and the cash is received, respectively. These termination and Consensual Buyout amounts are recognized in Other revenues.

In addition, since the introduction of the IMAX MPX theater system in 2003, the Company has agreed with several customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX MPX theater system. Furthermore with the introduction of the IMAX Digital MPX theater system in July 2008, customers may request to convert their obligations from an IMAX MPX theater system. The Company considers these situations to be a termination of the previous arrangement and

IMAX CORPORATION

origination of a new arrangement for the MPX or Digital theater system. The Company continues to defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the fair value of the IMAX MPX theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in Other revenues at the time when the obligation for the original theater system is terminated and a new theater system arrangement is signed.

The Company may offer certain incentives to customers to complete theater system transactions including payment concessions or free services and products such as film licenses or 3D glasses. Reductions in, and deferral of, payments are taken into account in determining the sales price either by a direct reduction in the sales price or a reduction of payments to be discounted in accordance with SFAS 13 or Accounting Principle Board Opinion No. 21, Interest on Receivables and Payables (APB 21). Free products and services are accounted for as separate units of accounting.

Maintenance and Extended Warranty Services

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

Film Production and IMAX DMR Services

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

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

Revenues from digitally re-mastering (IMAX DMR) films where third parties own or hold the copyrights and the rights to distribute the film are derived in the form of processing fees and recoupments calculated as a percentage of box-office receipts generated from the re-mastered films. Processing fees are recognized as Services revenue when the performance of the related re-mastering service is completed provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured. Recoupments calculated as a percentage of box-office receipts are recognized as Services revenues when reported by the third party that owns or holds the related film right, provided that collection is reasonably assured.

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

45

Table of Contents

IMAX CORPORATION

Film Distribution

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

Film Post-Production Services

Revenues from post-production film services are recognized in Services revenue when performance of the contracted services is complete provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured.

Theater Operations Revenue

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

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

Other

Revenues on camera rentals are recognized in Rental revenue on a straight-line basis over the rental period.

Revenue from the sale of 3D glasses and after-market sales is recognized in Equipment and product sales revenue when the equipment has been delivered to the customer.

Other service revenues are recognized in Services revenues when the performance of contracted services is complete.

Allowances for Accounts Receivable and Financing Receivables

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

The Company monitors the performance of the theaters to which it has leased or sold theater systems which are subject to ongoing payments. When facts and circumstances indicate that there is a potential impairment in the net investment in lease or a financing receivable, the Company will evaluate the potential outcome of either renegotiations involving changes in the terms of the receivable or defaults on the existing lease or financed sale agreements. The Company will record a provision if it is considered probable that the Company will be unable to collect all amounts due under the contractual terms of the arrangement or a renegotiated lease amount will cause a reclassification of the sales-type lease to an operating lease.

When the net investment in lease or the financing receivable is impaired, the Company will recognize a provision for the difference between the carrying value in the investment and the present value of expected future cash flows discounted using the effective interest rate for the net investment in the lease or the financing receivable. If the Company expects to recover the theater system, the provision is equal to the excess of the carrying value of the investment over the fair value of the equipment.

IMAX CORPORATION

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

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

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

Inventories

Inventories are carried at the lower of cost, determined on an average cost basis, and net realizable value except for raw materials, which are carried out at the lower of cost and replacement cost. Finished goods and work-in-process include the cost of raw materials, direct labor, theater design costs, and an applicable share of manufacturing overhead costs.

The costs related to theater systems under sales and sales-type lease arrangement are relieved from inventory to costs of goods sold, equipment and product sales when revenue recognition criteria are met. The costs related to theater systems under operating lease arrangements are relieved from inventory to property, plant and equipment when revenue recognition criteria are met.

The Company records provisions for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, technological developments, signings in negotiation, growth prospects within the customers ultimate marketplace and anticipated market acceptance of the Company s current and pending theater systems.

Finished goods inventories can contain theater systems for which title has passed to the Company s customer (as the theater system has been delivered to the customer) but the revenue recognition criteria as discussed above have not been met.

Asset Impairments

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

Goodwill impairment is assessed at the reporting unit level by comparing the unit s carrying value, including goodwill, to the fair value of the unit. Significant estimates are involved in the impairment test. The carrying values of each unit are subject to allocations of certain assets and liabilities that the Company has applied in a systematic and rationale manner. The fair value of the Company s units is assessed using a discounted cash flow model. The model is constructed using the Company s budget and long-range plan as a base.

Long-lived asset impairment is performed at the lowest level of asset group at which identifiable cash flows are largely independent. For a significant portion of long-lived assets, this is the reporting segment unit level used for goodwill testing. In performing its review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset or asset group and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is recognized in the consolidated statements of operations. Measurement of the impairment loss is based on the excess of the carrying amount of the asset or asset group over the fair value calculated using discounted expected future cash flows.

The Company s estimates of future cash flows involve anticipating future revenue streams, which contain many assumptions that are subject to variability, as well as estimates for future cash outlays, the amounts of which, and the timing of which are both uncertain. Actual results that differ from the Company s budget and long-range plan could result in a significantly different result to an impairment test, which could impact earnings.

Table of Contents

IMAX CORPORATION

Pension Plan and Postretirement Benefit Obligations Assumptions

The Company s pension plan and postretirement benefit obligations and related costs are calculated using actuarial concepts, within the framework of Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). A critical assumption to this accounting is the discount rate. The Company evaluates this critical assumption annually or when otherwise required to by accounting standards. Other assumptions include factors such as expected retirement date, mortality rate, rate of compensation increase, and estimates of inflation.

The discount rate enables the Company to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. The Company s discount rate was determined by considering the average of pension yield curves constructed from a large population of high-quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

Deferred Tax Asset Valuation

As at September 30, 2008, the Company had net deferred income tax assets of $nil (consisting of a gross deferred tax asset of $57.1 million and a valuation allowance of $57.1 million). The Company s management assesses realization of its deferred tax assets based on all available evidence in order to conclude whether it is more likely than not that the deferred tax assets will be realized. Available evidence considered by the Company includes, but is not limited to, the Company s historic operating results, projected future operating earnings results, reversing temporary differences, contracted sales backlog at September 30, 2008, changing business circumstances, and the ability to realize certain deferred tax assets through loss and tax credit carry-back strategies. At September 30, 2008, the Company has determined that based on the weight of the available evidence, both positive and negative, a full valuation allowance for the gross deferred tax assets was required.

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

Tax Exposures

The Company is subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts tax expense to reflect both favorable and unfavorable examination results. The Company s ongoing assessments of the outcomes of examinations and related tax positions require judgment and can materially increase or decrease its effective rate as well as affect operating results. The Company compiles these assessments using the guidance of the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109), (FIN 48).

Impact of Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157) which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements.

In February 2008, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities that are not remeasured at fair value on a recurring basis until fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FASB Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

48

Table of Contents

IMAX CORPORATION

The Company is currently evaluating the potential impact of this statement on its non-financial assets and non-financial liabilities included in the consolidated financial statements. For financial assets and financial liabilities, SFAS 157, as amended by SFAS 157-3, was effective for the Company on January 1, 2008 as disclosed in note 2 to the accompanying condensed consolidated financial statements in Item 1.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159), with an effective date of January 1, 2008. Companies that elect the fair value option must report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. SFAS 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. SFAS 159 did not have an effect on the Company s financial condition or results of operations as the Company did not elect this fair value option for any of its financial assets and financial liabilities.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160, Non-controlling Interests in Consolidated Financial Statements An Amendment of ARB No. 51 (SFAS 160). The objective of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its Consolidated Financial Statements by establishing accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the condensed consolidated financial statements. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the potential impact of this statement on its consolidated financial statements.

In December 2007, the FASB ratified the Emerging Issues Task Force consensus No. 07-01, Accounting for Collaborative Arrangements (EITF 07-01). The objective of the EITF 07-01 is to define collaborative arrangements and establish reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-01 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. EITF 07-01 is to be applied as a change in accounting principle through retrospective application to all prior periods presented for all collaborative arrangements existing as of the effective date, unless it is impracticable to do so. The Company is currently evaluating the potential impact of EITF 07-01 on its consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162), which identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board (PCAOB) amendments to Proposed Auditing Standard Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles . The Company is currently evaluating the potential impact of SFAS 162 on its consolidated financial statements.

DISCONTINUED OPERATIONS

(a) Rhode Island Providence Theater

On December 31, 2007, the Company entered into a lease termination agreement which extinguished all of its obligations to its landlord with respect to the Company s owned and operated Providence IMAX theater. As a result of the lease termination, the Company recorded a non-cash gain of $1.5 million in December 2007, associated with the reversal of deferred lease credits recorded in prior periods. In a related transaction, the Company sold the theater projection system and inventory for the Providence IMAX theater to a third party theater exhibitor for $1.0 million (consisting of $0.6 million cash and $0.4 million of discounted future minimum payments) which was recorded as a

IMAX CORPORATION

gain from discontinued operations in December 2007. The above transactions are reflected as discontinued operations as the continuing cash flows are not generated from either a migration or a continuation of activities.

(b) Miami Theater

On December 23, 2003, the Company closed its owned and operated Miami IMAX theater. The Company completed its abandonment of assets and removal of its projection system from the theater in the first quarter of 2004 with no financial impact. The Company was involved in an arbitration proceeding with the landlord of the theater with respect to the amount owing to the landlord by the Company for lease and guarantee obligations. The amount of loss to the Company had been estimated at between $0.9 million and $2.3 million. Prior to 2006, the Company paid out $0.8 million with respect to amounts owing to the landlord. The Company paid out an additional $0.1 million and also accrued $0.8 million in net loss from discontinued operations related to the Miami IMAX theater in the third quarter of 2006. On January 5, 2007, as a result of a settlement negotiated between both parties, the Company paid out a final $0.8 million, extinguishing its obligations to the landlord. This final payment of $0.8 million was accrued by the Company in 2006.

RESULTS OF OPERATIONS

As identified in note 14 to the accompanying condensed consolidated financial statements in Item 1, the Company has six reportable segments identified by category of product sold or service provided: IMAX systems; film production and IMAX DMR; film distribution; film post-production; theater operations; and other. The IMAX systems segment designs, manufactures, sells or leases and maintains IMAX theater projection system equipment. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The theater operations segment owns and operates certain IMAX theaters. The other segment includes camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company s 2007 Form 10-K.

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

Three Months Ended September 30, 2008 Versus Three Months Ended September 30, 2007

The Company reported a net loss before income taxes of $1.9 million or $0.04 per share on a diluted basis and a net loss after taxes of $2.1 million or $0.05 per share on a diluted basis for the third quarter of 2008. For the third quarter of 2007, the Company reported a net loss before income taxes of $7.0 million or $0.17 per share on a diluted basis and net loss after taxes of $7.3 million or $0.18 per share on a diluted basis.

Revenue

The Company s revenues for the third quarter of 2008 increased by 13.2% to $33.5 million from $29.6 million in the same period last year.

50

Table of Contents

IMAX CORPORATION

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

(In thousands of U.S. dollars)	Three Months Ended September 30, 2008	2007
IMAX Systems Revenue		
Sales and sales-type leases[(1)]	$ 6,007	$ 7,755
Ongoing rent, contingent fees and finance income[(2)]	3,971	3,120
Maintenance	4,155	4,065
	14,133	14,940
Films Revenue		
Production and IMAX DMR	9,174	6,246
Distribution	2,412	2,548
Post-production	1,433	744
	13,019	9,538
Theater Operations	5,527	4,132
Other Revenue	788	958
	$ 33,467	$ 29,568

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

(2) Includes rental income from operating leases, revenues from joint revenue sharing arrangements, contingent rents from sales-type leases, contingent fees from sales arrangements and finance income from the Company s sales-type leases and financed sales transactions.

IMAX systems revenue decreased to $14.1 million in the third quarter of 2008 from $14.9 million in the third quarter of 2007, a decrease of 5.4%. Revenue from sales and sales-type leases decreased to $6.0 million in the third quarter of 2008 from $7.8 million in the third quarter of 2007, a decrease of 22.5%. The Company did not recognize any settlement revenue during the three months ended September 30, 2008 as compared to $0.8 million in 2007.

The Company recognized revenue on 3 theater systems which qualified as either sales or sales-type leases in the third quarter of 2008, versus 5 in the third quarter of 2007. There were 3 new theater systems with a value of $5.5 million recognized into revenue in the third quarter of 2008, as compared to 5 new theater systems with a total value of $6.8 million recognized in the third quarter of 2007. None of the theater systems recognized in the third quarter of 2008 and 2007 were used theater systems.

As noted in the table below, there are no theater systems under sales arrangements that were installed in the third quarter of 2008 and that are subject to provisions providing the customers with an upgrade to a digital system at a discounted price when available. One theater system under a sales arrangement subject to such provisions was installed in the third quarter of 2007. Had this transaction not contained a digital upgrade clause, the Company would have recognized $1.5 million in revenue and $0.9 million in gross margin related to this sale. The Company expects that once the digital upgrade is provided or the fair value for the upgrade is established, the Company will allocate total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a fair value basis and recognize the revenue allocated to the delivered elements with their associated costs.

Average revenue per sales and sales-type lease systems recognized was $1.8 million for the three months ended September 30, 2008 as compared to $1.4 million for the three months ended September 30, 2007.

Table of Contents

IMAX CORPORATION

The table below illustrates the mix of theater systems installed in the third quarter of 2008 compared to the same period in 2007.

	Three Months Ended September 30, 2008	2007
Sales and Sales-type lease systems installed and recognized		
IMAX 2D GT		
IMAX 3D GT	1	1
IMAX 3D SR	1	1
IMAX 3D MPX	1	3
	3	5
IMAX 3D MPX installed and deferred		1
Joint revenue sharing arrangements installed	14	2
	17	8

Ongoing rent revenue, contingent fees and finance income increased to $4.0 million in the third quarter of 2008 from $3.1 million in the third quarter of 2007, an increase of 27.3%. Revenues from joint revenue sharing arrangements, included in ongoing rent, increased to $1.2 million in the third quarter of 2008 from $0.6 million in the third quarter of 2007. The Company installed 14 systems under joint revenue sharing arrangements in the third quarter of 2008, including 8 which opened in September 2008. The revenue generated by these 14 systems was $0.1 million for the quarter ended September 30, 2008. In total, the Company participated in 26 joint revenue sharing arrangements during the third quarter of 2008 as compared to 9 in 2007. The increase in revenues from joint revenue sharing arrangements was primarily due to higher box office revenue from the IMAX DMR films exhibited during the third quarter of 2008 (primarily *The Dark Knight: The* IMAX *Experience*) as compared to the third quarter of 2007 (primarily *Harry Potter and the Order of the Phoenix: An* IMAX *3D Experience*). The increase in revenue is also due to an increase in the number of open theaters as compared to the prior year comparative period. In the third quarter of 2008, the Company installed one new theater system that qualified as an operating lease. The Company did not install or recognize any theater systems that qualified as an operating lease in the third quarter of 2007. The Company recognizes revenue on operating leases over the term of the lease.

Maintenance revenue was $4.2 million during the third quarter of 2008, which was relatively consistent with the $4.1 million experienced in the prior year.

The Company expects to see an increase in 2008 as compared to 2007 in ongoing rent, contingent fees and maintenance revenue as the Company s theater network continues to grow in 2008, primarily from joint revenue sharing arrangements.

Film segment revenues increased 36.5% to $13.0 million in the third quarter of 2008 from $9.5 million in the third quarter of 2007. Film production and IMAX DMR revenues increased 46.9% to $9.2 million in the third quarter of

2008 from $6.2 million in the third quarter of 2007. The increase in film production and IMAX DMR revenue was due primarily to the successful exhibition of *The Dark Knight: The* IMAX *Experience* in the third quarter of 2008 in comparison to the films exhibited in the third quarter of 2007 (primarily *Harry Potter and the Order of the Phoenix: An* IMAX *3D Experience*). Film distribution revenue decreased 5.3% to $2.4 million in the third quarter of 2008 from $2.5 million in the third quarter of 2007. The Company did not distribute any new titles in the third quarter of 2008. Film post-production revenues increased to $1.4 million in the third quarter of 2008 from $0.7 million last year due to an increase in third party business.

Theater operations revenue increased 33.7% to $5.5 million in the third quarter of 2008 from $4.1 million in the third quarter of 2007, primarily due to a 23.4% higher average ticket price and a 15.7% increase in attendance due to higher box office revenue of IMAX DMR films, particularly *The Dark Knight: The* IMAX *Experience*.

Table of Contents

IMAX CORPORATION

Other revenue of $0.8 million in the third quarter of 2008 was slightly lower than $1.0 million experienced in the third quarter of last year. Other revenue primarily includes revenue generated from the Company s camera and rental business and after market sales of projection system parts and 3D glasses.

Outlook

The Company currently estimates that approximately 30 theaters (26 joint revenue sharing arrangements and 4 others) of the 238 theater systems arrangements in its backlog as at September 30, 2008, will be installed and accepted in the last quarter of 2008, however it cautions that slippages of installations remain a recurring and unpredictable part of its business, and such slippages and delays, as well as specific terms of each individual arrangement, could impact the timing of revenue recognition thereon.

The Company is increasingly offering certain commercial clients joint revenue sharing arrangements, whereby the Company contributes its theater systems, accounted for at its manufactured cost for manufactured components and at the Company s cost for purchased components. Typically, the client will contribute its retrofitted auditorium and there is a negotiated split of box-office revenues and concession revenues. By offering such arrangements to exhibitors who do not need to pay the initial capital required in a lease or a sale, the Company believes that its theater network can be rapidly expanded and provide the Company with a significant portion of the IMAX box-office from its theaters, as well as greater revenue from the studios releasing IMAX DMR films, for which the Company typically receives a percentage of the studio s box-office receipts. The Company has joint revenue sharing arrangements for digital projection systems with five theater exhibitors. On December 7, 2007 the Company and AMC Entertainment Inc. (AMC), one of the world s largest theatrical exhibition companies, announced a joint revenue sharing arrangement to install 100 IMAX digital projection systems at AMC locations in 33 major U.S. markets. In 2007, the Company signed agreements for an additional 10 joint revenue sharing arrangements with other exhibitors, including 7 with Regal Cinemas, Inc (Regal), a subsidiary of Regal Entertainment Group, the world s largest theater circuit. During the first nine months of 2008, the Company signed agreements for an additional 40 joint revenue sharing arrangements with other exhibitors, consisting of 31 with Regal, 4 with Hoyts Cinema Ltd. (Hoyts), Australia s leading exhibitor, 3 with Cineplexx Kinobetreibe GMBH (Cineplexx), the largest exhibitor in Austria and 2 with Tokyu Recreation (Tokyu), one of Japan s largest exhibition chains with a further two being conditional. There were 26 joint revenue sharing arrangements in operation at the end of the third quarter of 2008 as compared to 9 at September 30, 2007.

The Company has developed a proprietary IMAX digital projection system that it believes delivers high quality imagery consistent with the Company s brand. During the third quarter of 2008, the Company installed 14 digital theater systems, all in AMC theaters. To date, the Company has installed 35 digital projection systems. The Company believes that the dramatic print cost savings associated with the elimination of analog film prints with the IMAX digital system can lead to more profitability for the Company by increasing the number of films released to the IMAX network, which in turn can result in more theaters in the Company s network, more profits per theater and more profits for studios releasing their films to the network. There are a number of risks inherent in the Company s digital strategy including technology risks, such as the risk that the digital projector developed by the Company may have technical flaws or bugs which, if not repaired or modified fully, could damage the Company s market position although the aggregate uptime of the Company s digital projectors installed to date is 99.7%.

The Company believes that its digital product provides a differentiated experience to moviegoers that is consistent with what they have come to expect from the IMAX brand. The Company believes that transitioning from a film-based platform to a digital platform for a large portion of its customer base is compelling for a number of reasons. The savings to the studios as a result of eliminating film prints are considerable, as the typical cost of an

IMAX film print ranges from $22,500 per 2D print to $45,000 per 3D print. Removing much of those costs will significantly increase the profit of an IMAX release for a studio which, the Company believes, provides more incentive for studios to release their films to IMAX theaters. The Company similarly believes that economics change favorably for its exhibition clients as a result of a digital transition, since lower print costs and the increased programming flexibility that digital delivery provides should allow theaters to program three to four additional IMAX DMR films per year, thereby increasing both customer choice and total box-office revenue. Moreover, the

Table of Contents

IMAX CORPORATION

Company anticipates that installation of its digital systems will cost exhibitors less than the installation of a film-based system, further improving exhibitor returns. Finally, digital transmission eventually allows for the opportunity to show attractive alternative programming, such as live sporting events and concerts, in the immersive environment of an IMAX theater.

A small number of the Company s film-based system contracts include provisions providing for upgrades to digital systems at discounted prices when available. The accounting impact of such provisions may include the deferral of some or all of the revenue (though not the cash) associated with such systems. Since the Company has not yet established the fair value for a digital upgrade, all consideration related to delivery of the initial system will be deferred until the time the fair value of such digital upgrade is known or the upgrade has been installed. The Company expects that once the digital upgrade is provided or the fair value for the upgrade is established, the Company will allocate total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a relative fair value basis and recognize the revenue allocated to the delivered elements with their associated costs. Such deferral could result in a significant increase in the Company s deferred revenue accounts and a significant decrease in the Company s reported profits prior to establishing the fair value of a digital upgrade or delivery of the digital upgrade. For the three months ended September 30, 2008, the Company did not install any theater systems under sales arrangements that are subject to such provisions. For the three months ended September 30, 2007, the Company installed one theater system under a sales arrangement that is subject to such provisions. Had this transaction not contained a digital upgrade clause, the Company would have recognized $1.5 million in revenue and $0.9 million in gross margin related to this sale in the third quarter of 2007.

In February 2008, the Company in conjunction with Paramount Pictures released *The Spiderwick Chronicles: The* IMAX *Experience.* In April 2008, the Company, in conjunction with Paramount Pictures, Shangri-La Entertainment and Concert Productions International, released *Shine A Light: The* IMAX *Experience*. In May 2008, the Company, in conjunction with Warner Bros. Pictures (WB) released *Speed Racer: An* IMAX *Experience*. In June 2008, the Company, in conjunction with DreamWorks Pictures released *Kung Fu Panda: An* IMAX *Experience*. In July 2008, the Company, in conjunction with WB released *The Dark Knight: The* IMAX *Experience*, which has broken numerous IMAX box office records. The Company has announced that it will, in conjunction with DreamWorks Animation, release *Madagascar 2: The* IMAX *Experience* on November 7, 2008. On December 12, 2008, the Company will release Twentieth Century Fox s *The Day The Earth Stood Still: The* IMAX *Experience*. In conjunction with WB, the Company has commenced production on a third original IMAX 3D co-production for the release of *Under the Sea 3D: An* IMAX *3D Experience* to IMAX theaters in February 2009, a sequel to the successful *Deep Sea 3D*. Furthermore, in conjunction with WB, the Company will release *Watchmen: The* IMAX *Experience* in March 2009, based on an award-winning graphic novel. The Company, in conjunction with DreamWorks Animation, will release *Monsters vs. Aliens: An* IMAX *3D Experience* in March 2009. In June 2009, in conjunction with Paramount Pictures, the Company will release *Transformers: Revenge of the Fallen: The* IMAX *Experience*. In July 2009, the Company, in conjunction with WB, will release *Harry Potter and the Half-Blood Prince: The* IMAX *Experience*. The Company expects that certain sections of the film such as the finale will be presented in IMAX 3D. In December 2009, in conjunction with Twentieth Century Fox, the Company will release *Avatar: an* IMAX *3D Experience*. The Company, in conjunction with WB and the National Aeronautics and Space Administration (NASA), also announced the next IMAX 3D space film which will chronicle the Hubble Space Telescope, set for release to IMAX theaters in early 2010. The Company, in conjunction with DreamWorks Animation, will release two films, *How to Train Your Dragon: An* IMAX *3D Experience* and *Shrek Goes Fourth: An* IMAX *3D Experience* in the first six months of 2010. The Company remains in active negotiations with virtually all of Hollywood s studios for additional films to fill out its short and long-term film slate.

Gross Margin

The gross margin across all segments in the third quarter of 2008 was $15.0 million, or 44.9% of total revenue, compared to $9.9 million, or 33.3% of total revenue in the third quarter of 2007. No settlement arrangements occurred in the third quarter of 2008 as compared to $0.8 million in the third quarter of 2007. Excluding the impact of settlement arrangements, the gross margin was 31.7% in the third quarter of 2007.

Table of Contents

IMAX CORPORATION

IMAX theater systems margin was 49.5% in the third quarter of 2008, as compared to 48.6% in the third quarter of 2007. Gross margins on sales of new systems were 52.8% in the third quarter of 2008 as compared to 44.0% in the prior year quarter due mainly to the product mix sold. There were no used system sales in the third quarter of 2008 or 2007. Excluding the impact of settlement arrangements, the theater systems margin was 46.1% in the third quarter of 2007.

The Company did not install any theater systems under sales arrangements in the third quarter of 2008 which are subject to provisions providing the customer with an upgrade to a digital system at discounted prices when available. One theater system under a sales arrangement was installed in the third quarter of 2007 which is subject to provisions providing the customer with an upgrade to a digital system at discounted price when available. Had this transaction not contained a digital upgrade clause, the Company would have recognized $1.5 million in revenue and $0.9 million in gross margin related to this sale during the third quarter of 2007.

The Company s gross margin from its film segment increased significantly in the third quarter of 2008 by $5.4 million to $7.2 million compared to $1.8 million in the third quarter of 2007. Film production and IMAX DMR gross margin increased by $6.0 million due primarily to higher margins realized in the third quarter of 2008 (primarily *The Dark Knight: The* IMAX *Experience*) in comparison to the films exhibited in the third quarter of 2007 (primarily *Harry Potter and the Order of the Phoenix: An* IMAX *3D Experience*). *The Dark Knight: The* IMAX *Experience* exhibited in July 2008 generated in excess of $60.0 million in gross box office worldwide and is the highest-grossing IMAX DMR film to date. The film distribution gross margin for the third quarter of 2008 was $0.5 million as compared to $1.2 million in the third quarter of 2007. Film post-production gross margin was $0.4 million for the third quarter of 2008 in comparison to $0.3 million in the third quarter of 2007.

Theater operations margin increased $0.4 million in the third quarter of 2008 to $0.8 million as compared to $0.4 million in the third quarter of 2007, primarily due to a 15.7% increase in attendance largely due to the performance of *The Dark Knight: The* IMAX *Experience*.

The gross margin on other revenue decreased by $0.3 million to less than $0.1 million in the third quarter of 2008 as compared to $0.3 million in the third quarter of 2007.

Other

Selling, general and administrative expenses increased by $0.2 million to $10.5 million in the third quarter of 2008 as compared to $10.3 million for the same period of 2007. Reflected in the quarter was a decrease in legal and professional fees of $1.1 million as compared to the third quarter of 2007 and a decrease of $0.7 million in stock and non-cash based compensation. Non-cash stock-based compensation includes stock options, stock appreciation rights and restricted shares issued to employees. These decreases were offset by an increase in salary and benefits costs of $0.6 million largely due to merit increases. In addition, the Company recorded a foreign exchange translation loss of $0.6 million for the three months ended September 30, 2008 due to a decline in the exchange rates of its foreign currency denominated receivables and other working capital balances, as compared to a gain of $0.9 million for the three months ended September 30, 2007, an increase of $1.5 million from the prior year comparative period. The Company records foreign exchange translation gains and losses primarily on a portion of its financing receivable balances which are denominated in Canadian dollars, Euros and Japanese Yen.

Receivable provisions net of recoveries for accounts receivable and financing receivables amounted to a net provision of $0.3 million in the third quarter of 2008 as compared to a net provision of $0.7 million in the third quarter of 2007.

Interest income decreased to $0.1 million in the third quarter of 2008 as compared to $0.2 million in the third quarter of 2007.

Interest expense was $4.5 million in the third quarter of 2008 as compared to $4.3 million in the third quarter of 2007. Included in interest expense is the amortization of deferred finance costs in the amount of $0.3 million in both the third quarter of 2008 and 2007 relating to the Company s 9.625% Senior Notes due 2010 (the Senior Notes).

55

IMAX CORPORATION

The Company s policy is to defer and amortize all the costs relating to a debt financing, paid directly to the debt provider, over the life of the debt instrument.

Income Taxes

The Company s effective tax rate differs from the statutory tax rate and will vary from year to year primarily as a result of numerous permanent differences, investments and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes in the Company s valuation allowance based on the Company s recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. As at September 30, 2008, the Company had a gross deferred income tax asset of $57.1 million, against which the Company is carrying a $57.1 million valuation allowance. The Company recorded an income tax provision of $0.2 million for the three months ended September 30, 2008, of which $0.1 million is related to an increase in unrecognized tax benefits. For the three months ended September 30, 2007 the Company recorded an income tax provision of $0.4 million, of which $0.2 million was related to an increase in unrecognized tax benefits.

Research and Development

Research and development expenses were consistent at $1.6 million in the third quarter of 2008 and 2007, respectively. The expenses primarily reflect research and development activities pertaining to the development of the Company s new proprietary digitally-based theater projector. As at September 30, 2008, the Company has installed 14 digital theater systems, all in AMC theaters. Through research and development, the Company continues to design and develop cinema-based equipment, software and other technologies to enhance its product offerings. The Company believes that the motion picture industry will be affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production (editing and special effects), distribution and display. Consequently, the Company has made significant investments in digital technologies, including the development of proprietary, patent-pending technology related to a digital projector, as well as technologies to digitally enhance image resolution and quality of motion picture films, and convert monoscopic (2D) to stereoscopic (3D) images. The Company also holds a number of patents, patents pending and intellectual property rights in these areas. In addition, the Company holds numerous long-term relationships with key manufacturers and suppliers in digital technology. There can be no assurance, however, that the Company will be awarded patents covering its technology or that competitors will not develop similar technologies.

In recent years, a number of companies have introduced digital 3D projection technology and a number of Hollywood features have been exhibited in 3D using these technologies. The Company believes that there are approximately 1,400 conventional-sized screens in the U.S. multiplexes equipped with such digital 3D systems. The Company believes that its many competitive strengths, including the IMAX brand name, the quality and immersiveness of *The* IMAX *Experience*, its IMAX DMR technology and its patented theater geometry significantly differentiate the Company s 3D presentations from any other 3D presentations. Consistent with this view, for the small number of films released to both IMAX 3D theaters and conventional 3D theaters, the IMAX theaters have significantly outperformed the conventional theaters on a per-screen revenue basis.

Nine Months Ended September 30, 2008 Versus Nine Months Ended September 30, 2007

The Company reported a net loss from continuing operations before income taxes of $23.8 million or $0.57 per share on a diluted basis and a net loss from continuing operations after taxes of $24.6 million or $0.58 per share on a diluted basis for the nine months ended September 30, 2008. For the nine months ended September 30, 2007, the Company reported net loss from continuing operations before income taxes of $15.6 million or $0.39 per share on a diluted basis and net loss from continuing operations after taxes of $16.4 million or $0.41 per share on diluted basis.

Table of Contents

IMAX CORPORATION

Revenue

The Company s revenues for the nine months ended September 30, 2008 decreased 6.4% to $78.2 million from $83.5 million in the same period last year.

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

	Nine Months Ended September 30,	
(In thousands of U.S. dollars)	**2008**	**2007**
IMAX Systems Revenue		
Sales and sales-type leases(1)	$ 15,388	$ 21,488
Ongoing rent, contingent fees and finance income(2)	9,811	8,598
Maintenance	11,989	11,956
	37,188	42,042
Films Revenue		
Production and IMAX DMR	14,580	14,640
Distribution	7,472	8,649
Post-production	4,955	3,290
	27,007	26,579
Theater Operations	11,520	12,442
Other Revenue	2,446	2,466
	$ 78,161	$ 83,529

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

(2) Includes rental income from operating leases, revenues from joint revenue sharing arrangements, contingent rents from sales-type leases, contingent fees from sales arrangements and finance income from the Company s sales-type leases and financed sales transactions.

IMAX systems revenue decreased to $37.2 million in the nine months ended September 30, 2008 from $42.0 million in the nine months ended September 30, 2007, a decrease of 11.6%. Revenue from sales and sales-type leases decreased to $15.4 million in the nine months ended September 30, 2008 from $21.5 million in the nine months ended September 30, 2007, a decrease of 28.4%, mainly due to a lower number of theater system recognitions (9 in 2008 versus 14 in 2007) in the period. The Company also recognized $0.6 million in settlement revenue during the nine months ended September 30, 2008 as compared to $2.3 million in 2007.

The Company recognized revenue on 9 theater systems which qualified as either sales or sales-type leases in the nine months ended September 30, 2008 compared to 14 in the same period in 2007. There were 9 new theater systems with a value of $13.9 million recognized into revenue in the nine months ended September 30, 2008, compared to 11 new theater systems with a total value of $16.4 million recognized in the nine months ended September 30, 2007. None of the theater systems recognized in 2008 were used theater systems while 3 of the theater systems in the nine months ended September 30, 2007 were used systems with an aggregate sales value of $2.9 million.

As noted in the table below, 3 theater systems under sales arrangements that were installed in the first nine months of 2008 are subject to provisions providing the customer with an upgrade to a digital system at a discounted price when available. Had these transactions not contained this digital upgrade clause, the Company would have recognized $3.8 million in revenue and $2.0 million in gross margin related to these sales. Two theater systems under sales arrangements subject to such provisions were installed in the third quarter of 2007. Had these

IMAX CORPORATION

transactions not contained a digital upgrade clause, the Company would have recognized $3.0 million in revenue and $1.8 million in gross margin related to these sales. The Company expects that once the digital upgrade is provided or the fair value for the upgrade is established, the Company will allocate total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a fair value basis and recognize the revenue allocated to the delivered elements with their associated costs.

Average revenue per sales and sales-type lease systems recognized was $1.5 million and $1.4 million for the nine month periods ended September 30, 2008 and 2007, respectively.

The table below illustrates the mix of theater systems installed in the nine months ended September 30, 2008 compared to the same period in 2007.

	Nine Months Ended September 30,	
	2008	**2007**
Sales and Sales-type lease systems installed and recognized		
IMAX 2D GT		1
IMAX 3D GT	1	3
IMAX 2D SR		1
IMAX 3D SR	1	2
IMAX 3D MPX	7	7
	9	14
IMAX 3D MPX installed and deferred	3	2
Joint revenue sharing arrangements installed	14	4
	26	20

Ongoing rent revenue, contingent fees and finance income increased to $9.8 million in the nine months ended September 30, 2008, from $8.6 million in the nine months ended September 30, 2007, an increase of 14.1%. Revenues from joint revenue sharing arrangements, included in ongoing rent, increased from $1.6 million in the nine months ended September 30, 2007 to $2.0 million in the nine months ended September 30, 2008, due to higher box-office revenue from the IMAX DMR films exhibited in 2008 as compared to 2007 and a larger number of theaters operating under joint revenue sharing arrangements. The Company installed 14 new joint revenue sharing theaters in the first nine months of 2008, including 8 which opened in September 2008. The revenue generated by these 14 systems was $0.1 million for the nine months ended September 30, 2008. Four new joint revenue sharing theaters were installed in the first nine months of 2007. During the nine months ended September 30, 2008, the Company installed one new theater system that qualified as an operating lease. The Company did not install or recognize any theater systems that qualified as an operating lease during the nine months ended September 30, 2007. The Company recognizes revenue on operating leases over the term of the lease.

Maintenance revenue was consistent at $12.0 million for the first nine months of 2008 and 2007, respectively.

The Company expects to see an increase in 2008 compared to 2007 in ongoing rent, contingent fees and maintenance revenue as the Company s theater network continues to grow in 2008, primarily from joint revenue sharing arrangements.

Film segment revenues increased 1.6% to $27.0 million in the nine months ended September 30, 2008 from $26.6 million in the nine months ended September 30, 2007. Film production and IMAX DMR revenues was consistent at $14.6 million in the nine months ended September 30, 2008 and 2007, respectively. Film distribution revenues decreased to $7.5 million in the nine months ended September 30, 2008 from $8.6 million in the nine months ended September 30, 2007, primarily due to lower distribution revenues from *Deep Sea 3D* in 2008 compared to 2007. Film post-production revenues increased to $5.0 million in the nine months ended September 30, 2008 from $3.3 million in the nine months ended September 30, 2007, primarily due to an increase in third party business.

IMAX CORPORATION

Theater operations revenue decreased 7.4% to $11.5 million in the nine months ended September 30, 2008 from $12.4 million in the nine months ended September 30, 2007, primarily due to an 11.8% decrease in attendance.

Other revenue was consistent at $2.4 million in the nine months ended September 30, 2008 and $2.5 million in the nine months ended September 30, 2007. Other revenue primarily includes revenue generated from the Company s camera and rental business and after market sales of projection system parts and 3D glasses.

Gross Margin

The gross margin across all segments in the nine months ended September 30, 2008 was $31.0 million, or 39.7% of total revenue, compared to $33.7 million, or 40.4% of total revenue in the nine months ended September 30, 2007. Excluding the impact of settlement arrangements, the gross margin in the nine months ended September 30, 2008 was 39.4% as compared to 38.8% experienced in the nine months ended September 30, 2007.

IMAX theater systems margin, excluding the impact of settlement revenues from termination of arrangements, was 50.7% in the nine months ended September 30, 2008, compared to 51.9% experienced in the nine months ended September 30, 2007. The decrease in gross margin of IMAX theater systems is due to a different mix of theater systems sold in the nine months ended September 30, 2008 compared to the same period in 2007. Gross margins on the sale of new systems was 55.5% as compared to 52.3% in the nine months ended September 30, 2008 and 2007, respectively. There were no used system sales in the nine months ended September 30, 2008. Gross margins on the sale of used systems recognized in the nine months ended September 30, 2007 was 65.7%.

Three theater systems under sales arrangements were installed in the first nine months of 2008 which are subject to provisions providing the customer with an upgrade to a digital system at discounted prices when available. Had these transactions not contained a digital upgrade clause, the Company would have recognized $3.8 million in revenue and $2.0 million in gross margin related to these sales. Two theater systems under sales arrangements were installed in the first nine months of 2007 which are subject to provisions providing the customer with an upgrade to a digital system at discounted prices when available. Had these transactions not contained a digital clause, the company would have recognized $3.0 million in revenue and $1.8 million in gross margin related to these sales.

The Company s gross margin from its film segment increased in the nine months ended September 30, 2008 by $2.1 million. Film production and IMAX DMR gross margin increased by $1.8 million due primarily to the stronger box office performance of the films exhibited during the first nine months of 2008 as compared to the films exhibited during the same period last year. Film distribution margin decreased by $0.9 million to $2.7 million for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007. Film post-production gross margin increased from $1.5 million during the first three quarters of 2007 to $2.7 million during the same period this year, due to an increase in third party business.

Theater operations margin decreased $1.0 million to $0.3 million in the nine months ended September 30, 2008, as compared to $1.3 million nine months ended September 30, 2007, primarily due to lower attendance levels.

Other gross margin was relatively consistent at $0.3 million and $0.2 million for the nine months ended September 30, 2008 and 2007, respectively.

Other

Selling, general and administrative expenses were $34.1 million in the first nine months of 2008 compared to $31.7 million for the first nine months of 2007. The $2.4 million increase reflects an increase in staff-related costs and compensation costs of $2.6 million during the nine months ended September 30, 2008, which is the result of an increase in salary and benefits of $2.1 million primarily due to merit increases and a higher average Canadian dollar denominated salary expense, and travel and entertainment costs of $0.5 million reflecting increased business activities. These increases were offset by a decrease in legal and professional fees of $2.5 million. In addition, the Company recorded a foreign exchange loss of $0.8 million in the nine months ended September 30, 2008 largely due to a decline in the exchange rates of foreign currency denominated receivables and other working capital balances, compared to a gain of $1.5 million in the nine months ended September 30, 2007, an increase of

IMAX CORPORATION

$2.3 million. The Company records foreign exchange translation gains and losses primarily on a portion of its financing receivable balances which are denominated in Canadian dollars, Euros and Japanese Yen.

Receivable provisions net of recoveries for accounts receivable and financing receivables amounted to a net provision of $1.1 million in the nine months ended September 30, 2008, compared to a net provision of $0.7 million in the nine months ended September 30, 2007.

For the nine months ended September 30, 2008, the Company recorded a charge of $0.5 million compared with $nil for the nine months ended September 30, 2007, in costs of goods, services and rentals, for inventories due to a reduction in expected net realizable value.

Interest income decreased to $0.3 million in the nine months ended September 30, 2008 as compared to $0.6 million in the nine months ended September 30, 2007.

Interest expense increased to $13.3 million in the nine months ended September 30, 2008 compared to $13.0 million in the nine months ended September 30, 2007 due to the Company s borrowings under its Credit Facility. Included in interest expense is the amortization of deferred finance costs in the amount of $1.0 million and $0.9 million in the nine months ended September 30, 2008 and 2007, respectively, relating to the Senior Notes due 2010. The Company s policy is to defer and amortize all the costs relating to a debt financing, paid directly to the debt provider, over the life of the debt instrument.

Research and Development

Research and development expenses amounted to $6.2 million in the nine months ended September 30, 2008, compared to $4.2 million in 2007. The expenses primarily reflect research and development activities pertaining to development of the Company s new proprietary digitally-based theater projector. As at September 30, 2008, the Company has installed 14 IMAX Digital MPX theater systems. Through research and development, the Company continues to design and develop cinema-based equipment, software and other technologies to enhance its product offerings. The Company believes that the motion picture industry will be affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production (editing and special effects), distribution and display. Consequently, the Company has made significant investments in digital technologies, including the development of proprietary, patent-pending technology related to a digital projector, as well as technologies to digitally enhance image resolution and quality of motion picture films, and convert monoscopic (2D) to stereoscopic (3D) images. The Company also holds a number of patents, patents pending and intellectual property rights in these areas. In addition, the Company has numerous long-term relationships with key manufacturers and suppliers in digital technology. There can be no assurance, however, that the Company will be awarded patents covering its technology or that competitors will not develop similar technologies.

In recent years, a number of companies have introduced digital 3D projection technology and a number of Hollywood features have been exhibited in 3D using these technologies. The Company believes that there are approximately 1,400 conventional-sized screens in the U.S. multiplexes equipped with such digital 3D systems. The Company believes that its many competitive strengths, including the IMAX brand name, the quality and immersiveness of *The* IMAX *Experience*, its IMAX DMR technology and its patented theater geometry significantly differentiate the Company s 3D presentations from any other 3D presentations. Consistent with this view, for the small number of films released to both IMAX 3D theaters and conventional 3D theaters, the IMAX theaters have significantly outperformed the conventional theaters on a per-screen revenue basis.

DISCONTINUED OPERATIONS

(a) Rhode Island Providence Theater

On December 31, 2007, the Company entered into a lease termination agreement which extinguished all of its obligations to its landlord with respect to the Company s owned and operated Providence IMAX theater. As a result of the lease termination, the Company recorded a non-cash gain of $1.5 million in December 2007, associated with the reversal of deferred lease credits recorded in prior periods. In a related transaction, the Company sold the theater

IMAX CORPORATION

projection system and inventory for the Providence IMAX theater to a third party theater exhibitor for $1.0 million (consisting of $0.6 million cash and $0.4 million of discounted future minimum payments), which was recorded as a gain from discontinued operations in December 2007. The above transactions are reflected as discontinued operations as the continuing cash flows are not generated from either a migration or a continuation of activities.

(b) Miami Theater

On December 23, 2003, the Company closed its owned and operated Miami IMAX theater. The Company completed its abandonment of assets and removal of its projection system from the theater in the first quarter of 2004 with no financial impact. The Company was involved in an arbitration proceeding with the landlord of the theater with respect to the amount owing to the landlord by the Company for lease and guarantee obligations. The amount of loss to the Company had been estimated between $0.9 million and $2.3 million. Prior to 2006, the Company paid out $0.8 million with respect to amounts owing to the landlord. The Company paid out an additional $0.1 million and also accrued $0.8 million in net loss from discontinued operations related to the Miami IMAX theater in the third quarter of 2006. On January 5, 2007, as a result of a settlement negotiated between both parties, the Company paid out a final $0.8 million, extinguishing its obligations to the landlord. This final payment of $0.8 million was accrued by the Company in 2006.

PENSION AND POSTRETIREMENT OBLIGATIONS

The Company has an unfunded U.S. defined benefit pension plan, the Supplemental Executive Retirement Plan (the SERP), covering its two Co-CEOs. As at September 30, 2008, the Company had an unfunded and accrued projected benefit obligation of approximately $28.7 million (December 31, 2007 $27.1 million) in respect of the SERP. At the time the Company established the SERP, it also took out life insurance policies on its two Co-CEOs with coverage amounts of $21.5 million in aggregate. The Company may use the proceeds of the life insurance policies taken on its Co-CEOs towards the benefits due and payable under the SERP, although there can be no assurance that the Company will ultimately do so. As at September 30, 2008, the cash surrender value of the insurance policies is $6.0 million (December 31, 2007 $5.2 million).

On March 8, 2006, the Company and the Co-CEOs negotiated an amendment effective January 1, 2006 to the SERP covering its two Co-CEOs which reduced the related pension expense to the Company. Under the original terms of the SERP, once benefit payments begin, the benefit is indexed annually to the cost of living and further provides for 100% continuance for life to the surviving spouse. The Company, represented by the Independent Directors, who retained Mercer Human Resources Consulting and outside legal counsel to advise them on certain analyses regarding the SERP. Under the terms of the SERP amendment, to reduce the ongoing costs to the Company, the cost of living adjustment and surviving spouse benefits previously owed to the Co-CEOs are each reduced by 50%, subject to a recoupment of a percentage of such benefits upon a change of control of the Company, and the net present value of the reduced benefit payments is accelerated and paid out upon a change of control of the Company. The amendment resulted in a credit to accumulated other comprehensive income of $2.8 million, a reduction of other assets of $3.4 million, and a reduction in accrued pension liability of $6.2 million. The benefits were 50% vested as at July 2000, the SERP initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. The vesting percentage of a member whose employment terminates other than by voluntary retirement or upon change of control shall be 100%.

On May 4, 2007, the Company amended the SERP to provide for the determination of benefits to be 75% of the member s best average 60 consecutive months of earnings over the member s employment history. The actuarial liability was remeasured to reflect this amendment. The amendment resulted in a $1.0 million increase to the pension liability and a corresponding $1.0 million change to other comprehensive income. As at September 30, 2008, one of the Co-CEO s benefits were 100% vested and the other Co-CEO s benefits were approximately 90.9% vested.

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

IMAX CORPORATION

employment terminates other than for cause on or after August 1, 2010 shall receive SERP benefits in the form of a lump sum payment.

In July 2000, the Company agreed to maintain health benefits for its two Co-CEOs upon retirement. As at September 30, 2008, the Company had an unfunded benefit obligation of $0.4 million (December 31, 2007 $0.4 million).

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility

Under the indenture, dated as at December 4, 2003, and as thereafter amended and supplemented, governing the Company s Senior Notes due 2010 (the Indenture), the Company is permitted to incur indebtedness on a secured basis pursuant to a credit agreement, or the refinancing or replacement of a credit facility, provided that the aggregate principal amount of indebtedness thereunder outstanding at any time does not exceed the greater of: (a) $30.0 million minus the amount of any such indebtedness retired with the proceeds of an Asset Sale (as defined in the Indenture), and (b) 15% of Total Assets (as defined in the Indenture) of the Company. Amongst other indebtedness, the Indenture also permits the Company to incur indebtedness solely in respect of performance, surety or appeal bonds, letters of credit and letters of guarantee as required in the ordinary course of business in accordance with customary industry practices. On February 6, 2004, the Company entered into a Loan Agreement for a secured revolving credit facility, as amended on June 30, 2005, May 16, 2006, November 7, 2007 and December 5, 2007 (the Credit Facility). The Credit Facility is a revolving credit facility expiring on October 31, 2009, with an optional one year renewal thereafter contingent upon approval by the lender. The Credit Facility permits maximum aggregate borrowings equal to the lesser of: (i) $40.0 million, (ii) a collateral calculation based on percentages of the book values for the Company s net investment in sales-type leases, financing receivables, finished goods inventory allocated to backlog contracts and the appraised values of the expected future cash flows related to operating leases and of the Company s owned real property, reduced by certain accruals and accounts payable, and (iii) a minimum level of trailing cash collections in the preceding twenty-six week period ($68.4 million as at September 30, 2008), reduced for outstanding letters of credit and advance payment guarantees and subject to maintaining a minimum Excess Availability (as defined in the Credit Facility) of $5.0 million. As at September 30, 2008, the Company s current borrowing capacity under the Credit Facility was $9.9 million after deduction for outstanding borrowings of $20.0 million, letters of credit and advance payment guarantees of $2.5 million and the minimum Excess Availability of $5.0 million compared with $19.4 million after deduction for outstanding letters of credit of $10.9 million and the excess availability reserve of $5.0 million as at December 31, 2007. This current borrowing capacity is not limited in any way by the Indenture. The Credit Facility bears interest at the applicable prime rate per annum or LIBOR plus a margin as specified therein per annum and is collateralized by a first priority security interest in all of the current and future assets of the Company. The Credit Facility contains typical affirmative and negative covenants, including covenants that restrict the Company s ability to: incur certain additional indebtedness; make certain loans, investments or guarantees; pay dividends; make certain asset sales; incur certain liens or other encumbrances; conduct certain transactions with affiliates and enter into certain corporate transactions. In addition, the Credit Facility agreement contains customary events of default, including upon an acquisition or a change of control that may have a material adverse effect on the Company or a guarantor. The Credit Facility also required the Company to maintain, over a period of time, a minimum level of adjusted earnings before interest, taxes, depreciation and amortization including film asset amortization, stock and non-cash compensation, write downs (recoveries), asset impairment charges, and other non-cash uses of funds on a trailing four quarter basis calculated quarterly, of not less than $20.0 million (the EBITDA Requirement); provided, however, that the EBITDA Requirement shall be $12.5 million for the four quarters ending each of December 31, 2007, March 31, 2008, June 30, 2008 and September 30, 2008. Furthermore, the Company was required to maintain a minimum Cash and Excess Availability (as defined in the Credit Facility) balance of not less than $15.0 million.

On May 5, 2008, the Company entered into an amendment to the Credit Facility, effective January 1, 2008, whereby the minimum Cash and Excess Availability balance was reduced to $7.5 million. Under the terms of this amendment, the Company shall not be subject to the EBITDA Requirement so long as the Company is in

Table of Contents

IMAX CORPORATION

compliance with the Cash and Excess Availability requirement. This amendment also provides for a one-year extension of the expiration of the Credit Facility to October 31, 2010 and adjusts the collateral calculation for certain finished goods inventory items to be installed under joint revenue sharing arrangements, which could result in an increase to maximum aggregate borrowings of up to $3.0 million in the future. In the event that the Company s Excess Availability falls below the $5.0 million requirement, the excess borrowings above the minimum availability requirement must be remedied immediately. Failure to remedy will result in a Cash Dominion Event and an Event of Default (as defined in the Credit Facility). The failure to comply with the Cash and Excess Availability requirement of $7.5 million would continue to result in an immediate Cash Dominion Event and an Event of Default. If the Credit Facility were to be terminated by either the Company or the lender, the Company would have the ability to pursue another source of secured financing pursuant to the terms of the Indenture.

As at September 30, 2008, the Company was in compliance with all covenants under the agreement. In the third quarter of 2008, in contemplation of prospective capital funding requirements associated with its joint revenue sharing arrangement roll-out, the Company drew $20.0 million of funds under the Credit Facility and invested the funds in an interest bearing bank account. Specifically, on July 18, 2008, the Company drew $10.0 million of funds at the LIBOR rate plus an applicable margin as specified in the Credit Facility and, on September 24, 2008, the Company drew an additional $10.0 million of funds at the United States Prime Interest Rate. The effective interest rate for the quarter ended September 30, 2008 was 4.49% under the Credit Facility.

Under the terms of the Credit Facility, the Company has to comply with several reporting requirements, including the delivery of audited consolidated financial statements within 120 days of the end of the fiscal year. In March 2007, the Company delayed the filing of its Annual Report on Form 10-K for the year ended December 31, 2006 beyond the filing deadline in order to restate financial statements for certain periods during the fiscal years 2002 2006. On March 27, 2007, the Credit Facility lender waived the requirement for the Company to deliver audited consolidated financial statements within 120 days of the end of the fiscal year ended December 31, 2006, provided such statements and documents were delivered on or before June 30, 2007. On June 27, 2007, the Credit Facility lender agreed that an event of default would not be deemed to have occurred unless the Company s 2006 Annual Report on Form 10-K filing did not occur by July 31, 2007 or upon the occurrence and continuance of an event of default under the Company s Indenture governing its Senior Notes which had not been cured within the applicable grace period. The Company cured such default under the Indenture by filing its 2006 Annual Report on Form 10-K and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 on July 20, 2007, within the applicable grace period.

The Company also has a $5.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by Export Development Canada (the Bank of Montreal Facility). On October 2, 2008, the Company entered into an amendment to increase the amount available by $5.0 million to $10.0 million. The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews with the next scheduled review of June 30, 2009. As at September 30, 2008, the Company had letters of credit outstanding of $4.9 million compared with $nil as at December 31, 2007 under the Bank of Montreal Facility.

Cash and Cash Equivalents

As at September 30, 2008, the Company s principal sources of liquidity included cash and cash equivalents of $37.7 million, the Credit Facility, trade accounts receivable of $25.2 million and anticipated collection from financing receivables due in the next 12 months of $10.2 million. The Company had cash and cash equivalents of $16.9 million as at December 31, 2007.

The Company currently believes that cash flow from future operations together with existing cash and borrowing available under the Credit Facility will be sufficient to fund the Company s business operations, including its strategic initiatives relating to joint revenue sharing arrangements, and the roll-out of its proprietary digitally-based projection system. The Company similarly believes it will be able to continue to meet customer

IMAX CORPORATION

commitments for at least the 12 month period commencing October 1, 2008. The Company s operating cash flow will be adversely affected, however, if management s projections of future signings, installations and film performance are not realized. The Company forecasts its short-term liquidity requirements on a quarterly and annual basis. Since the Company s future cash flows are based on estimates and there may be factors that are outside of the Company s control (see Risk Factors in Item 1A in the Company s 2007 Form 10-K), there is no guarantee the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company s typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

The Company s net cash used in operating activities is affected by a number of factors, including the proceeds associated with new signings of theater system lease and sale agreements in the year, costs associated with contributing systems under joint revenue sharing arrangements, the box-office performance of films distributed by the Company and/or exhibited in the Company s theaters, increases or decreases in the Company s operating expenses, including research and development, and the level of cash collections received from its customers.

Cash used in operating activities amounted to $4.9 million for the nine months ended September 30, 2008. Changes in other non-cash operating assets as compared to December 31, 2007 include a $0.2 million increase in accounts receivable, a decrease of $0.8 million in financing receivables, a decrease in insurance recoveries receivable of $0.6 million, a $2.4 million decrease in inventory, a $0.7 million increase in prepaid expenses, which primarily relates to prepaid insurance, and a $0.5 million increase in commissions and other deferred selling expenses. Changes in other non-cash operating liabilities as compared to December 31, 2007, include an increase in deferred revenue of $8.4 million, a decrease in accounts payable of $1.3 million and a decrease in accrued liabilities of $0.7 million. Included in accrued liabilities at September 30, 2008, was $28.7 million in respect of accrued pension obligations which are mainly long-term in nature. Investment in film assets was $7.0 million at September 30, 2008.

Net cash used in investing activities amounted to $13.0 million in the nine months ended September 30, 2008, which includes an investment in joint revenue sharing equipment of $9.6 million, purchases of $2.3 million in property, plant and equipment, an increase in other assets of $0.8 million and an increase in other intangible assets of $0.3 million.

Cash provided by financing activities in the nine months ended September 30, 2008 amounted to $39.1 million due to an increase of $20.0 million in bank indebtedness and the issuance of common shares in the period, net of common share issuance costs. Of the common shares issued, $18.0 million was purchased by the Company s largest shareholder in connection with the private placement of 2,726,447 common shares and $1.1 million was stock options that were exercised in the period.

Capital expenditures, including the purchase of property, plant and equipment, investment in joint revenue sharing arrangements and investments in film assets, were $18.9 million for the nine months ended September 30, 2008.

Net cash used in operating activities amounted to $4.8 million for the nine months ended September 30, 2007. Changes in other non-cash operating assets and liabilities include a $0.4 million increase in commissions and other deferred selling expenses, an increase of $2.1 million in inventories, a decrease of $4.5 million in financing receivables, a $3.1 million decrease in accounts receivable, a $0.3 million decrease in prepaid expenses, an increase in deferred revenue of $2.7 million, a decrease in accounts payable of $2.6 million and an increase of $0.6 million in accrued liabilities. Cash used in investing activities for the nine months ended September 30, 2007 amounted to $2.5 million, primarily consisting of $6.5 million invested in short-term investments, $6.4 million received from proceeds of short-term investments, purchase of $1.3 million in property, plant and equipment, an increase of $0.7 million in other assets and an increase in other intangible assets of $0.4 million. Cash used in financing activities in the nine months ended September 30, 2007 amounted to $1.9 million due mainly to financing costs related to the Senior Notes due 2010. Capital expenditures including the purchase of property, plant and equipment and investment in film assets were $9.5 million for the nine months ended September 30, 2007.

IMAX CORPORATION

Letters of Credit and Other Commitments

As at September 30, 2008, the Company has letters of credit and advance payment guarantees of $2.5 million outstanding, of which the entire balance has been secured by the Credit Facility. As at September 30, 2008, the Company also has letters of credit outstanding of $4.9 million compared with $nil as at December 31, 2007 under the Bank of Montreal Facility.

Senior Notes due December 2010

As at September 30, 2008, the Company had outstanding $159.0 million compared with $159.0 million as at December 31, 2007 aggregate principal of Registered Senior Notes and $1.0 million compared with $1.0 million as at December 31, 2007 aggregate principal of Unregistered Senior Notes. The Registered Senior Notes and the Unregistered Senior Notes are referred to herein as the Senior Notes.

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

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

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

On April 16, 2007, the Company completed a consent solicitation, receiving consents from holders of approximately 60% aggregate principal amount of the Senior Notes (the Consenting Holders) to execute a ninth supplemental indenture (the Supplemental Indenture) to the Indenture with the Guarantors named therein and U.S. Bank National Association. The Supplemental Indenture waived any defaults existing at such time arising from a failure by the Company to comply with the Indenture s reporting covenant requiring that annual and quarterly financial statements are filed with the trustee within 15 days of the required public company filing deadlines, and extended until May 31, 2007, or, at the Company s election, until June 30, 2007 (the Covenant Reversion Date), the date by which the Company s failure to comply with the reporting covenant shall constitute a default, or be the basis for an event of default, under the Indenture. The Company paid consent fees of $1.0 million to the Consenting Holders. On May 30, 2007, the Company provided notice to the holders of the Senior Notes of its election to extend the Covenant Reversion Date to June 30, 2007. The Company paid additional consent fees of $0.5 million to the Consenting Holders. Because the Company did not file its Annual Report on Form 10-K for the year ended December 31, 2006 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 by June 30, 2007, it was in default of the reporting covenant under the Indenture on July 1, 2007 and received notice of such default on July 2, 2007. The

Company cured such default under the Indenture by filing its 2006 Annual Report on Form 10-K and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 on July 20, 2007.

The Company may from time to time seek to retire or purchase outstanding Senior Notes through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, could be material and will depend on prevailing market conditions, the Company s liquidity requirements, contractual restrictions and other factors.

Table of Contents

IMAX CORPORATION

Digital Projection System

As at September 30, 2008, the Company had 14 digital theaters in operation and 193 digital theater system arrangements in its backlog at September 30, 2008, which include the significant recent transactions described below. To date, the Company has installed 35 digital projection systems.

On December 7, 2007, the Company announced a significant joint revenue sharing arrangement with AMC for the installation of 100 digital projection systems to be installed in the latter half of 2008 through 2010. The Company has projected that the deal will ultimately double the size of the commercial IMAX theater network in North America and triple the number of IMAX theaters in North American multiplexes, which are the primary targets of the Company s business efforts. In December 2007, the Company announced that it estimates that the AMC agreement will generate $35.0 million in incremental EBITDA and $229.0 million in cumulative cash flow over 10 years, under certain assumptions. The system roll-out is to be implemented in two phases of 50 systems each, with the rollout of the second phase being subject to certain performance thresholds that the Company believes will be met. During the third quarter of 2008, the Company installed 14 digital theater systems in AMC theaters that were open as at September 30, 2008. To date, the Company has installed 35 digital projection systems.

The Company and Regal announced on March 24, 2008 a joint revenue sharing agreement to install 31 digital projection systems at Regal locations in 20 major U.S. markets. The first IMAX Digital theater for Regal opened in October 2008. In June 2008, the Company and Hoyts entered into a revenue sharing arrangement for 4 digital projection systems. In July 2008, the Company signed a joint revenue sharing arrangement with Tokyu to install up to 4 digital projection systems. In September 2008, the Company signed a joint revenue sharing arrangement with Cineplexx for 3 digital projection systems.

The Company anticipates meeting the cash requirements needed to manufacture the digital projection systems in its joint venture arrangements through a combination of cash inflows from future operations and draws on its Credit Facility.

In addition, on March 10, 2008, the Company announced an agreement for 35 digital theater systems (under its traditional sales/sales-type-lease structure) with RACIMEC to be installed in Central and South America and the Caribbean. This was the second-largest theater deal in the Company s history, following AMC s 100 theater North American deal. RACIMEC has made an initial cash-payment in connection with the terms of its agreement with the Company.

OFF-BALANCE SHEET ARRANGEMENTS

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

Table of Contents

IMAX CORPORATION

CONTRACTUAL OBLIGATIONS

Payments to be made by the Company under contractual obligations are as follows:

		Payments Due by Period			
(In thousands of U.S. dollars)	**Total**	**1 Year**	**2-3 Years**	**4-5 Years**	**More Than 5 Years**
Long-term debt obligations					
Principal	$ 160,000	$	$ 160,000	$	$
Interest	33,367	15,400	17,967		
Demand loan	20,000	20,000			
Capital lease obligations	304	190	83	31	
Operating lease obligations	30,540	5,908	12,035	9,216	3,381
Pension obligations	32,135		32,135		
Purchase obligations	8,406	8,406			
	$ 284,752	$ 49,904	$ 222,220	$ 9,247	$ 3,381

Item 3. ***Quantitative and Qualitative Factors about Market Risk***

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

A majority of the Company s revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company s net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Japanese yen, Euros and Canadian dollars. For the three and nine months ended September 30, 2008, the Company recorded a translation loss of $0.6 million and $0.8 million, respectively compared with a gain of $0.9 million and $1.5 million, for the three and nine months ended September 30, 2007, respectively, primarily from the receivables associated with leases denominated in Canadian dollars, as the value of the U.S. dollar declined in relation to the Canadian dollar. The decline in the value of the U.S. dollar also had an impact on working capital given the appreciation in value of the Canadian dollar, Euro and Japanese yen.

Item 4. ***Controls and Procedures***

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the specified time periods and that such information is accumulated and communicated to management, including the Co-CEOs and Chief Financial Officer (CFO), to allow timely discussions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The Company s management, with the participation of its Co-CEOs and its CFO, has evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as at September 30, 2008. Based on that evaluation and because of the identification of certain material weaknesses in the Company s internal control over financial reporting, as discussed in Material Weakness in Internal Control over Financial Reporting below, the Co-CEOs and the CFO have concluded that the Company s disclosure controls and procedures were not effective as at September 30, 2008.

IMAX CORPORATION

In making this evaluation, management, including the Co-CEOs and the CFO, considered, among other matters:

- the identification of certain material weaknesses in the Company s internal control over financial reporting, as discussed in the Company s 2007 Form 10-K and its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008 (and as described below); and

- the conclusion of the Co-CEOs and the CFO that the Company s disclosure controls and procedures as at December 31, 2007, March 31, 2008 and June 30, 2008 were not effective, as discussed in the Company s 2007 Form 10-K and its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008.

The Company has made significant progress in implementing its remediation plan to address material weaknesses and, as at September 30, 2008, only three of the original eight reported material weaknesses continue to exist.

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework in Internal Control-Integrated Framework to assess the effectiveness of the Company s internal control over financial reporting.

Based on this assessment, management has concluded that such internal control over financial reporting was not effective as at September 30, 2008 due to the material weaknesses identified and discussed below.

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

A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim condensed consolidated financial statements will not be prevented or detected on a timely basis.

The Company s Co-CEOs and CFO assessed the effectiveness of the Company s internal control over financial reporting, and concluded that the following material weaknesses in internal control over financial reporting existed as at September 30, 2008.

Application of U.S. GAAP

Three of the Company s material weaknesses relate to controls over the analysis and review of certain transactions to be able to correctly apply U.S. GAAP to record those transactions. The financial impact of these material weaknesses on the Company s financial results was principally related to the analysis and review of transactions which were complex or nonstandard. These material weaknesses are:

1. The Company did not maintain effective controls, including period-end controls, over accounting for film transactions in accordance with U.S. GAAP. Specifically, effective controls were not maintained related to (i) the classification and accurate recording of marketing and advertising costs of co-produced film productions which could result in higher film assets, (ii) Production Fees on co-produced films and the application of the individual-film forecast computation method to film assets, participation liabilities and deferred Production Fees which could impact the timing of film costs and revenues, and (iii) record changes in estimates of ultimate film revenues in accordance with SOP 00-2 on a prospective basis, which could impact the timing of recognizing film-related costs.

IMAX CORPORATION

2. The Company did not maintain effective controls, including period-end controls, over accounting for inventories in accordance with U.S. GAAP. Specifically, the Company did not maintain effective controls related to the classification of certain fees paid to a professional services firm, which resulted in an overstatement of inventory and an understatement of selling expenses in the periods affected. In 2007, the Company did not maintain effective controls related to the methodology initially used by the Company to determine its net realizable value for film-based projection systems and related raw materials inventories. In addition, the methodology used to initially cost raw materials were not operating effectively, which could result in a misstatement of inventory carrying value.

3. The Company did not maintain effective controls, including period-end controls, over the intraperiod allocation of the provision for income taxes in accordance with U.S. GAAP. Specifically, effective controls were not in place such that the tax provisions were appropriately allocated to continuing operations, discontinued operations, and accumulated other comprehensive income. This could affect the proper classification of the provision for income taxes between continuing operations, discontinued operations and accumulated other comprehensive income.

Each of the control deficiencies above could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Management determined that each of these control deficiencies discussed above constitutes a material weakness at September 30, 2008.

REMEDIATION PLAN

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

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

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

The following specific remediation activities, as previously disclosed, remain in progress:

Enhancing controls for accounting for film transactions in accordance with U.S. GAAP as follows:

maintaining a screening process whereby management reviews the film agreements to identify complexities and considerations that need to be made when accounting for films.

regularly scheduling meetings between the Film Group and Finance to discuss developments related to the Company s film slate.

providing training with respect to Accounting by Producers or Distributors of Films (SOP 00-2) to key personnel, as required.

Enhancing controls for accounting for costs related to inventory in accordance with U.S. GAAP as follows:

developing and distributing to appropriate personnel a detailed inventory policy providing for guidance on evaluating matters such as the nature of costs that can be capitalized to inventory and inventory obsolescence.

IMAX CORPORATION

holding supplemental meetings, as-needed, between key operational and finance personnel, to identify any non-standard costs and determine if special accounting treatment is required.

Enhancing controls for accounting for the intraperiod allocation of the provision for income taxes as follows:

establishing a formal calculation/reconciliation of the intraperiod allocation of income taxes for review by key finance personnel.

The following specific remediation activities, previously disclosed, are now satisfactorily completed:

Controls over the accounting analysis, and review of revenue recognition for sales and lease transactions in accordance with U.S. GAAP.

Controls to capture all postretirement benefits other than pensions included with executive employment contracts have been enhanced through monthly management meetings of senior executives in Human Resources, Legal and Finance to discuss issues, developments, and changes relating to benefits, other than pensions.

Controls over the complete and accurate recording of transactions related to real estate lease arrangements for owned and operated theaters or corporate offices in accordance with U.S. GAAP have been enhanced through documentation and review of a detailed analysis highlighting key terms of all agreements by key Finance personnel.

Controls over the lines of communication between operations departments and the Finance department related to revenue recognition for sales and lease transactions have been enhanced through holding formalized meetings twice a month involving key individuals within Theater Development, Corporate Development, Legal and Business Affairs, and Senior Finance management.

Controls over the issuance of stock options have been enhanced through the preparation and review of a periodic analysis to determine that stock options are issued within required guidelines.

The Company s management, including the Co-CEOs and the CFO believe that the plan should be fully implemented, and all material weaknesses remediated in 2008. They will continue to monitor the effectiveness of these actions and will make any changes and take such other actions deemed appropriate given the circumstances.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Except as described above, there were no changes in the Company s internal control over financial reporting which occurred during the nine months ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

IMAX CORPORATION

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

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

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chambers of Commerce (the ICC) with respect to the breach by Electronic Media Limited (EML) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML s affiliate, E-CITI Entertainment (I) PVT Limited (E-Citi), seeking damages as a result of E-Citi s breach of a September 2000 lease agreement. An arbitration hearing took place in November 2005 against E-Citi which considered all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company s favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of $9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company s theater system contract. The Company thereafter submitted its application to the arbitration panel for interest and costs. On March 27, 2008, the Panel issued a final award in favor of the Company in the amount of $11,309,496, plus an additional $2,512 each day in interest from October 1, 2007 until the date the award is paid, which the Company is seeking to enforce and collect in full.

(c) In June 2004, Robots of Mars, Inc. (Robots) initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to an arbitration provision in a 1994 film production agreement between Robots predecessor-in-interest and a subsidiary of the Company, asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with the contract. Robots is seeking an accounting of the Company s revenues and an award of all sums alleged to be due to Robots under the production agreement, as well as punitive damages. The Company intends to vigorously defend the arbitration proceeding and believes the amount of the loss, if any, that may be suffered in connection with this proceeding will not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of such arbitration.

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

IMAX CORPORATION

the lead plaintiff and Abbey Spanier Rodd & Abrams, LLP as lead plaintiff s counsel. On October 2, 2007, plaintiffs filed a consolidated amended class action complaint. The amended complaint, brought on behalf of shareholders who purchased the Company s common stock between February 27, 2003 and July 20, 2007, alleges primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company s revenue recognition of theater system installations, and failing to disclose material information concerning the Company s revenue recognition practices. The amended complaint also added PricewaterhouseCoopers LLP, the Company s auditors, as a defendant. The lawsuit seeks unspecified compensatory damages, costs, and expenses. The defendants filed a motion to dismiss the amended complaint on December 10, 2007. On September 16, 2008, the Court issued a memorandum opinion and order, denying the motion. On October 6, 2008, the defendants filed an answer to the amended complaint. The lawsuit is at a very early stage and as a result the Company is not able to estimate a potential loss exposure at this time. The Company will vigorously defend the matter, although no assurances can be given with respect to the outcome of such proceedings. The Company s directors and officers insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

(e) A class action lawsuit was filed on September 20, 2006 in the Ontario Superior Court of Justice against the Company and certain of its officers and directors, alleging violations of Canadian securities laws. This lawsuit was brought on behalf of shareholders who acquired the Company s securities between February 17, 2006 and August 9, 2006. The lawsuit is in a very early stage and seeks unspecified compensatory and punitive damages, as well as costs and expenses. As a result, the Company is unable to estimate a potential loss exposure at this time. The plaintiffs require leave of the Court before they are permitted to proceed with certain claims they have made pursuant to the Securities Act (Ontario). They have filed a motion to obtain leave, along with a separate motion for certification of the action as a class proceeding. The Company has opposed both of these motions and a hearing on the motions will take place during the week of December 15, 2008. It is not known when the Court will render a decision on these motions. The Company believes the allegations made against it in the statement of claim are meritless and will vigorously defend the matter, although no assurance can be given with respect to the ultimate outcome of such proceedings. The Company s directors and officers insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

(f) On September 7, 2007, Catalyst Fund Limited Partnership II (Catalyst), a holder of the Company s Senior Notes, commenced an application against the Company in the Ontario Superior Court of Justice for a declaration of oppression pursuant to sections 229 and 241 of the Canada Business Corporations Act (CBCA) and for a declaration that the Company is in default of the Indenture governing its Senior Notes. The allegations of oppression are substantially the same as allegations Catalyst made in a May 10, 2007 complaint filed against the Company in the Supreme Court of the State of New York, and subsequently withdrawn on October 12, 2007, wherein Catalyst challenged the validity of the consent solicitation through which the Company requested and obtained a waiver of any and all defaults arising from a failure to comply with the reporting covenant under the Indenture and alleged common law fraud. Catalyst has also requested the appointment of an inspector and an order that an investigation be carried out pursuant to section 229 of the CBCA. In addition, between March 2007 and October 2007, Catalyst sent the Company eight purported notices of default or acceleration under the Indenture. It is the Company s position that no event of default (as that term is defined in the Indenture) has occurred and, accordingly, that Catalyst s purported acceleration notice is of no force or effect. On September 26, 2008, on the Company s motion, the Ontario Superior Court stayed Catalyst s application in Canada pending a further order of the court, and ordered Catalyst to pay the Company s costs associated with the motion. The stay was issued on the basis of Catalyst having brought similar claims in the state of New York. At this stage of the litigation, the Company is not able to estimate a potential loss exposure. The Company believes this application is entirely without merit and plans to contest it vigorously and seek costs from Catalyst, although no assurances can be given with respect to the outcome of the proceedings. The Company s directors and officers insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

IMAX CORPORATION

(g) In a related matter, on December 21, 2007, U.S. Bank National Association, trustee under the Indenture, filed a complaint in the Supreme Court of the State of New York against the Company and Catalyst, requesting a declaration that the theory of default asserted by Catalyst before the Ontario Superior Court of Justice is without merit and further that Catalyst has failed to satisfy certain prerequisites to bondholder action, which are contained in the Indenture (the U.S. Bank s New York Action). As a result of this action, on January 10, 2008, the Company filed a motion with the Ontario Superior Court of Justice seeking a stay of all or part of the action Catalyst initiated before that court. On February 6, 2008, the Company served a Verified Answer to U.S. Bank s New York Action. On February 22, 2008, Catalyst filed a Verified Answer to U.S. Bank s New York Action and Cross-Claims against the Company in the same proceeding. The Cross-Claims repeat the allegations and seek substantially the same relief as in Catalyst s application in the Ontario Superior Court of Justice and as were raised in Catalyst s May 10, 2007 complaint filed against the Company in the Supreme Court of the State of New York. Catalyst moved for summary judgment on the Cross-Claims. The Company opposed this motion and requested that summary judgment be granted in its favor. The Company continues to believe that Catalyst s claims are entirely without merit. The Company is unable to comment on the outcome of the proceedings or estimate the potential loss exposure, if any.

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

Item 1A. ***Risk Factors***

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

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

There were no matters submitted to a vote of the security holders during the quarter ended September 30, 2008.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

Exhibit No.	Description
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 6, 2008, by Bradley J. Wechsler.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 6, 2008, by Richard L. Gelfond.
31.3	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 6, 2008, by Joseph Sparacio.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 6, 2008, by Bradley J. Wechsler.

32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 6, 2008, by Richard L. Gelfond.
32.3	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 6, 2008, by Joseph Sparacio.

Table of Contents

IMAX CORPORATION

SIGNATURES

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

IMAX CORPORATION

Date: November 6, 2008

By:
/s/ JOSEPH SPARACIO

Joseph Sparacio
Executive Vice-President & Chief Financial Officer
(Principal Financial Officer)

Date: November 6, 2008

By:
/s/ JEFFREY VANCE

Jeffrey Vance
Vice-President, Finance & Controller
(Principal Accounting Officer)

74