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IMAX CORP
Form 10-K405
March 25, 2002

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

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

COMMISSION FILE NUMBER 0-24216

IMAX CORPORATION

(Exact name of registrant as specified in its charter)

CANADA
(State or other jurisdiction
of incorporation or organization)

98-0140269
(I.R.S. Employer
Identification Number)

2525 SPEAKMAN DRIVE,
MISSISSAUGA, ONTARIO, CANADA
(Address of principal
executive offices)

L5K 1B1
(Postal Code)

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

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

TITLE OF EACH CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
None	

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

COMMON SHARES, NO PAR VALUE
(Title of class)

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the

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best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, computed by reference to the last sale price of such shares as of the close of trading on February 28, 2002 was \$68.1 million (19,396,174 common shares times \$3.51). As of February 28, 2002, there were 32,915,858 common shares of the registrant outstanding.

DOCUMENT INCORPORATED BY REFERENCE*

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors and the annual meeting or the stockholders of the registrant scheduled to be held on or about June 5, 2002 (the "Proxy Statement") are incorporated by reference in Part III of this Form 10-K.

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

ANNUAL REPORT ON FORM 10-K

DECEMBER 31, 2001

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EXCHANGE RATE DATA

Unless otherwise indicated, all dollar amounts in this document are expressed in United States ("U.S.") dollars. The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in the City of New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"). Such rates quoted are the number of U.S. dollars per one Canadian dollar and are the inverse of rates quoted by the Federal Reserve Bank of New York for Canadian dollars per U.S. \$1.00. The average exchange rate is based on the average of the exchange rates on the last day of each month during such periods. The Noon Buying Rate on December 31, 2001 was U.S. \$0.6267.

	YEARS ENDED DECEMBER 31,			
	2001	2000	1999	1998
Exchange rate at end of period.....	U.S. \$0.6267	U.S. \$0.6669	U.S. \$0.6925	U.S. \$0.652
Average exchange rate during period.....	0.6457	0.6732	0.6730	0.674
High exchange rate during period.....	0.6697	0.6944	0.6925	0.710
Low exchange rate during period.....	0.6241	0.6410	0.6535	0.634

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included herein may constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of its business and operations, plans and references to the future success of IMAX Corporation together with its wholly owned subsidiaries (the "Company"). These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other companies; conditions in the out-of-home

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entertainment industry; changes in laws or regulations; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; the potential impact of increased competition in the markets the Company operates within; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made herein are qualified by these cautionary statements, and actual results or developments anticipated by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

IMAX(R), IMAX(R) Dome, OMNIMAX(R), IMAX(R) 3D, IMAX(R) 3D Dome, Personal Sound Environment(R), The IMAX Experience(R), An IMAX Experience(R) and IMAX(R) DMR(TM) are trademarks and trade names of the Company or its subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

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IMAX CORPORATION

PART I

ITEM 1. BUSINESS

GENERAL

IMAX Corporation together with its wholly owned subsidiaries (the "Company") is one of the world's leading entertainment technology companies, with particular emphasis on film and digital imaging technologies including giant-screen images, three-dimensional ("3D") presentations, and post-production. The Company designs, manufactures and leases projection and sound systems for giant-screen, 15-perforation film frame, 70mm format ("15/70-format") theaters based on proprietary and patented technology and is a major distributor of films for giant-screen theaters.

The Company believes the IMAX theater network is the most extensive giant-screen theater network in the world with 227 theaters operating in 30 countries as of December 31, 2001. In addition to the existing library of general entertainment and educational 15/70-format films, the increased number of commercial IMAX theaters in operation has attracted more commercial films to the medium including films produced by major Hollywood studios. In 2000, Buena Vista Pictures Distribution, a unit of The Walt Disney Company, released Disney's animated feature Fantasia 2000: The IMAX Experience(R) to 75 IMAX theaters around the world. Fantasia 2000 was the first theatrical full-length feature film to be reformatted into 15/70-format film and became the fastest grossing large-format film in history. In January 2002, Disney released Beauty and the Beast to 77 IMAX theaters around the world and has stated that it will release an additional three films over the next 12 months. The Company recently perfected a proprietary process whereby it can take a 35mm negative and convert it into 15/70-format. The Company believes that this process which will allow live-action 35mm films to be converted for exhibit in IMAX theaters, will have a significant impact on the number and quality of films that are made available to IMAX theaters. The Company believes that the commercial success of Fantasia 2000 and Beauty and the Beast coupled with its new digital re-mastering technology

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has the potential to lead to additional Hollywood films being released to IMAX theaters which, could create further demand worldwide for commercial IMAX theaters.

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

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

PRODUCT LINES

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

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IMAX CORPORATION

ITEM 1. BUSINESS (cont'd)

PRODUCT LINES (cont'd)

IMAX SYSTEMS

IMAX THEATERS

The Company is the pioneer and leader in the giant-screen, large-format film industry. The IMAX theater network has the largest installed base of giant-screen theater systems, with systems located in 227 theaters in 30 countries as of December 31, 2001. IMAX theaters have flat or dome shaped screens for two-dimensional ("2D") and 3D presentations which are many times larger than conventional theaters, extending to the edge of the viewer's peripheral vision. The theaters have a steeply inclined floor to provide all audience members a clear view of the screen and typically seat 250 to 500 people.

The Company's projection systems utilize the largest commercially available film format (15-perforation film frame, 70mm), which is 10 times larger than conventional film (4-perforation film frame, 35mm) and therefore are able to project significantly more detail on a larger screen. The Company believes its projectors, which utilize the Company's Rolling Loop technology, are unsurpassed

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in their ability to project film with maximum steadiness and clarity with minimal film wear, and substantially enhance the quality of the projected image. As a result, the Company's projection systems deliver a higher level of clarity, detail and brightness compared to conventional movies and competing systems.

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

The following chart shows the number of the Company's theater systems by product, installed base and backlog as of December 31, 2001:

	2D			3D	
	PRODUCT	INSTALLED BASE	BACKLOG	PRODUCT	INSTALLED BASE
Flat Screen.....	IMAX (R)	59	3	IMAX (R) 3D	75
Dome Screen.....	IMAX (R) Dome	63	3	IMAX (R) 3D SR	26
				IMAX (R) 3D Dome	4

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

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

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

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

IMAX CORPORATION

ITEM 1. BUSINESS (cont'd)

PRODUCT LINES (cont'd)

IMAX SYSTEMS (cont'd)

IMAX THEATERS (cont'd)

SALES BACKLOG. Signed contracts for theater system installations are listed as sales backlog prior to the time of revenue recognition. Sales backlog represents the total value of all signed system sales and lease agreements that are expected to be recognized as revenue in the future. Sales backlog includes initial rental fees along with the present value of contractual minimum rents due over the lease term, but excludes maintenance revenues as well as rents in excess of contractual minimums that might be received in the future. Sales backlog does not include revenues from theaters in which the Company has an equity-interest, agreements covered by letters of intent or conditional theater commitments.

THEATER SYSTEM LEASES

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

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

SOUND SYSTEMS

Sonics Associates, Inc. ("Sonics"), the Company's 100% owned subsidiary, is a world leader in the development and manufacture of sound systems for all applications including traditional movie theaters, auditoriums and specialized uses including the development of 3D sound capabilities, and manufactures the sound systems for IMAX theaters. Prior to October 1, 1999, Sonics was 51% owned by the Company and 49% owned by four executive officers of Sonics. On October 1, 1999, the Company purchased the remaining 49% of Sonics that it did not own (see note 23 to the audited financial statements contained in Item 8). In February

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2001, the Company decided to relocate the manufacture of sound systems from Birmingham, Alabama to the Company's headquarters near Toronto, Canada.

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IMAX CORPORATION

ITEM 1. BUSINESS (cont'd)

PRODUCT LINES (cont'd)

FILMS

FILM PRODUCTION, DISTRIBUTION AND POST-PRODUCTION

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

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

The library of 15/70-format films includes general entertainment and educational films on subjects such as space, wildlife, music, history and natural wonders, and consisted of 179 films at the end of 2001, of which the Company had distribution rights to 54 such films. In recent years, several 15/70-format commercial films have been successfully released, including T-REX: Back to the Cretaceous, which was released by the Company in 1998 and has grossed over \$63.7 million to date, Everest, which was released by MacGillivray Freeman Films in 1998 and has grossed over \$114.0 million to date and Fantasia 2000: The IMAX Experience(R) which was released by the Company and Buena Vista Pictures Distribution, a unit of The Walt Disney Company in 2000. This was the first theatrical full-length feature film to be reformatted into 15/70-format film and it became the fastest grossing large-format film in history and has grossed over \$91.5 million to date. 15/70-format films have significantly longer exhibition periods than conventional 35mm films and many of the films in the library have remained popular for significantly longer periods including the films To Fly! (1976), Grand Canyon - The Hidden Secrets (1984) and The Dream Is Alive (1985), which were all exhibited during 2001. In 2001, there were 12 new films released in the 15/70-format.

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

DIGITAL RE-MASTERING ("IMAX(R) DMR(TM)")

The Company has developed a proprietary, patent-pending technology to

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digitally re-master 35mm live-action films into 15/70-format film for exhibition in IMAX theaters. This system, known as IMAX(R) DMR(TM), digitally enhances image resolution quality of 35mm motion picture films for projection on screens up to eight stories high and up to 120 feet wide, while maintaining the visual clarity and sound quality for which IMAX films are known. The Company believes that this technology could open the IMAX theater network up to releases of Hollywood films including both library titles and simultaneous new releases. The Company believes that the development of this new technology is key to helping it execute on its strategy of becoming a new release window for Hollywood films.

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IMAX CORPORATION

ITEM 1. BUSINESS (cont'd)

PRODUCT LINES (cont'd)

OTHER

THEATER OPERATIONS AND INVESTMENTS

The Company has six owned and operated theaters and two theaters which the Company shares in profits and losses.

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

CAMERAS. The Company rents 2D and 3D 15/70-format cameras and provides technical and post-production services to third-party producers for a fee. The Company maintains 13 cameras and other film equipment to support third-party producers and also offers production advice and technical assistance to filmmakers.

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

MARKETING AND CUSTOMERS

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

The Company has experienced an increase in the number of commercial theater signings and international signings since 1995. The commercial theater segment of the Company's theater network is now its largest segment with a total of 142 theaters opened or in backlog. At December 31, 2001, 43.9% of all opened and in backlog theaters are for locations outside of North America. The Company's institutional customers include science and natural history museums, zoos,

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aquaria and other educational and cultural centers. The Company also leases its systems to theme parks, tourist destination sites, fairs and expositions.

The Company's 2001 financial results were adversely affected by the significant number of bankruptcies in the North American exhibition industry. The Company believes that the majority of this restructuring process is now complete and expects the North American commercial exhibition market will again be a significant source of clients for the Company.

INDUSTRY AND COMPETITION

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

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IMAX CORPORATION

ITEM 1. BUSINESS (cont'd)

INDUSTRY AND COMPETITION (cont'd)

The commercial success of the Company's products is ultimately dependent upon consumer preferences. The out-of-home entertainment industry in general continues to go through significant changes, primarily due to technological developments and changing consumer tastes. Numerous companies are developing new entertainment products for the out-of-home entertainment industry in response to these changes, and some of these new products are or may be directly competitive with the Company's products. Competitors may design products which are more attractive to consumers and/or more cost effective than the Company's products and that may make the Company's products less competitive. The Company's existing products may not continue to compete effectively and be attractive to consumers and products under development may never be attractive to consumers or be competitive. The Company may also face competition from companies in the entertainment industry with substantially greater financial and other resources than the Company.

RESEARCH AND DEVELOPMENT

The Company believes that it is one of the world's leading entertainment technology companies with significant in-house proprietary expertise in projection system, camera and sound system design, engineering and technology. The Company believes that 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), digital re-mastering (such as IMAX(R) DMR(TM)), distribution and display. The Company has made significant investments in digital technologies, including the development of a proprietary, patent-pending technology to digitally enhance image resolution and quality of 35mm motion picture films and has a number of patents pending and intellectual property rights in these areas.

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The IMAX(R) DMR(TM) technology converts a 35mm frame into digital form at very high resolution. The proprietary system recreates a pristine form of the original photography. A proprietary computer process makes the images sharper than the original and the completed re-mastered film, now 10 times larger than the original, is transferred onto the world's largest film format, 15/70-format. In addition, each film's original soundtrack is also recreated adding another sonic dimension to upgrade the original movie soundtrack to Company standards.

In addition, the Company has substantial proprietary knowledge in 15/70-format film production.

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

As of December 31, 2001, 25 of the Company's employees were connected with research and development projects.

MANUFACTURING AND SERVICE

IMAX MANUFACTURING

The Company assembles its giant-screen projection systems at its Corporate Headquarters and Technology Center in Mississauga, Canada (near Toronto). A majority of the components for the Company's systems are purchased from outside vendors. The Company develops and designs all the key elements for the proprietary technology involved in its projector and camera systems. Fabrication of these components is then subcontracted to a group of carefully pre-qualified suppliers. Manufacture and supply contracts are signed for the delivery of components on an order-by-order basis. The Company has developed long-term relationships with a number of significant suppliers, and the Company believes its existing suppliers will continue to supply quality products in quantities sufficient to satisfy its needs. The Company inspects all components and sub-assemblies, completes the final assembly and then subjects the systems to comprehensive testing prior to shipment. Since 1980, IMAX theater systems have had an average in-service time of over 99.9%.

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IMAX CORPORATION

ITEM 1. BUSINESS (cont'd)

MANUFACTURING AND SERVICE (cont'd)

SONICS MANUFACTURING

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

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signal processing and control equipment. In February 2001, the Company decided to relocate the manufacture of sound systems from Birmingham, Alabama to the Company's headquarters near Toronto, Canada.

SERVICE AND MAINTENANCE

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

PATENTS AND TRADEMARKS

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

The Company currently holds 10 patents, has 13 patents pending in the United States and has corresponding patents or filed applications in many countries throughout the world. While the Company considers its patents to be important to the overall conduct of its business, it does not consider any particular patent essential to its operations. Certain of the Company's patents in the United States, Canada and Japan for improvements to the IMAX projector, IMAX 3D Dome and sound systems expire between 2008 and 2018.

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

EMPLOYEES

As of December 31, 2001, the Company had 345 employees not including hourly employees at Company owned and operated theaters.

ITEM 2. PROPERTIES

The Company's principal executive offices are located in Mississauga,

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Ontario, Canada and New York, New York. The Company's principal facilities are as follows:

	OPERATION -----	OWN/LEASE -----
Mississauga, Ontario(1)..... Headquarters, Administrative, Assembly and Research and Development		Own
New York, New York..... Executive		Lease
Birmingham, Alabama Sound Systems Design and Assembly		Own
Kempten, Germany(2)..... Sales and Marketing		Lease
Santa Monica, California.... Sales, Marketing, Film Production and Post-Production		Lease
Singapore..... Sales and Marketing		Lease
Tokyo, Japan..... Sales, Marketing, Maintenance and Theater Design		Lease

(1) This facility is subject to a collateral secured charge in favor of Technicolor Inc. in connection with an upfront discount payment received in February 2002 (see note 22 to the audited financial statements contained in Item 8).

(2) This facility was closed as a business office in March 2002.

ITEM 3. LEGAL PROCEEDINGS

In November 2001, the Company filed a complaint with the High Court of Munich (the "Court") against Big Screen, a German large-screen cinema owner in Berlin (the "Big Screen") demanding payment of outstanding Additional Rent and certain other amounts owed to the Company. Big Screen has raised a defense based on alleged infringement of German antitrust rules, relating mainly to an allegation of excessive pricing. The Big Screen is also a member of Euromax, an association of European large-screen cinema owners that filed a complaint in 2000 with the European Commission based on European Community ("EC") competition rules, addressing broadly similar allegations against the Company. In mid-2001, the European Commission sent a preliminary letter to Euromax proposing to reject the complaint based on EC competition rules. The European Commission has not yet taken a final decision. Although the Court has the power to reject or reduce the Company's demands for payment, and the European Commission has the power to impose fines and order cessation of any infringements of EC competition rules, the Company believes that on the basis of currently available information, including the Commission's rejection letter and an initial review of the facts and law, that such results are not likely. The Company believes that all of the allegations in the complaint as well as the allegations in Big Screen's individual defense are meritless and will accordingly continue to defend these matters vigorously. The Company believes that the amount of the loss, if any, suffered in connection with this dispute would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

In June 2000, a complaint was filed against the Company and a third party by Mandalay Resort Group f/k/a Circus Circus Enterprises, Inc., alleging breach of contract and express warranty, fraud and misrepresentation in connection with the installation of certain motion simulation bases in Nevada. The case is being heard in the U.S. District Court for the District of Nevada. The complaint alleges damages in excess of \$4.1 million. The Company believes that the allegations made against it in the complaint are meritless and will accordingly defend the matter vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material

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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 any such litigation.

In December 2000, the Company filed a complaint against George Krikorian Premiere Theaters LLC and certain other related parties (collectively "Krikorian") in the U.S. District of California, alleging breach of contract and fraud resulting in damages to the Company in excess of \$6.0 million. In February 2001, Krikorian filed counterclaims against the Company alleging, among other things, fraudulent inducement and negligent misrepresentation, which counterclaims were subsequently dismissed and then amended. Further counterclaims were filed in May 2001. The Company believes that the allegations made against it in the counterclaims are meritless and will defend against them vigorously. The Company believes that the amount of loss, if any, suffered in connection with any such claims 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 any such litigation.

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IMAX CORPORATION

ITEM 3. LEGAL PROCEEDINGS (cont'd)

In March 2001, a complaint was filed against the Company by Muvico Entertainment, L.L.C. ("Muvico"), alleging misrepresentation and seeking rescission in respect of the system lease agreements between the Company and Muvico. The Company filed counterclaims against Muvico for breach of contract, unjust enrichment and theft of trade secrets, and brought claims against Muvico and MegaSystems, Inc. ("MegaSystems"), a large-format theater system manufacturer, for tortious interference, unfair competition and/or deceptive trade practices, violations of the U.S. Lanham Act, and to enjoin Muvico and MegaSystems from using the Company's confidential and proprietary information. The case is being heard in the U.S. District Court, Southern District of Florida, Miami Division. The Company believes that the allegations made by Muvico in its complaint are entirely without merit and will accordingly defend the claims vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operation of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

In August 2000, Edwards Theaters Circuit, Inc. and related companies ("Edwards") filed for protection under Chapter 11 of the United States bankruptcy code in the U.S. Bankruptcy Court for the Central District of California, Santa Ana Division. Pursuant to a stipulation reached among Edwards and the Company and approved by the court, Edwards' leases of Company theater system equipment were deemed rejected as of August 1, 2001. On August 2, 2001, the Company filed a proof of claim in the amount of \$28.9 million for amounts due and owing to the Company at the time of the commencement of the bankruptcy and for damages arising from Edwards' rejection of the leases pursuant to section 365 of the Bankruptcy Code. In addition, on August 1, 2001, the Company brought an adversary action in the bankruptcy court against Edwards for violations of the Lanham Act for unfair competition and false advertising, trademark dilutions under federal and state law, common law trademark infringement and unfair competition, unfair business practices under state law and misappropriation of trade secrets. Edwards has objected to the Company's claim and moved to disallow it and, on September 4, 2001, Edwards answered the

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Company's complaint and asserted counterclaims against the Company, alleging non-compliance with the California Franchise Investment Law and negligent misrepresentation. By stipulation of the Company and Edwards, the motion to disallow the Company's claim, and the adversary action filed by the Company including Edwards' counterclaims have been consolidated. In March 2002, Edwards amended its counterclaim to add additional counts, including fraudulent concealment and intentional misrepresentation. The Company intends to move for summary judgement on all claims in the action immediately upon the conclusion of discovery in May 2002. The Company believes that the allegations made by Edwards in its objection to the Company's claim and Edwards' counterclaims are entirely without merit and the Company has and will accordingly defend the matter vigorously. The Company believes that the amount of loss, if any, suffered in connection with such 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 any such litigation.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the security holders during the quarter ended December 31, 2001.

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IMAX CORPORATION

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

	U.S. DOLLARS	
	HIGH	LOW
NASDAQ		
Year ended December 31, 2001		
Fourth quarter.....	2.650	0.760
Third quarter.....	2.470	0.550
Second quarter.....	3.219	1.450
First quarter.....	7.188	2.750
Year ended December 31, 2000		
Fourth quarter.....	16.938	2.500
Third quarter.....	29.438	13.188
Second quarter.....	24.125	18.000

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First quarter..... 28.500 19.500

CANADIAN DOLLARS

HIGH LOW

TSE

Year ended December 31, 2001

Fourth quarter..... 4.100 1.150
Third quarter..... 3.700 0.800
Second quarter..... 5.100 2.250
First quarter..... 10.900 4.200

Year ended December 31, 2000

Fourth quarter..... 25.650 3.800
Third quarter..... 42.500 20.000
Second quarter..... 35.000 27.550
First quarter..... 40.500 29.000

As of December 31, 2001 the Company had 271 registered holders of record on the Company's common shares.

The Company has not paid within the last three fiscal years, and has no current plans to pay, dividends on its common shares. The payment of dividends by the Company is subject to certain restrictions under the terms of the Company's indebtedness (see note 10 to the audited financial statements in Item 8 and the discussion of liquidity and capital resources in Item 7). The payment of any future dividends will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board of Directors.

CERTAIN INCOME TAX CONSIDERATIONS

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax consequences of the ownership and disposition of the common shares by a U.S. Holder. A "U.S. Holder" generally means a holder of common shares that is an individual resident of the United States or a United States corporation. This discussion does not discuss all aspects of U.S. federal income taxation that may be relevant to investors subject to special treatment under U.S. federal income tax law (including, for example, owners of 10.0% or more of the voting shares of the Company).

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DISTRIBUTIONS ON COMMON SHARES

In general, distributions (without reduction for Canadian withholding taxes) paid by the Company with respect to the common shares will be taxed to a U.S. Holder as ordinary income to the extent that such distributions do not exceed the current and accumulated earnings and profits of the Company (as determined for U.S. federal income tax purposes). The amount of a distribution that exceeds the earnings and profits of the Company will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in the common shares and thereafter as taxable capital gain. Corporate holders generally will not be allowed a deduction for dividends received in respect of distributions on common shares. Subject to the limitations set forth in the U.S. Internal Revenue Code, as modified by the United States-Canada income tax treaty, U.S. Holders may elect to claim a foreign tax credit against their U.S. federal income tax liability for Canadian income tax withheld from dividends.

DISPOSITION OF COMMON SHARES

Upon the sale or other disposition of common shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale and such holder's tax basis in the common shares. Gain or loss upon the disposition of the common shares will be long-term if, at the time of the disposition, the common shares have been held for more than one year. The deduction of capital losses is subject to limitations for U.S. federal income tax purposes.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

This summary is of a general nature only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder of the common shares and no representation with respect to Canadian federal income tax consequences to any holder of common shares is made herein. Accordingly, prospective purchasers and holders of the common shares should consult their own tax advisers with respect to their individual circumstances.

DIVIDENDS ON COMMON SHARES

Canadian withholding tax at a rate of 25.0% (subject to reduction under the provisions of any relevant tax treaty) will be payable on dividends paid or credited to a holder of common shares. Under the Canada-U.S. income tax treaty, the withholding tax rate is generally reduced to 15.0% for a holder entitled to the benefits of the treaty (or 5.0% if the holder is a corporation that owns at least 10.0% of the common shares).

CAPITAL GAINS AND LOSSES

Subject to the provisions of a relevant tax treaty, capital gains realized by a holder on the disposition or deemed disposition of common shares held as capital property will not be subject to Canadian tax unless the common shares are taxable Canadian property (as defined in the Income Tax Act (Canada)), in which case the capital gains will be subject to Canadian tax at rates which will approximate those payable by a Canadian resident. Common shares will not be taxable Canadian property to a holder provided that, at the time of the disposition or deemed disposition, the common shares are listed on a prescribed stock exchange (which currently includes The Toronto Stock Exchange) unless such holder, persons with whom such holder did not deal at arm's length or such holder together with all such persons, owned 25.0% or more of the issued shares of any class or series of shares of the Company at any time within the 60 month period immediately preceding such time.

Under the Canada-United States income tax treaty, a holder who is a

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resident of the United States for purposes of such treaty and to whom the common shares are taxable Canadian property will not be subject to Canadian tax on the disposition or deemed disposition of the common shares unless at the time of disposition or deemed disposition, the value of the common shares is derived principally from real property situated in Canada.

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IMAX CORPORATION

ITEM 6. SELECTED FINANCIAL DATA

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

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

	YEARS ENDED		
	2001	2000	1999
STATEMENTS OF OPERATIONS DATA:			
REVENUE			
IMAX systems.....	\$ 76,582	\$ 113,226	\$ 122,400
Films.....	29,923	41,711	41,711
Other.....	12,154	18,179	18,179
	118,659	173,116	182,290
COSTS OF GOODS AND SERVICES (1)	97,391	112,655	112,655
	21,268	60,461	69,635
GROSS MARGIN	21,268	60,461	69,635
Selling, general and administrative expenses (2).....	48,962	53,384	53,384
Research and development.....	3,385	6,497	6,497
Amortization of intangibles (3).....	3,005	2,948	2,948
Loss (income) from equity-accounted investees (4).....	(73)	4,811	4,811
Restructuring costs and asset impairments (5).....	59,868	11,152	11,152
	(93,879)	(18,331)	5,583
EARNINGS (LOSS) FROM OPERATIONS	(93,879)	(18,331)	5,583
Interest income.....	847	3,285	3,285
Interest expense.....	(22,020)	(21,961)	(21,961)
Impairment of long-term investments (6).....	(5,584)	(4,133)	(4,133)
Foreign exchange gain (loss).....	(1,357)	(1,781)	(1,781)
	(121,993)	(42,921)	(20,802)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	(121,993)	(42,921)	(20,802)
Recovery of (provision for) income taxes (7).....	(11,005)	13,139	13,139
	(132,998)	(29,782)	(7,663)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	(132,998)	(29,782)	(7,663)
Minority interest.....	-	-	-
	(132,998)	(29,782)	(7,663)
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(132,998)	(29,782)	(7,663)
Net loss from discontinued operations.....	(50,850)	(2,055)	(2,055)

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NET EARNINGS (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES AND EXTRAORDINARY ITEMS.....	(183,848)	(31,837)	2
Cumulative effect of changes in accounting principles, net of income tax benefit of \$37,286(8).....	-	(61,110)	
Extraordinary loss on early retirement of debt, net of income tax benefit of \$1,588(9).....	-	-	
Extraordinary gain on repurchase of convertible subordinated notes, net of income tax expense of \$16,843(10).....	38,734	-	
NET EARNINGS (LOSS).....	\$ (145,114)	\$ (92,947)	\$ 2
EARNINGS (LOSS) PER SHARE: Earnings (loss) per share - basic:			
Net earnings (loss) from continuing operations.....	\$ (4.30)	\$ (1.00)	\$
Net loss from discontinued operations.....	\$ (1.64)	\$ (0.07)	\$
Net earnings (loss) before cumulative effect of changes in accounting principles and extraordinary items.....	\$ (5.94)	\$ (1.07)	\$
Cumulative effect of changes in accounting principles.....	\$ -	\$ (2.04)	\$
Extraordinary items.....	\$ 1.25	\$ -	\$
Net earnings (loss).....	\$ (4.69)	\$ (3.11)	\$
Earnings (loss) per share - diluted:			
Net earnings (loss) from continuing operations.....	\$ (4.30)	\$ (1.00)	\$
Net loss from discontinued operations.....	\$ (1.64)	\$ (0.07)	\$
Net earnings (loss) before cumulative effect of changes in accounting principles and extraordinary items.....	\$ (5.94)	\$ (1.07)	\$
Cumulative effect of changes in accounting principles.....	\$ -	\$ (2.04)	\$
Extraordinary items.....	\$ 1.25	\$ -	\$
Net earnings (loss).....	\$ (4.69)	\$ (3.11)	\$

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IMAX CORPORATION

ITEM 6. SELECTED FINANCIAL DATA (cont'd)

- (1) The year ended December 31, 2001 costs of goods and services includes a \$4.1 million and a \$16.5 million charge relating to a reduced realizable value of the Company's inventories and reduced fair values of the Company's film assets, respectively. The year ended December 31, 2000 included a \$8.6 million charge which relates to the write-down of certain films in distribution. The year ended December 31, 1998 included a \$7.9 million charge related to rationalization of the Company's motion simulation division and \$19.1 million related to the write-down of the value of some of the Company's films.
- (2) The year ended December 31, 2001 selling, general and administrative expenses includes a \$2.6 million non-cash charge for incurred compensation resulting from a stock grant issuance and \$4.5 million relating to the Company's accounts receivable, as collectibility on certain accounts was considered uncertain. The year ended December 31, 2000 included an \$13.1 million charge for estimated uncollectible accounts receivable.
- (3) Amortization of intangibles in 1998 included a \$3.3 million charge related

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to the write-off of goodwill associated with the Ridefilm business.

- (4) In 2000, loss (income) from equity-accounted investees included a \$4.0 million provision related to the guarantee of a term loan undertaken by the Forum Ride Associates joint venture. In 1998, it included the Company's 50% share of the loss of Forum Ride Associates and a provision against the remaining carrying value of the Company's equity investment in Forum Ride Associates totaling \$6.1 million and a \$0.5 million provision against an equity investment in a motion simulation ride.
- (5) In 2001, restructuring costs and asset impairments includes \$16.3 million related to efforts to stabilize and rationalize the business by reducing its overall corporate workforce and consolidation of its operations, which included relocating its sound-system facility to near Toronto, Canada. In the assessment of the assets, the Company recorded charges of \$13.6 million relating to net investment in leases, \$26.7 million of fixed assets, and \$3.3 million of other assets. In 2000, asset impairments included charges of \$11.2 million relating to fixed assets.
- (6) Impairment of long-term investments represents a charge of \$5.6 million and \$4.1 million relating to the impairment of certain of the Company's long-term investments, for the years ended December 31, 2001 and 2000, respectively.
- (7) In 2001, deferred income tax expense includes a \$41.2 million increase in the valuation allowance to reflect uncertainty associated with realization of the Company's deferred income tax asset.
- (8) The year ended December 31, 2000, the Company recognized an after-tax charge of \$54.5 million in accordance with the interpretive guidance of SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). In fiscal 2000, the Company also adopted AICPA Statement of Position 00-2, "Accounting by Producers or Distributors of Film" (SOP 00-2") and recorded an after-tax charge of \$6.6 million to reflect the adoption of this new principle.
- (9) In 1998, all of the 10% Senior Notes due 2001 were redeemed. The excess of the redemption price over the principal amount of \$2.8 million and the write-off of the unamortized deferred financing costs of \$0.9 million resulted in an extraordinary pre-tax loss of \$3.7 million.
- (10) During 2001, the Company and a wholly owned subsidiary of the Company purchased and cancelled an aggregate of \$70.4 million of the Company's convertible subordinated notes for \$13.7 million, represented by \$12.5 million in cash by the subsidiary and \$1.2 million in common shares by the Company.

	AS AT DECEMBER 31		
BALANCE SHEETS DATA:	2001	2000	1999
Cash, cash equivalents and investments in marketable debt securities.....	\$ 26,388	\$ 34,310	\$121,502
Total assets(1).....	261,512	492,100	538,237
Total long-term indebtedness.....	229,643	300,000	300,000
Total shareholders' equity (deficit).....	(118,448)	22,263	111,065

(1) includes the assets of discontinued operations.

IMAX CORPORATION

ITEM 6. SELECTED FINANCIAL DATA (cont'd)

PRO FORMA AMOUNTS IN ACCORDANCE WITH SAB 101:

Pro forma amounts for the year ended December 31, 1999 as if SAB 101 had been applied during all presented:

Revenue.....
Net earnings
Basic earnings per share.....
Diluted earnings per share.....

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company is one of the world's leading entertainment technology companies and is known for presenting the world's best cinematic presentations together with IMAX and IMAX 3D. The IMAX(R) brand is recognized throughout the world for extraordinary and immersive family experiences. As of December 2001, there were 227 theaters operating in 30 countries. It is estimated that more than 700 million people have seen an IMAX presentation since the medium premiered in 1970.

The Company derives revenue principally from long-term theater system lease agreements, maintenance agreements, the distribution of films and film production agreements. The Company also derives revenue from the operation of theaters in which the Company owns, camera rentals and post-production services.

THEATER SYSTEMS

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

Theater system leases that transfer substantially all of the benefits and risks of ownership to customers are classified as sales-type leases as a result of meeting the criteria established by FASB Statement of Financial Accounting

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Standards No. 13 "Accounting for Leases". All other leases are treated as operating leases. Revenue from sales-type leases is recorded at the time the installation process is complete; persuasive evidence of an agreement exists; the price is fixed or determinable and collection is reasonably assured. Upon revenue recognition, the initial rental fees due under the contract, along with the present value of minimum ongoing rental payments are recorded as revenues and the related projector costs including installation expenses are recorded in cost of goods and services. In accordance with the interpretive guidance of SAB 101 (see note 24 of the audited financial statements in Item 8), effective January 1, 2000, the Company recognizes revenue on theater systems, sales-type leases and sales, at the time that installation is complete. Prior to January 1, 2000, the Company recognized revenue from sales-type leases and sales of theater systems at the time of delivery. The Company in certain circumstances sells theater systems.

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

The timing of installation of the theater system is largely dependent on the timing of the construction of the customer's theater. Therefore, while revenue for theater systems is generally predictable on a long-term basis, it can vary from quarter to quarter depending on the timing of installation.

The Company is dependent in part on the viability of the North American commercial exhibitor market for collections under long-term leases and for future system contracts. In the last few years, many of the North American commercial exhibitor chains faced financial difficulties due to over-expansion, which in some cases led to bankruptcy proceedings and/or consolidations. Recently, many of these exhibitors have emerged from those proceedings with new capital. Some have raised capital in the public markets, while others have plans to do so. While the Company views these recent developments in the North American commercial exhibitor market as positive, there is no guarantee that they will continue.

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IMAX CORPORATION

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

GENERAL (cont'd)

FILM PRODUCTION AND DISTRIBUTION

The Company adopted SOP 00-2, (see note 24 of the audited financial statements in Item 8) effective January 1, 2000. Prior to January 1, 2000, revenues associated with the licensing of exhibition rights to motion pictures distributed by the Company were recognized in accordance with FASB Statement of Financial Accounting Standard No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films". In accordance with SOP 00-2, the Company recognizes revenue from such licensing arrangements when the film is complete and has been delivered, the license period has begun, the fee is fixed or determinable and collection is reasonably assured. Where the license fees are based on a share of the customer's revenue, and all other revenue recognition criteria are met, the Company recognizes revenue as the customer exhibits the

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film. Costs of producing film and acquiring film distribution rights are capitalized and amortized using the individual film-forecast-computation method, which amortizes such costs in the same ratio that current period actual revenue bears to estimated remaining unrecognized ultimate revenue as of the beginning of the fiscal year. All advertising, exploitation costs and marketing costs are expensed as incurred. The cumulative effect of the change in accounting principle was recorded as a one time, non-cash after-tax charge of \$6.6 million in the consolidated statement of operations for the year ended December 31, 2000.

The Company has developed a proprietary, patent-pending technology to digitally re-master 35mm live-action films into 15/70-format film for exhibition in IMAX theaters. This system, known as IMAX(R) DMR(TM), digitally enhances image resolution quality of 35mm motion picture films for projection on screens up to eight stories high and up to 120 feet wide, while maintaining the visual clarity and sound quality for which IMAX films are known. The Company believes that this technology could open the IMAX theater network up to releases of Hollywood films including both library titles and simultaneous new releases. The Company believes that the development of this new technology is key to helping it execute on its strategy of becoming a new release window for Hollywood films. While the Company is optimistic about the IMAX(R) DMR(TM) technology, there is no guarantee that it will be commercially successful.

INTERNATIONAL OPERATIONS

A significant portion of the Company's sales are made to customers located outside of the United States and Canada. During 2001, 2000 and 1999, 35.2%, 47.2% and 40.6%, respectively, of the Company's revenues were derived outside the United States and Canada. The Company expects that international operations will continue to account for a substantial portion of its revenues in the future. In order to minimize exposure to exchange rate risk, the Company prices theater systems (the largest component of revenues) in U.S. dollars except in Canada and Japan where they are priced in Canadian dollars and Japanese Yen, respectively. Annual minimum rental payments and maintenance fees follow a similar currency policy.

ACCOUNTING POLICIES AND ESTIMATES

The Company reports its results under both United States Generally Accepted Accounting Principles ("U.S. GAAP") and Canadian Generally Accepted Accounting Principles. The financial statements and results referred to herein are reported under U.S. GAAP.

The preparation of these financial statements requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to accounts receivable, net investment in leases, inventories, fixed and film assets, investments, intangible assets, income taxes, contingencies and litigation. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the 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. The Company's significant accounting policies are discussed in note 2 of the audited financial statements in Item 8.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

GENERAL (cont'd)

SUBSEQUENT EVENTS

On January 7, 2002 and January 9, 2002, the Company and a wholly owned subsidiary of the Company purchased an additional \$19.5 million in the aggregate of the Company's 5.75% Convertible Subordinated Notes due April 1, 2003 (the "Subordinated Notes") for \$7.3 million represented by \$5.2 million in cash by the subsidiary and common shares by the Company valued at \$2.1 million. The Company will record an additional extraordinary pre-tax gain of \$12.2 million as a result of this transaction in the first quarter of 2002. These transactions had the effect of reducing the principal of the Company's outstanding Subordinated Notes to \$10.1 million.

On January 1, 2002, the Company entered into an agreement with its print supplier, Technicolor Inc. ("Technicolor"), under which the Company receives certain favorable discounts on its, its affiliates' and its customers' film processing costs. Such discounts, which are based on, among other things, footage of work provided to Technicolor by the Company on an annual basis, are to be credited against an upfront payment provided by Technicolor to the Company in February 2002. As collateral, a priority mortgage on the Company's Mississauga facility was registered in favor of Technicolor, which mortgage will be released after a portion of the upfront payment is recouped by Technicolor, or upon the occurrence of certain other conditions. The agreement with Technicolor, which requires the Company to use only Technicolor or Technicolor affiliates for its large-format film processing, expires September 30, 2006.

On February 14, 2002, the Company and Regal Cinemas, Inc. ("Regal") signed an agreement pursuant to which Regal agreed to assume its master system lease agreement with the Company dated June 23, 1997, as modified by the parties, in connection with Regal's bankruptcy proceeding, resulting in Regal's six existing IMAX theaters remaining in operation. As part of the agreement, pursuant to Regal's Motion for Entry of Agreed Order Authorizing Assumption of Executory Contract with IMAX Corporation filed in the United States Bankruptcy Court, Middle District of Tennessee, Regal paid the Company \$6.45 million in satisfaction of all of the Company's claims against Regal in its bankruptcy.

RESTRUCTURING COSTS AND OTHER SIGNIFICANT CHARGES

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

	YEARS ENDED DE	
	2001	2000
Restructuring costs	\$16,292	\$
Asset impairments:		
Net investment in leases	13,633	
Fixed assets	26,660	11,15
Other assets	3,283	
Other significant charges:		
Accounts receivable	4,469	13,08
Inventories	4,053	
Film assets	16,514	8,60
Long-term investments	5,584	4,13
	\$90,488	\$36,97

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

	YEARS ENDED DE	
	2001	2000
PER SHARE IMPACT-DILUTED:		
Restructuring costs	\$0.53	\$ -
Asset impairments:		
Net investment in leases	\$0.44	\$ -
Fixed assets	\$0.86	\$0.37
Other assets	\$0.11	\$ -
Other significant charges:		
Accounts receivable	\$0.15	\$0.44
Inventories	\$0.13	\$ -
Film assets	\$0.53	\$0.29
Long-term investments	\$0.18	\$0.14
	-----	-----
	\$2.93	\$1.24
	=====	=====

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IMAX CORPORATION

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESTRUCTURING COSTS AND OTHER SIGNIFICANT CHARGES (cont'd)

RESTRUCTURING COSTS AND ASSET IMPAIRMENTS

Consistent with the Company's announcement in the first quarter of 2001 to rationalize its operations, reduce staffing levels and write-down certain assets to be disposed of, the Company has recorded a restructuring charge of \$16.3 million in 2001 (2000 - \$nil, 1999 - \$nil). In 2001, the Company also recorded asset impairment charges of \$43.6 million (2001 - \$11.2 million, 1999 - \$nil) after assessing the carrying value of certain of the Company's assets. The 2001 asset impairment charge consisted of \$13.6 million (2000 - \$nil, 1999 - \$nil) against net investment in leases, as collectibility associated with certain leases was considered uncertain, and \$26.7 million (2000 - \$11.2 million, 1999 - \$nil) and \$3.3 million (2000 - \$nil, 1999 - \$nil) of fixed and other assets, respectively, as the carrying values for the assets exceeded the discontinued future cash flows expected from the assets.

The Company believes its restructuring plan and related write-downs were necessary in light of market trends, industry-wide economic and financial conditions, and are consistent with the Company's focus on rationalizing and stabilizing its business and returning to profitability. As of December 31, 2001, the restructuring plan was complete. Of the \$16.3 million for restructuring, \$11.2 million has been spent as of December 31, 2001, and \$5.1 million, representing costs for severed employees to be paid out to employees over the next 36 months.

OTHER SIGNIFICANT CHARGES

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Due to industry-wide economic and financial difficulties faced by many of the Company's customers, the Company also recorded the following charges as part of its ongoing review of the carrying value of the Company's assets.

Included in selling, general and administrative expenses, the Company recorded a charge of \$4.5 million in 2001 (2000 - \$13.1 million, 1999 - \$0.9 million) relating to the Company's accounts receivable, as collectibility on certain accounts was considered uncertain.

Within costs of goods and services, the Company recorded a charge of \$16.5 million in 2001 (2000 - \$8.6 million, 1999 - \$nil) based on the reduced fair values of the Company's film assets. In 2001, the Company also recorded a charge of \$4.1 million for inventories (2000 - \$nil, 1999 - \$nil), due to a reduced net realizable value.

Included in selling, general and administrative expenses, the Company recorded a charge of \$4.5 million in 2001 (2000 - \$13.1 million, 1999 - \$1.0 million) relating to the Company's accounts receivable, as collectibility on certain accounts was considered uncertain.

In performing its assessment of the carrying value of long-term investments, the Company recorded \$5.6 million in 2001 (2000 - \$4.1 million, 1999 - \$nil) in charges for declines in the value that are considered to be other than temporary.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In 2001, the FASB issued Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The Company is required to adopt FAS 142 effective January 1, 2002. Application of the non-amortization provisions of FAS 142 for goodwill is expected to result in an increase in operating income of approximately \$2.3 million in 2002. At December 31, 2001, the Company had goodwill of approximately \$39.0 million. Pursuant to FAS 142, the Company will test its goodwill for impairment under the new methodology upon adoption and, if impairment is indicated, record such impairment as a cumulative effect of changes in accounting principles. The Company is currently evaluating the effect of adopting this pronouncement.

In 2001, the FASB issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which supercedes FASB Statement of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for segments of a business to be disposed of. The pronouncement is effective January 1, 2002, and will be adopted by the Company at that time. The Company is currently evaluating the effect of adopting this pronouncement.

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IMAX CORPORATION

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS

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

	YEARS ENDED DECEMBER		
	2001	2000	1999
	%	%	%
Revenue			
IMAX systems.....	64.5	65.4	65.8
Films.....	25.2	24.1	24.5
Other.....	10.3	10.5	9.7
	-----	-----	-----
Total revenue.....	100.0	100.0	100.0
Costs and goods and services.....	82.1	65.1	50.8
	-----	-----	-----
Gross margin.....	17.9	34.9	49.2
Selling, general and administrative expenses.....	41.3	30.8	17.9
Research and development.....	2.8	3.8	1.6
Amortization of intangibles.....	2.5	1.7	1.1
Loss (income) from equity-accounted investees.....	(0.0)	2.8	0.4
Restructuring costs and asset impairments.....	50.4	6.4	-
	-----	-----	-----
Earnings (loss) from operations.....	(79.1)	(10.6)	28.2
	=====	=====	=====
Net earnings (loss) before cumulative effect of changes in accounting principles and extraordinary items.....	(154.9)	(18.4)	13.1
	=====	=====	=====
Net earnings (loss).....	(122.3)	(53.7)	13.1
	=====	=====	=====

YEAR ENDED DECEMBER 31, 2001 VERSUS YEAR ENDED DECEMBER 31, 2000

REVENUES

The Company's revenues in 2001 were \$118.7 million, compared to \$173.1 million in 2000, a decrease of 31.5%. The following table sets forth the breakdown of revenue by category:

(In thousands of U.S. dollars)

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
IMAX SYSTEMS REVENUE			
Sales and leases	\$ 53,409	\$ 87,384	\$103,414
Ongoing rent(1)	8,969	12,097	11,747
Maintenance	14,204	13,745	11,665
	-----	-----	-----
	76,582	113,226	126,826
	-----	-----	-----

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FILMS REVENUE			
Distribution	16,645	21,221	23,224
Post-production	13,278	20,490	24,003
	-----	-----	-----
	29,923	41,711	47,227
	-----	-----	-----
OTHER REVENUE			
	12,154	18,179	18,783
	-----	-----	-----
	\$118,659	\$173,116	\$192,836
	=====	=====	=====

(1) Includes finance income.

Systems revenue decreased to \$76.6 million in 2001 from \$113.2 million in 2000, a decrease of 32.4%. Revenue from sales and leases decreased to \$53.4 million in 2001 from \$87.4 million in 2000, a decrease of 38.9%. In 2001, 15 theater systems were installed, of which one was an operating lease, as compared to 24 theater systems installed in 2000. Ongoing rental revenue decreased 25.9% from 2000 primarily due to lower ongoing rents in excess of minimums received in the current year. Maintenance revenue increased 3.3% over the prior year principally due to the increased number of theater systems in the network.

Films revenues decreased to \$29.9 million in 2001 from \$41.7 million in 2000. Film distribution revenues decreased to \$16.6 million in 2001 from \$21.2 million in 2000, a decrease of 21.6%, and film post-production activities decreased to \$13.3 million in 2001 from \$20.5 million in 2000, a decrease of 35.2%. The decrease in film post-production revenues was due to a decline in the number of films in release in 2001 versus 2000, while the decrease in film distribution revenues was primarily due to both a smaller number of films in release and poorer performance of films distributed by the Company in 2001.

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IMAX CORPORATION

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS (cont')

YEAR ENDED DECEMBER 31, 2001 VERSUS YEAR ENDED DECEMBER 31, 2000 (cont')

Other revenue decreased to \$12.2 million in 2001 from \$18.2 million in 2000, a decrease of 33.1%, primarily related to decreased owned and operated theater operations revenue in 2001 versus 2000 which included the strong performance of Fantasia 2000.

The Company does not expect the revenue decline to continue in 2002. The Company is expecting higher revenues in 2002 due to a combination of higher system installations, greater commercial appeal of the films the Company produces and distributes, and higher attendance throughout the IMAX theater network including its owned and operated theaters.

GROSS MARGIN

Gross margin in 2001 was \$21.3 million versus \$60.5 million in 2000. Gross margin in 2001 was reduced by \$16.5 million associated with the write-down of the value of certain films in the Company's library as compared to a write-down

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of \$8.6 million in 2000, and a \$4.1 million write-down due to the reduced net realizable value of the Company's inventories.

The decline in the gross margin in 2001 over 2000, is primarily due to lower system revenues on 15 theater systems, of which one was an operating lease in 2001 versus 24 theater systems in 2000, and the provisions noted above. Gross margin as a percentage of total revenues was 17.9% in 2001 compared to 34.9% in 2000.

The Company does not expect the gross margin decline to continue in 2002. The Company is expecting higher gross margin in 2002 due to a combination of higher system installations, greater commercial appeal of the films the Company produces and distributes, and higher attendance throughout the IMAX theater network including its owned and operated theaters.

OTHER

Selling, general and administrative expenses were \$49.0 million in 2001 versus \$53.4 million in 2000. The selling, general and administrative expenses in 2001 include a charge of \$4.5 million related to the provision for impairment in accounts receivable from theaters as compared to a charge of \$13.1 million in 2000. The 2001 expense also includes a non-cash item of \$2.6 million in connection with a stock compensation grant. The Company anticipates that selling, general and administrative expenses will decline in 2002 due to the reductions in staff costs and other expenses that were implemented in 2001.

Interest income decreased to \$0.8 million in 2001 from \$3.3 million in 2000 due mainly to a decline in the average balance of cash, cash equivalents and investments in marketable debt securities held.

In performing its assessment of the carrying value of long-term investments, the Company recorded a \$5.6 million in 2001, as compared to \$4.1 million in 2000 for declines in the value of these investments that are considered to be other than temporary.

The Company experienced a foreign exchange loss of \$1.4 million in 2001 compared to a loss of \$1.8 million in 2000. The foreign exchange losses resulted primarily from fluctuations in exchange rates on Canadian dollar cash balances and Canadian dollar and Japanese Yen denominated net investment in leases.

The effective tax rate on earnings before tax differs from the statutory tax rate and will vary from year to year primarily as a result of the amortization of goodwill, which is not deductible for tax purposes, the Canadian manufacturing and processing profits deduction, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate reductions in the year, and movements in the Company's valuation allowance. The 2001 deferred income tax expense includes a \$41.2 million increase in the valuation allowance to reflect uncertainties associated with the realization of the Company's deferred income tax asset. As of December 31, 2001, the Company has a deferred income tax asset of \$45.5 million which has been fully provided against through the Company's valuation allowance.

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RESULTS OF OPERATIONS (cont'd)

YEAR ENDED DECEMBER 31, 2001 VERSUS YEAR ENDED DECEMBER 31, 2000 (cont'd)

RESEARCH AND DEVELOPMENT

Research and development expenses were \$3.4 million in 2001 versus \$6.5 million in 2000. The lower level of expenses in 2001 reflects the reduction of general research and development activities due to significant staff reductions and management's decision to focus on projects with a high potential of success and minimal capital outlay. 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), digital re-mastering distribution and display. Consequently, the Company has made significant investments in digital technologies, including the development of a proprietary, patent-pending technology to digitally enhance image resolution and quality of 35mm motion picture films and has a number of patents pending and intellectual property rights in these areas.

DISCONTINUED OPERATIONS

The Company's 2001 discontinuance of its digital projection systems operations was completed December 11, 2001 through the sale of its wholly owned subsidiary, Digital Projection International, including its subsidiaries (collectively "DPI"), to a company owned by members of DPI management. As part of the transaction, the Company restructured its advances to DPI, releasing DPI from obligations to repay any amounts in excess of \$12.7 million previously advanced by the Company, and reorganized the remaining \$12.7 million of debt owing to the Company into two separate loan agreements. The loans receivable are collateralized by fixed and floating charges over all DPI assets including intellectual properties. One of the loans is convertible, upon the occurrence of certain events into shares representing 49% of the total share capital of DPI. DPI also agreed to release the Company from its ongoing obligations to DPI.

The Company recorded an after-tax charge of \$50.9 million in 2001, relating to operational losses of \$8.5 million and a loss of \$42.3 million on disposal of DPI's net assets. Included in the loss on disposal is a provision of \$12.7 million to reflect the uncertainty associated with the collectibility of the loans receivable. In 2000, the Company recorded digital projection systems operating losses of \$2.1 million. The Company has restated the financial statements to segregate the discontinued operations for all comparative years presented.

EXTRAORDINARY GAIN

During 2001, the Company and a wholly owned subsidiary of the Company purchased an aggregate of \$70.4 million of the Company's \$100.0 million aggregate principal amount of Subordinated Notes for \$13.7 million, consisting of \$12.5 million in cash by the subsidiary and common shares by the Company valued at \$1.2 million. The Company cancelled the purchased Subordinated Notes and recorded an extraordinary gain of \$38.7 million, net of income tax expense of \$16.8 million.

Subsequent to year-end, the Company and a wholly owned subsidiary purchased an additional \$19.5 million in the aggregate of the Company's Subordinated Notes for \$7.3 million, consisting of \$5.2 million in cash by the subsidiary and common shares by the Company valued at \$2.1 million. The Company cancelled the purchased Subordinated Notes, and will record an additional extraordinary pre-tax gain of \$12.2 million as a result of this transaction in the first quarter of 2002. These transactions had the effect of reducing the principal of

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the Company's outstanding Subordinated Notes to \$10.1 million.

YEAR ENDED DECEMBER 31, 2000 VERSUS YEAR ENDED DECEMBER 31, 1999

In 2000, the Company had revenues of \$173.1 million and net loss, before the cumulative effect of changes in accounting principles and extraordinary items of \$31.8 million (\$1.07 per share on a diluted basis) compared to revenues of \$192.8 million and net earnings before the cumulative effect of changes in accounting principles and extraordinary items of \$25.2 million (\$0.83 per share on a diluted basis) in 1999. The decrease in revenues of 10.2% is due primarily to a decline in systems revenue.

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IMAX CORPORATION

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS (cont'd)

YEAR ENDED DECEMBER 31, 2000 VERSUS YEAR ENDED DECEMBER 31, 1999 (cont'd)

REVENUES

Systems revenue decreased to \$113.2 million in 2000 from \$126.8 million in 1999, a decrease of 10.7%. Revenue from sales and leases decreased to \$87.4 million in 2000 from \$103.4 million in 1999, a decrease of 15.5%. The Company installed 24 theater systems under sales and sales-type leases in 2000 as compared to 35 theater system deliveries in 1999. Ongoing rental and maintenance revenues increased 3.0% and 17.8%, respectively, over the prior year principally due to the increased number of theater systems in the network.

Films revenues decreased to \$41.7 million in 2000 from \$47.2 million in 1999, a decrease of 11.7%. Film distribution revenues decreased to \$21.2 million in 2000 from \$23.2 million in 1999, a decrease of 8.6% due to the timing of the release of films. Film post-production activities decreased to \$20.5 million in 2000 from \$24.0 million in 1999, a decrease of 14.6%, primarily due to a decrease in the number of prints released, post-production activities and extensions of products and services.

Other revenues decreased slightly to \$18.2 million in 2000 from \$18.8 million in 1999, a decrease of 3.2%.

GROSS MARGIN

Gross margin in 2000 was \$60.5 million versus \$94.9 million in 1999. In 2000, the gross margin was reduced by \$8.6 million with the write-down of the value of certain films in the Company's library.

The decline in the gross margin in 2000 over 1999, exclusive of these write-downs, is due mainly to the decline in system installations to 24 in 2000 from 35 deliveries in 1999.

Gross margin as a percentage of total revenues was 34.9% in 2000 compared to 49.2% in 1999. The write-downs described above reduced the gross margin in 2000 by 5.0%. The decline in the gross margin in 2000 over 1999, exclusive of these write-downs, is due to the higher proportion of film and other revenues which generally have lower margins than IMAX systems revenue.

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OTHER

Selling, general and administrative expenses were \$53.4 million in 2000 versus \$34.5 million in 1999. The increase in selling, general and administrative costs in 2000 over 1999 resulted primarily from a \$13.1 million charge in 2000 principally related to provisions against uncollectible accounts receivable amounts.

Interest income decreased to \$3.3 million in 2000 from \$10.0 million in 1999 due to lower average cash, cash equivalents and investments in marketable debt securities balances held.

The Company experienced a foreign exchange loss of \$1.8 million in 2000 compared to a gain of \$1.0 million in 1999. The foreign exchange loss in 2000 resulted primarily from fluctuations in exchange rates on Canadian dollar cash balances and Canadian dollar and Japanese Yen denominated net investment in leases. The gain in 1999 resulted primarily from fluctuations in exchange rates on the Japanese Yen denominated net investment in leases.

RESEARCH AND DEVELOPMENT

Research and development expenses were \$6.5 million in 2000 versus \$3.1 million in 1999. The increase is due mainly to increased internal activities in developing digital technologies.

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IMAX CORPORATION

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2001, the Company's principal source of liquidity included cash and cash equivalents of \$26.4 million, trade accounts receivable of \$18.3 million and net investment in leases due within one year of \$4.7 million.

On September 26, 2001, the Company's demand facility with Toronto Dominion Bank Financial Group matured. At the time of maturity, the Company had no cash advances outstanding under the facility, which had been used in the past to facilitate U.S. and Canadian letters of credit and cross currency swaps. This line was secured by the Company's accounts receivable, inventory, certain real estate and other assets of the Company. As of December 31, 2001, the Company has letters of credit of \$5.9 million outstanding, which have been collateralized by cash deposits. The Company expects these commitments to be reduced to approximately \$3.0 million by April 2002. The Company is currently in discussion with other financial institutions to replace this facility with a similar facility utilizing its net investment in leases, accounts receivable and inventory as collateral. There is no guarantee that the Company will be successful in these efforts.

In December 1998, the Company issued \$200 million of Senior Notes (the "Senior Notes") due December 1, 2005. The Senior Notes bear interest at 7.875% per annum and are subject to redemption by the Company, in whole or in part, at any time on or after December 1, 2002, at redemption prices expressed as percentages of the principal amount for each 12-month period commencing December 1 of the years indicated: 2002 - 103.938%, 2003 - 101.969%, 2004 and thereafter

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- 100.000% together with interest accrued thereon to the redemption date. The Company may also redeem the Senior Notes, in whole or in part, at any time prior to December 1, 2002, at a redemption price equal to 100% of the principal amount plus a "make-whole premium" calculated in reference to the redemption price on the first date that the Senior Notes may be redeemed by the Company plus accrued interest to but excluding the redemption date. If certain changes result in the imposition of withholding taxes under Canadian law, the Senior Notes are subject to redemption at the option of the Company, in whole but not in part, at a redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption. In the event of a change in control, holders of the Senior Notes may require the Company to repurchase all or part of the Senior Notes at a price equal to 101% of the principal amount thereof plus accrued interest to the date of repurchase.

In April 1996, the Company completed a private placement of \$100.0 million of 5.75% Convertible Subordinated Notes (the "Subordinated Notes") due April 1, 2003. These Subordinated Notes are convertible into common shares of the Company at the option of the holder at a conversion price of \$21.406 per share (equivalent to a conversion rate of 46.7154 shares per \$1,000 principal amount of Subordinated Notes) at any time prior to maturity. The Subordinated Notes are redeemable at the option of the Company on or after April 1, 1999 at redemption prices expressed as percentages of the principal amount (2002 - 100.821%) plus accrued interest. The Subordinated Notes may be redeemed at any time on or after April 1, 2001 without limitation. During 2001, the Company and a wholly owned subsidiary of the Company purchased an aggregate of \$70.4 million of the Company's Subordinated Notes for \$13.7 million consisting of \$12.5 million in cash by the subsidiary and common shares by the Company valued at \$1.2 million. The Company cancelled the purchased Subordinated Notes and recorded an extraordinary gain of \$38.7 million, net of income tax expense of \$16.8 million. Subsequent to December 31, 2001, the Company and the subsidiary of the Company purchased an additional \$19.5 million in the aggregate of the Company's Subordinated Notes for \$7.3 million consisting of \$5.2 million in cash by the subsidiary and common shares by the Company valued at \$2.1 million. These transactions had the effect of reducing the principal amount of the Company's Subordinated outstanding Notes to \$10.1 million.

The Company's net cash provided by operating activities is significantly impacted by, among other things, the number of theater system contracts signed during the year as well as the number of system installations completed during the year. Under the terms of the Company's typical theater system lease agreement, the Company receives substantial cash payments before it completes the performance of its obligations. The Company depends on cash flow from these sources to finance its ongoing operations.

Cash provided by operating activities amounted to \$2.7 million for the year ended December 31, 2001 after the payment of \$21.9 million of interest and other working capital requirements. Changes in other non-cash operating assets and liabilities include \$8.3 million that was invested in film assets, a decrease of \$1.3 million in accounts receivable and a decrease of \$5.7 million in net investment in leases in 2001. Cash provided by investing activities in 2001 amounted to \$5.7 million. Of this amount, \$7.5 million was received from the sale of investments in marketable debt securities, and \$1.1 million was invested in fixed assets. Cash used in financing activities amounted to \$12.5 million related to the repurchase by subsidiary, of a portion of the Company's Subordinated Notes.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

Cash used in operating activities amounted to \$54.1 million for the year ended December 31, 2000 after the payment of \$21.5 million of interest, \$33.6 million of income taxes and working capital requirements. Changes in other non-cash operating assets and liabilities include \$19.7 million that was invested in film assets, an increase of \$0.1 million in accounts receivable, an increase of \$9.3 million in net investment in leases in 2000 and a decrease of \$42.6 million in current taxes payable due to tax payments in connection with the reorganization of the Company's lines of business in 1999. Cash provided by investing activities in 2000 amounted to \$45.3 million. Of this amount, \$81.5 million was received from the sale of investments in marketable debt securities, \$27.6 million was invested in fixed assets, principally for owned and operated theaters and theater systems contributed to joint ventured theaters, and facilities, and \$6.2 million was invested in other assets including patents, trademarks and software. Cash provided by financing activities amounted to \$2.5 million, which included proceeds of \$1.4 million from the issuance of common shares pursuant to the Company's stock option plan.

The Company believes that cash flow from operations together with existing cash will be sufficient to meet cash requirements for the foreseeable future. In addition, the Company believes it has access to other sources of liquidity including accessing the capital markets, or securing an operating line facility with a financial institution. The Company's accounts receivable, inventory, certain fixed assets and net investment in leases are currently unsecured and available as collateral. However, there can be no assurance that the Company will be successful in securing additional financing.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

A substantial portion of the Company's revenues are denominated in U.S. dollars while a substantial portion of its costs and expenses are denominated in Canadian dollars. A portion of the net U.S. dollar flows of the Company are converted to Canadian dollars to fund Canadian dollar expenses, either through the spot market or through forward contracts. Existing foreign exchange contracts expired on October 16, 2001 and the Company recorded a loss of \$0.1 million. The Company plans to convert Canadian dollar expenses to U.S. dollars through the spot and forward markets on a go-forward basis. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese Yen flows are converted to U.S. dollars generally through forward contracts to minimize currency exposure. The Company also has cash receipts under leases denominated in Japanese Yen and French francs which were converted to U.S. dollars generally through forward contracts to minimize currency exposure. These contracts were sold on August 9, 2001 for proceeds of \$0.7 million. The Company plans to convert Japanese Yen and French franc lease cash flows to U.S. dollars through the spot and forward markets on a go-forward basis.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Report of Independent Accountants to the Shareholders of IMAX Corporation.....
Consolidated Balance Sheets as at December 31, 2001 and 2000.....
Consolidated Statements of Operations for the years ended December 31, 2001, 2000 and 1999.....
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999.....
Consolidated Statements of Shareholders' Equity (Deficit) for the years ended December 31, 2001,
Notes to Consolidated Financial Statements.....

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IMAX CORPORATION

REPORT OF INDEPENDENT ACCOUNTANTS TO THE SHAREHOLDERS OF IMAX CORPORATION

We have audited the accompanying consolidated balance sheets of IMAX Corporation (the "Company") as at December 31, 2001 and 2000 and the related consolidated statements of operations, cash flows and shareholders' equity (deficit) for each year in the three-year period ended December 31, 2001. These financial statements and the financial statement schedule listed in the index appearing under Item 14(a)(2) of this Form 10-K are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and cash flows for each year in the three-year period ended December 31, 2001 in accordance with accounting principles generally accepted in the United States.

As described in note 24 to the consolidated financial statements, the Company changed its accounting policies for revenue recognition and film assets effective January 1, 2000.

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

/s/ PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada
February 25, 2002

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IMAX CORPORATION

CONSOLIDATED BALANCE SHEETS

IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(In thousands of U.S. dollars)

	AS AT DECEMBER 31,	
	2001	2000
	-----	-----
ASSETS		
Cash and cash equivalents (note 12)	\$ 26,388	\$ 26,781
Investments in marketable debt securities	--	7,529
Accounts receivable, net of allowance for doubtful accounts of \$18,060 (2000 - \$19,168)	18,296	23,621
Net investment in leases (note 4)	51,644	77,093
Inventories (note 5)	42,723	51,017
Income taxes recoverable	--	8,830
Prepaid expenses	1,845	3,650
Film assets (note 6)	10,513	29,749
Fixed assets (note 7)	52,652	87,056
Other assets (note 8)	15,402	29,640
Deferred income taxes (note 9)	3,022	44,433
Goodwill, net of accumulated amortization of \$15,807 (2000 - \$13,497)	39,027	40,810
Assets of discontinued operations (note 3)	--	61,891
	-----	-----
Total assets	\$ 261,512	\$ 492,100
	=====	=====
LIABILITIES		
Accounts payable	\$ 6,735	\$ 11,741
Accrued liabilities (note 20)	45,041	33,891
Deferred revenue	95,082	106,427
Income taxes payable	1,356	--
Senior notes due 2005 (note 10)	200,000	200,000
Convertible subordinated notes due 2003 (note 11)	29,643	100,000
Liabilities of discontinued operations (note 3)	2,103	17,778
	-----	-----
Total liabilities	379,960	469,837

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COMMITMENTS AND CONTINGENCIES (notes 12 and 13)		
SHAREHOLDERS' EQUITY (DEFICIT)		
Capital stock (note 14) - no par value. Authorized - unlimited number		
Issued and outstanding - 31,899,114 (2000 - 30,051,514)	64,356	60,136
Deficit	(183,392)	(38,278)
Accumulated other comprehensive income	588	405
	-----	-----
Total shareholders' equity (deficit)	(118,448)	22,263
	-----	-----
Total liabilities and shareholders' equity (deficit)	\$ 261,512	\$ 492,100
	=====	=====

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

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IMAX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(In thousands of U.S. dollars, except per share amounts)

	YEARS ENDED DEC	
	2001	2000
	-----	-----
REVENUE		
IMAX systems	\$ 76,582	\$ 113,226
Films	29,923	41,711
Other	12,154	18,179
	-----	-----
	118,659	173,116
COSTS OF GOODS AND SERVICES (note 15)		
	97,391	112,655
	-----	-----
GROSS MARGIN	21,268	60,461
Selling, general and administrative expenses (note 15)		
	48,962	53,384
Research and development	3,385	6,497
Amortization of intangibles	3,005	2,948
Loss (income) from equity-accounted investees	(73)	4,811
Restructuring costs and asset impairments (note 16)	59,868	11,152
	-----	-----
EARNINGS (LOSS) FROM OPERATIONS	(93,879)	(18,331)
Interest income		
	847	3,285
Interest expense, net of interest capitalized of \$511		
(2000 - \$1,393, 1999 - \$754)	(22,020)	(21,961)
Impairment of long-term investments (note 15)	(5,584)	(4,133)
Foreign exchange gain (loss)	(1,357)	(1,781)

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EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND		
MINORITY INTEREST	(121,993)	(42,921)
Recovery of (provision for) income taxes (note 9)	(11,005)	13,139
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	(132,998)	(29,782)
Minority interest	--	--
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(132,998)	(29,782)
Net loss from discontinued operations (note 3)	(50,850)	(2,055)
NET EARNINGS (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN		
ACCOUNTING PRINCIPLES AND EXTRAORDINARY ITEMS	(183,848)	(31,837)
Cumulative effect of changes in accounting principles, net of		
income tax benefit of \$37,286 (note 24)	--	(61,110)
Extraordinary gain on repurchase of convertible subordinated notes,		
net of income tax expense of \$16,843 (note 11)	38,734	--
NET EARNINGS (LOSS)	\$ (145,114)	\$ (92,947)
EARNINGS (LOSS) PER SHARE (note 14):		
Earnings (loss) per share - basic:		
Net earnings (loss) from continuing operations	\$ (4.30)	\$ (1.00)
Net loss from discontinued operations	\$ (1.64)	\$ (0.07)
Net earnings (loss) before cumulative effect of changes in		
accounting principles and extraordinary items	\$ (5.94)	\$ (1.07)
Cumulative effect of changes in accounting principles	\$ --	\$ (2.04)
Extraordinary items	\$ 1.25	\$ --
Net earnings (loss)	\$ (4.69)	\$ (3.11)
Earnings (loss) per share - diluted:		
Net earnings (loss) from continuing operations	\$ (4.30)	\$ (1.00)
Net loss from discontinued operations	\$ (1.64)	\$ (0.07)
Net earnings (loss) before cumulative effect of changes in		
accounting principles and extraordinary items	\$ (5.94)	\$ (1.07)
Cumulative effect of changes in accounting principles	\$ --	\$ (2.04)
Extraordinary items	\$ 1.25	\$ --
Net earnings (loss)	\$ (4.69)	\$ (3.11)

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

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	YEARS ENDED DECEMBER	
	2001	2000
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net earnings (loss) from continuing operations	\$ (132,998)	\$ (29,782)
Items not involving cash:		
Depreciation, amortization and write-downs (note 17)	99,801	61,626
Loss (income) from equity-accounted investees	(73)	4,811
Deferred income taxes	24,568	(5,201)
Impairment of long-term investments	5,584	4,133
Stock and other non-cash compensation	5,182	1,242
Minority interest and other	--	--
Investment in film assets	(8,297)	(19,665)
Changes in other non-cash operating assets and liabilities (note 17)	14,520	(73,929)
Net cash provided by (used in) operating activities from		
discontinued operations	(5,607)	2,676
Net cash provided by (used in) operating activities	2,680	(54,089)
INVESTING ACTIVITIES		
Net sale (purchase) of investments in marketable debt securities ...	7,529	81,503
Acquisition of Digital Projection International, net of cash		
acquired	--	(900)
Acquisition of minority interest in Sonics Associates, Inc.	(1,041)	(295)
Purchase of fixed assets	(1,091)	(27,643)
Decrease (increase) in other assets	498	(6,190)
Net cash used in investing activities from discontinued operations .	(217)	(1,139)
Net cash provided by (used in) investing activities	5,678	45,336
FINANCING ACTIVITIES		
Repurchase of convertible subordinated notes	(12,540)	--
Common shares issued	31	1,442
Paid-in-capital on stock options exercised	--	1,034
Class C preferred shares dividends paid	--	--
Net cash provided by (used in) financing activities	(12,509)	2,476
Effects of exchange rate changes on cash from continuing		
operations	(2,066)	2,125
Effects of exchange rate changes on cash from discontinued		
operations	1,697	487
Effects of exchange rate changes on cash	(369)	2,612
DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING		
OPERATIONS	(393)	(5,689)
Decrease (increase) in cash and cash equivalents from discontinued		
operations	(4,127)	2,024

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DECREASE IN CASH AND CASH EQUIVALENTS, DURING THE YEAR	(4,520)	(3,665)
Cash and cash equivalents, beginning of year	30,908	34,573
	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 26,388	\$ 30,908
	=====	=====

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

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IMAX CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(In thousands of U.S. dollars)

	NUMBER OF COMMON SHARES ISSUED AND OUTSTANDING	CAPITAL STOCK	RETAINED EARNINGS (DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (1)
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1998	29,478,384	\$ 55,236	\$ 29,436	\$ (226)
Issuance of common stock	279,504	2,235	--	--
Net earnings	--	--	25,233	--
Net adjustment on available-for-sale securities.....	--	--	--	(867)
Foreign currency translation adjustments	--	--	--	18
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1999	29,757,888	57,471	54,669	(1,075)
Issuance of common stock	293,626	1,631	--	--
Adjustment in paid-in-capital for stock options exercised	--	1,034	--	--
Net loss	--	--	(92,947)	--
Net adjustment on available-for-sale securities	--	--	--	586
Foreign currency translation adjustments	--	--	--	894
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2000	30,051,514	60,136	(38,278)	405
Issuance of common stock	1,847,600	4,220	--	--
Net loss	--	--	(145,114)	--
Net adjustment on available-for-sale securities.....	--	--	--	281

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Foreign currency translation adjustments	--	--	--	(98)
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2001	31,899,114	\$ 64,356	\$ (183,392)	\$ 588
	=====	=====	=====	=====

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

	AS AT DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
Foreign currency translation adjustments	\$ 588	\$ 686	\$ (2
Unrealized loss on available-for-sale security....	--	(281)	(8
	-----	-----	-----
Accumulated other comprehensive income (loss)	\$ 588	\$ 405	\$ (1,0
	=====	=====	=====

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

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IMAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars, unless otherwise stated)

1. DESCRIPTION OF THE BUSINESS

IMAX Corporation together with its wholly owned subsidiaries (the "Company") provides a wide range of products and services to the network of IMAX theaters. The principal activities of the Company are:

- o the design, manufacture and marketing and leasing of proprietary projection and sound systems for IMAX theaters principally owned and operated by institutional and commercial customers located in 30 countries as of December 31, 2001;
- o the development, production, post-production and distribution of certain films shown in the IMAX theater network;
- o the operation of certain IMAX theaters located primarily in the United States and Canada; and
- o the provision of other services to the IMAX theater network including designing and manufacturing IMAX camera equipment for rental to filmmakers and providing ongoing maintenance services for the IMAX projection and sound systems.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of the financial statements in conformity with United States Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could be materially different from these estimates. Significant estimates made by management include allowances for potential uncollectability of accounts and loans receivable and net investment in leases, provisions for inventory obsolescence, ultimate revenues for film assets, estimates of future cash flows associated with long-lived assets, accruals for contingencies and valuation allowances for deferred income tax assets. Significant accounting policies are summarized as follows:

(a) BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company together with its wholly owned subsidiaries.

(b) CASH AND CASH EQUIVALENTS

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

(c) INVENTORIES

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

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IMAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) FILM ASSETS

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

Film exploitation costs, including advertising costs, are expensed as

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incurred. Costs of film prints are capitalized and expensed over a period of three months.

The recoverability of film costs is dependent upon commercial acceptance of the films. If events or circumstances indicate that the fair value of a film is less than the unamortized film costs, the film is written down to fair value by a charge to consolidated net earnings (loss). The Company determines the fair value of its films using a discounted cash flow model.

(e) FIXED ASSETS

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

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

Management reviews the carrying values of its fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. In performing its review for recoverability, management estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of impairment losses is based on the excess of the carrying amount of the asset over the fair value calculated using discounted expected future cash flows.

(f) OTHER ASSETS

Other assets include patents, trademarks and other intangibles, investments, defined benefit pension plan intangibles and deferred charges on debt financing.

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

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

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

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(Tabular amounts in thousands of U.S. dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) GOODWILL

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

(h) DEFERRED REVENUE

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

(i) INCOME TAXES

Income taxes are accounted for under the liability method whereby deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the accounting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in earnings in the period in which the change occurs. Valuation allowances are recorded where there is uncertainty of realization of a deferred income tax asset. Investment tax credits are recognized as a reduction of income tax expense in the year the credit is earned.

(j) REVENUE RECOGNITION

SALES-TYPE LEASES OF THEATER SYSTEMS

Theater system leases that transfer substantially all of the benefits and risks of ownership to customers are classified as sales-type leases as a result of meeting the criteria established by FASB Statement of Financial Accounting Standards No. 13, "Accounting for Leases" ("FAS 13"). When revenue is recognized, the initial rental fees due under the contract, along with the present value of minimum ongoing rental payments are recorded as revenues for the period, and the related projector costs including installation expenses are recorded in cost of goods and services. Additional ongoing rentals in excess of minimums are recognized as revenue when reported by the theater operator, provided that collection is reasonably assured.

From time to time, if the Company and a lessee agree to change the terms of the lease, other than renewing the lease or extending its terms, management evaluates whether the new agreement would be classified as sales-type lease or an operating lease under the provisions of FAS 13. Any adjustments which result from a change in classification from a sales-type lease to an operating lease are reported in income during the period the change occurs.

Revenue associated with a sales-type lease is recognized when all of the following criteria are met: persuasive evidence of an agreement exists; the

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price is fixed or determinable; collection is reasonably assured; and, as described in note 24, effective January 1, 2000, installation of the theater system is complete. Prior to January 1, 2000, the Company recognized revenue on the same basis, except that the time of delivery was used rather than completion of installation.

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

OPERATING LEASES OF THEATER SYSTEMS

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

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IMAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) REVENUE RECOGNITION (cont'd)

SALES OF THEATER SYSTEMS

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

MAINTENANCE AND OTHER SERVICES

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

FILM PRODUCTION AND DISTRIBUTION

Revenue from licensing of films is recognized when a licensing arrangement exists, the film is complete and has been delivered, the license period has

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begun, the fee is fixed or determinable and collection is reasonably assured. Where the license fees are based on a share of the customer's revenue, and all other revenue recognition criteria mentioned in the preceding sentence are met, the Company recognizes revenue as the customer exhibits the film.

(k) RESEARCH AND DEVELOPMENT

Research and development expenditures are expensed as incurred.

(l) FOREIGN CURRENCY TRANSLATION

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

(m) STOCK-BASED COMPENSATION

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

(n) PENSION PLANS

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

For defined contribution pension plans, amounts contributed by the Company are recorded as an expense.

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IMAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars, unless otherwise stated)

3. DISCONTINUED OPERATIONS

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Effective December 11, 2001, the Company completed the sale of its wholly owned subsidiary, Digital Projection International, including its subsidiaries (collectively "DPI"), to a company owned by members of DPI management. As part of the transaction, the Company restructured its advances to DPI, releasing DPI from obligations to repay amounts in excess of \$12.7 million previously advanced by the Company, and reorganized the remaining debt owing to the Company into two separate loan agreements, a \$2.7 million, three-year term loan, and a \$10.0 million, seven-year convertible term loan. DPI also agreed to release the Company from its ongoing obligations to DPI.

The loans receivable are collateralized by fixed and floating charges over all DPI assets including intellectual properties. The \$2.7 million, three-year loan, is repayable in quarterly increments and bears interest at 10% per annum. The \$10.0 million, seven-year loan bears interest at 10% per annum and is repayable in its entirety at maturity or convertible, upon the occurrence of certain events, into shares representing 49% of the total share capital of DPI.

The Company has recorded an allowance of \$12.7 million to reflect uncertainty associated with the collectibility of the loans receivable.

The Company has retained the rights and technology to develop high-end digital cinema, including the use of Texas Instruments Inc.'s DLP Cinema(TM) technology for large-format and other high-end uses as well as key patents and intellectual property related to the conversion of film to digital images.

In accordance with Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"), the Company has restated the financial statements to segregate the discontinued operations for all comparative years presented.

The assets and liabilities of discontinued operations, summarized in the Consolidated Balance Sheets, at December 31, comprise of the following:

	2001

ASSETS	
Cash and cash equivalents	\$ --
Accounts receivable, net of allowance for doubtful accounts of \$nil (2000 - \$606)	--
Inventories	--
Fixed assets	--
Other assets	--
Deferred income tax assets	--
Goodwill, net of accumulated amortization of \$nil (2000 - \$1,321)	--

Total assets of discontinued operations	\$ --
	=====
LIABILITIES	
Accounts payable	\$ --
Accrued liabilities	2,103

Total liabilities of discontinued operations	\$ 2,103

=====

IMAX CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
 (Tabular amounts in thousands of U.S. dollars, unless otherwise stated)

3. DISCONTINUED OPERATIONS (cont'd)

The net loss from discontinued operations, summarized in the Consolidated Statements of Operations, for the years ended December 31, comprise of the following:

	2001	2000
	-----	-----
Revenue	\$ 21,965	\$46,356
	=====	=====
Net loss from discontinued operations(1)	\$ (8,508)	\$(2,055)
Net loss on disposal of discontinued operations(2)	(42,342)	--
	=====	=====
Net loss from discontinued operations	\$(50,850)	\$(2,055)
	=====	=====

(1) Net of income tax recovery of \$2,422 in 2001 (2000 - \$99, 1999 - \$107).

(2) Net of income tax recovery of \$nil in 2001; includes \$12.7 million in allowances for uncollectibility of loans receivable. Any recoveries on these loans will be included in the results from discontinued operations as cash is received.

4. LEASES

(a) NET INVESTMENT IN LEASES

The Company enters into sales-type leases, for which the customer makes initial rental payments and additional rental payments with contracted minimums, which are generally indexed with inflation. The Company's net investment in sales-type leases, at December 31, comprise of the following:

2001

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Gross minimum lease amounts receivable	\$ 105,3
Accumulated allowance for uncollectible amounts	(11,7

Gross minimum lease amounts receivable, net of allowance	93,6
Residual value of equipment	8
Unearned finance income	(42,8

Present value of net minimum lease amounts receivable	\$ 51,6
	=====

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IMAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars, unless otherwise stated)

4. LEASES (cont'd)

(b) RENTAL AMOUNTS

Revenue includes annual rental amounts, for the years ended December 31, comprise of the following:

	2001	2000
	-----	-----
Ongoing minimum rental amounts on operating leases	\$ 562	\$ 879
Additional rentals in excess of minimum amounts, on operating and sales-type leases	3,255	4,611
Finance income on sales-type leases	5,152	6,607
	-----	-----
	\$ 8,969	\$ 12,097
	=====	=====

The estimated amount of gross minimum rental amounts receivable from operating and sales-type leases at December 31, 2001, for each of the next five years is as follows:

2002	\$ 10,012
2003	9,932
2004	10,046
2005	8,887
2006	8,067
Thereafter	62,749

	\$ 109,693
	=====

5. INVENTORIES

	AT DECEMBER 31,	
	2001	2000
Raw materials	\$ 6,559	\$ 8,629
Work-in-process	11,537	11,963
Finished goods	24,627	30,425
	-----	-----
	\$ 42,723	\$ 51,017
	=====	=====

6. FILM ASSETS

	AT DECEMBER 31,	
	2001	2000
Completed and released films, net of accumulated amortization	\$ 1,682	\$ 1,682
Films in production	8,597	8,597
Development costs	234	234
	-----	-----
	\$ 10,513	\$ 10,513
	=====	=====

Included in costs of goods and services for 2001 are charges of \$16.5 million (2000 - \$8.6 million, 1999 - \$nil) to reflect write-downs of unamortized film costs.

All unamortized film costs for released films are expected to be amortized within three years from December 31, 2001. The amount of accrued participation liabilities that the Company expects to pay during 2002 is \$2.7 million.

Film assets include \$0.5 million of interest capitalized in 2001 (2000 - \$0.8 million, 1999 - \$0.2 million).

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7. FIXED ASSETS

	AT DECEMBER 31, 2001	
	COST	ACCUMULATED DEPRECIATION
Equipment leased or held for use		
Projection equipment	\$ 40,497	\$ 18,099
Camera equipment	9,442	7,239
	49,939	25,338
Assets under construction	1,452	--
Other fixed assets		
Land	1,949	--
Buildings	16,192	5,052
Office and production equipment	22,404	16,875
Leasehold improvements	8,893	912
	49,438	22,839
	\$ 100,829	\$ 48,177

\

	AT DECEMBER 31, 2000	
	COST	ACCUMULATED DEPRECIATION
Equipment leased or held for use		
Projection equipment	\$ 44,375	\$ 12,547
Camera equipment	10,447	7,388
	54,822	19,935
Assets under construction	3,936	--
Other fixed assets		
Land	1,949	--
Buildings	16,653	3,571
Office and production equipment	29,588	19,173
Leasehold improvements	30,712	7,925
	78,902	30,669
	\$ 137,660	\$ 50,604

Interest capitalized in 2001 to fixed assets amounted to \$nil (2000 - \$0.6 million, 1999 - \$0.6 million).

IMAX CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
 (Tabular amounts in thousands of U.S. dollars, unless otherwise stated)

8. OTHER ASSETS

	AT DECEMBER 31,	
	2001	2000
Patents, trademarks and other intangibles	\$ 4,107	\$ 3,886
Investments in equity-accounted investees	314	1,462
Other investments	--	7,679
Deferred charges on debt financing	3,092	4,717
Pension asset, representing unrecognized prior service costs	6,647	8,489
Other assets	1,242	3,407
	\$15,402	\$29,640
	=====	=====

9. INCOME TAXES

(a) Earnings (loss) from continuing operations before income taxes and minority interest by tax jurisdiction, for the years ended December 31, comprise of the following:

	2001	2000	1999
Canada	\$ (91,414)	\$ (31,884)	\$ 36,774
United States	(29,368)	(8,008)	6,693
Japan	291	338	498
Other	(1,502)	(3,367)	(436)
	\$ (121,993)	\$ (42,921)	\$ 43,529
	=====	=====	=====

(b) The recovery of (provision for) income taxes related to income before the cumulative effect of changes in accounting principles and extraordinary items, for the year ended December 31, comprise of the following:

	2001	2000	1999
Current:			
Canada	\$ 13,598	\$ 8,167	\$ (38,719)
Foreign	(35)	(229)	(2,065)
	-----	-----	-----

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	13,563	7,938	(40,784)
	-----	-----	-----
Deferred:			
Canada	(16,111)	1,915	24,874
Foreign	(8,457)	3,286	(732)
	-----	-----	-----
	(24,568)	5,201	24,142
	-----	-----	-----
	\$ (11,005)	\$ 13,139	\$ (16,642)
	=====	=====	=====

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9. INCOME TAXES (cont'd)

- (c) The recovery of (provision for) income taxes before the cumulative effect of changes in accounting principles and extraordinary items differs from the amount that would have resulted by applying the combined Canadian federal and provincial statutory income tax rates to earnings, for the years ended December 31, comprise of the following:

	2001	2000
	-----	-----
Income tax recovery (provision) at combined statutory rates	\$ 50,773	\$ 18,863
Increase (decrease) resulting from:		
Non-deductible expenses, including amortization of goodwill	(3,434)	(3,113)
Manufacturing and processing credits deduction	(1,704)	(2,841)
Increase in valuation allowance	(41,239)	(1,338)
Large corporations tax	(402)	(405)
Income tax at different rates in foreign and other provincial jurisdictions	(1,156)	(353)
Investment tax credits and other	(903)	2,326
Effect of legislated tax rate reductions	(12,940)	--
	-----	-----
Recovery of (provision for) income taxes, as reported	\$ (11,005)	\$ 13,139
	=====	=====

- (d) The deferred income tax asset, at December 31, comprise of the following:

	2001	2000
	-----	-----
Net operating loss and capital loss carryforwards	\$ 16,959	\$ 3,66
Investment tax credit and other tax credit carryforwards	1,944	1,35
Write-downs of other assets	5,085	2,59
Excess tax over accounting basis in fixed assets and inventories	37,920	43,40
Accrued reserves	9,628	54
Other	3,135	4,18
	-----	-----
Total deferred income tax assets	74,671	55,73

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Valuation allowance	(45,504)	(4,26
	-----	-----
	29,167	51,47
Income recognition on net investment in leases	(26,145)	(7,04
	-----	-----
Net deferred income tax asset	\$ 3,022	\$ 44,43
	=====	=====

Net operating loss carryforwards amounting to \$22.2 million can be carried forward to reduce taxable income through to 2016. Net capital loss carryforwards amounting to \$39.7 million can be carried forward indefinitely to reduce capital gains. Investment tax credits of \$2.0 million can be carried forward to reduce income taxes payable through to 2011.

10. SENIOR NOTES DUE 2005

In December 1998, the Company issued \$200.0 million of Senior Notes (the "Senior Notes") due December 1, 2005 bearing interest at 7.875% per annum with interest payable in arrears on June 1 and December 1 of each year, commencing June 1, 1999. The Senior Notes are the senior unsecured obligation of the Company, ranking pari passu in right of payment to all existing and future senior unsecured and unsubordinated indebtedness of the Company and senior in right of payment to any subordinated indebtedness of the Company.

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10. SENIOR NOTES DUE 2005 (cont'd)

The Senior Notes contains covenants that, among other things, limit the ability of the Company to incur additional indebtedness, pay dividends or make other distributions, make certain investments, create certain liens, engage in certain transactions with affiliates, engage in certain sale and leaseback transaction or engage in mergers, consolidations or the transfer of all or substantially all of the assets of the Company. The Senior Notes are subject to redemption by the Company, in whole or in part, at any time on or after December 1, 2002, at redemption prices expressed as percentages of the principal amount for each 12-month period commencing December 1 of the years indicated: 2002 - 103.938%, 2003 - 101.969%, 2004 and thereafter - 100.000% together with interest accrued thereon to the redemption date. The Company may redeem the Senior Notes, in whole or in part, at any time prior to December 1, 2002, at a redemption price equal to 100% of the principal amount plus a "make-whole premium" calculated in reference to the redemption price on the first date that the Senior Notes may be redeemed by the Company plus accrued interest to, but excluding, the redemption date. If certain changes result in the imposition of withholding taxes under Canadian law, the Senior Notes are subject to redemption at the option of the Company, in whole but not in part, at a redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption. In the event of a change in control, holders of the Senior Notes may require the Company to repurchase all or part of the Senior Notes at a price equal to 101% of the principal amount thereof plus accrued interest to the date of repurchase.

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Interest expense on the Senior Notes amounted to \$15.8 million in 2001 (2000 - \$15.8 million, 1999 - \$15.8 million).

11. CONVERTIBLE SUBORDINATED NOTES DUE 2003

In April 1996, the Company issued \$100.0 million of Convertible Subordinated Notes (the "Subordinated Notes") due April 1, 2003 bearing interest at 5.75% payable in arrears on April 1 and October 1. The Subordinated Notes, subordinate to present and future senior indebtedness of the Company, are convertible into common shares of the Company at the option of the holder at a conversion price of \$21.406 per share (equivalent to a conversion rate of 46.7154 shares per \$1,000 principal amount of Subordinated Notes) at any time prior to maturity.

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

Interest expense on the Subordinated Notes amounted to \$5.0 million in 2001 (2000 - \$5.8 million, 1999 - \$5.8 million).

During 2001, the Company and a wholly owned subsidiary of the Company purchased an aggregate of \$70.4 million of the Company's Subordinated Notes for \$13.7 million, consisting of \$12.5 million in cash by the subsidiary and common shares by the Company valued at \$1.2 million. The Company recorded an extraordinary gain of \$38.7 million, net of income tax expense of \$16.8 million.

On January 7, 2002 and January 9, 2002, the Company and a wholly owned subsidiary of the Company purchased an additional \$19.5 million in the aggregate of the Company's Subordinated Notes for \$7.3 million consisting of \$5.2 million in cash by the subsidiary and common shares by the Company valued at \$2.1 million (see note 22). The Company will record an additional extraordinary gain of \$12.2 million as a result of this transaction in the first quarter 2002. These transactions had the effect of reducing the principal of the Company's outstanding Subordinated Notes to \$10.1 million.

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12. COMMITMENTS

- (a) Total minimum annual rental payments to be made by the Company under operating leases for premises are as follows:

2002	\$ 4,747
2003	4,653
2004	4,432
2005	4,380
2006	4,402
Thereafter	41,044

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\$63,658

=====

Rent expense was \$5.6 million for 2001 (2000 - \$5.5 million, 1999 - \$2.9 million). In addition, in 2001 an accrual of \$4.2 million (2000 - \$nil, 1999 - \$nil) was charged to selling, general and administrative expenses for exit costs associated with a plan to vacate and sub-lease one of the Company's premises.

- (b) On September 26, 2001, the Company's demand facility with Toronto Dominion Bank Financial Group matured. At the time of maturity, the Company had no cash advances outstanding under the facility, which had been used in the past to facilitate U.S. and Canadian letters of credit and cross currency swaps. This line was secured by the Company's receivables, inventories, certain real estate and other assets of the Company. As of December 31, 2001, the Company has letters of credit of \$5.9 million outstanding, which have been collateralized by cash deposits.

13. CONTINGENCIES

- (a) In November 2001, the Company filed a complaint with the High Court of Munich (the "Court") against Big Screen, a German large-screen cinema owner in Berlin (the "Big Screen") demanding payment of outstanding Additional Rent and certain other amounts owed to the Company. Big Screen has raised a defense based on alleged infringement of German antitrust rules, relating mainly to an allegation of excessive pricing. The Big Screen is also a member of Euromax, an association of European large-screen cinema owners that filed a complaint in 2000 with the European Commission based on European Community ("EC") competition rules, addressing broadly similar allegations against the Company. In mid-2001, the European Commission sent a preliminary letter to Euromax proposing to reject the complaint based on EC competition rules. The European Commission has not yet taken a final decision. Although the Court has the power to reject or reduce the Company's demands for payment, and the European Commission has the power to impose fines and order cessation of any infringements of EC competition rules, the Company believes that on the basis of currently available information, including the Commission's rejection letter and an initial review of the facts and law, that such results are not likely. The Company believes that all of the allegations in the complaint as well as these allegations in the Big Screen's individual defense are meritless and will accordingly continue to defend the matter vigorously. The Company believes that the amount of the loss, if any, suffered in connection with this dispute would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.
- (b) In June 2000, a complaint was filed against the Company and a third party by Mandalay Resort Group f/k/a Circus Circus Enterprises, Inc., alleging breach of contract and express warranty, fraud and misrepresentation in connection with the installation of certain motion simulation bases in Nevada. The case is being heard in the U.S. District Court for the District of Nevada. The complaint alleges damages in excess of \$4.1 million. The Company believes that the allegations made against it in the complaint are meritless and will accordingly defend the matter vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

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13. CONTINGENCIES (cont'd)

- (c) In December 2000, the Company filed a complaint against George Krikorian Premiere Theaters LLC and certain other related parties (collectively "Krikorian") in the U.S. District of California, alleging breach of contract and fraud resulting in damages to the Company in excess of \$6.0 million. In February 2001, Krikorian filed counterclaims against the Company alleging, among other things, fraudulent inducement and negligent misrepresentation, which counterclaims were subsequently dismissed and then amended. Further counterclaims were filed in May 2001. The Company believes that the allegations made against it in the counterclaims are meritless and will defend against them vigorously. The Company believes that the amount of loss, if any, suffered in connection with any such claims 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 any such litigation.
- (d) In March 2001, a complaint was filed against the Company by Muvico Entertainment, L.L.C. ("Muvico"), alleging misrepresentation and seeking rescission in respect of the system lease agreements between the Company and Muvico. The Company filed counterclaims against Muvico for breach of contract, unjust enrichment and theft of trade secrets, and brought claims against Muvico and MegaSystems, Inc. ("MegaSystems"), a large-format theater system manufacturer, for tortious interference, unfair competition and/or deceptive trade practices, violations of the U.S. Lanham Act, and to enjoin Muvico and MegaSystems from using the Company's confidential and proprietary information. The case is being heard in the U.S. District Court, Southern District of Florida, Miami Division. The Company believes that the allegations made by Muvico in its complaint are entirely without merit and will accordingly defend the claims vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operation of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.
- (e) In August 2000, Edwards Theaters Circuit, Inc. and related companies ("Edwards") filed for protection under Chapter 11 of the United States bankruptcy code in the U.S. Bankruptcy Court for the Central District of California, Santa Ana Division. Pursuant to a stipulation reached among Edwards and the Company and approved by the court, Edwards' leases of Company theater system equipment were deemed rejected as of August 1, 2001. On August 2, 2001, the Company filed a proof of claim in the amount of \$28.9 million for amounts due and owing to the Company at the time of the commencement of the bankruptcy and for damages arising from Edwards' rejection of the leases pursuant to section 365 of the Bankruptcy Code. In addition, on August 1, 2001, the Company brought an adversary action in the bankruptcy court against Edwards for violations of the Lanham Act for unfair competition and false advertising, trademark dilutions under federal and state law, common law trademark infringement and unfair competition, unfair business practices under state law and misappropriation of trade secrets. Edwards has objected to the Company's claim and moved to disallow it and, on September 4, 2001, Edwards answered the Company's complaint and asserted counterclaims against the Company, alleging non-compliance with the California Franchise Investment Law and negligent misrepresentation. By stipulation of the Company and Edwards, the motion to disallow the

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Company's claim, and the adversary action filed by the Company including Edwards' counterclaims have been consolidated. In March 2002, Edwards amended its counterclaim to add additional counts, including fraudulent concealment and intentional misrepresentation. The Company intends to move for summary judgement on all claims in the action immediately upon the conclusion of discovery in May 2002. The Company believes that the allegations made by Edwards in its objection to the Company's claim and Edwards' counterclaims are entirely without merit and the Company has and will accordingly defend the matter vigorously. The Company believes that the amount of loss, if any, suffered in connection with such 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 any such litigation.

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

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14. CAPITAL STOCK

(a) AUTHORIZED

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

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

REDEEMABLE CLASS C PREFERRED SHARES, SERIES 1

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

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

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

REDEEMABLE CLASS C PREFERRED SHARES, SERIES 2

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

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attaching to all voting shares of the Company outstanding immediately following the conversion.

COMMON SHARES

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

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

(b) CHANGES DURING THE PERIOD

In 2001, the Company issued 150,000 common shares pursuant to the exercise of stock options for cash proceeds of \$0.03 million, 20,000 common shares with a value of \$0.4 million relating to additional consideration in acquiring DPI under the terms of DPI employment contracts, 1,000,000 common shares under terms of the Company's employment contracts with an ascribed value of \$2.6 million and 677,600 common shares with an ascribed value of \$1.2 million as partial payment for the repurchase of the Subordinated Notes (see note 11).

In 2000, the Company issued 281,300 common shares pursuant to the exercise of stock options for cash proceeds of \$1.4 million, 10,658 common shares with a value of \$0.2 million related to additional consideration in acquiring DPI under the terms of DPI employment contracts and 1,668 common shares under the terms of an employment contract with an ascribed value of \$0.03 million.

In 1999, the Company issued 277,838 common shares pursuant to the exercise of stock options for cash proceeds of \$2.2 million and 1,666 common shares were issued under the terms of an employment contract with an ascribed value of \$0.03 million.

(c) SHARES HELD BY A SUBSIDIARY

Issued common shares held by a subsidiary of the Company amounted to nil at December 31, 2001 (2000 - nil, 1999 - 148,000). During 2000, 148,000 (1999 - 65,000) common shares held by this subsidiary were sold to a former employee of the Company in connection with the exercise of a stock option grant for cash proceeds of \$0.03 million (1999 - \$0.01 million).

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14. CAPITAL STOCK (cont'd)

(d) STOCK BASED COMPENSATION

As at December 31, 2001, the Company has reserved a total of 8,372,550 (2000 - 8,522,550) common shares for future issuance as follows:

- (i) 166,744 common shares were reserved for issuance pursuant to stock options granted to a former officer of the Company, of which 150,000

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were exercised in 2001. These options have an exercise price equivalent to Canadian \$0.32 per share and expire on September 1, 2002. These options are fully vested.

(ii) 15,008 common shares have been reserved for issuance pursuant to stock options granted at an exercise price equivalent to Canadian \$1.59 per share, which options are fully vested and expire on January 30, 2003.

(iii) 8,340,798 common shares remain reserved for issuance under the Stock Option Plan, of which options in respect of 4,609,086 common shares are outstanding at December 31, 2001. The options granted under the Stock Option Plan generally vest between one and five years and expire 10 years or less from the date granted. At December 31, 2001, options in respect of 2,549,182 common shares were vested and exercisable.

Under the terms of certain employment agreements, the Company is required to issue 360,000 restricted common shares or pay their cash equivalent. The restricted shares or the related cash obligation vest one-third on each of January 1 and July 1, 2001, and July 1, 2002. The Company has recorded an expense of \$0.6 million in 2001 (2000 - \$0.2 million, 1999 - \$nil) under this agreement.

	NUMBER OF SHARES			WEIGHTED EXERCISE PRICE	
	2001	2000	1999	2001	2000
Options outstanding, beginning of year	8,071,072	5,157,400	3,327,300	\$ 21.91	\$ 20.00
Granted	1,395,128	3,224,972	2,225,000	2.95	24.00
Exercised	-	(131,300)	(201,638)	-	9.00
Cancelled(1)	(2,867,100)	-	-	21.42	-
Forfeited	(1,990,014)	(180,000)	(193,262)	21.94	26.00
Options outstanding, end of year	4,609,086	8,071,072	5,157,400	16.98	21.00
Options exercisable, end of year	2,549,182	3,269,728	2,514,634		

(1) Included in 2001 are stock options for 2,600,000 common shares cancelled for \$nil consideration in conjunction with the issuance of 650,000 common shares under the terms of certain employment agreements. The cancellation of the remaining balance of stock options was done for \$nil consideration.

The following table summarizes certain information in respect of options outstanding under the Stock Option Plan at December 31, 2001:

RANGE OF EXERCISE PRICES PER SHARE	NUMBER OF SHARES		WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	AVERAGE REMAINING TERM
	OUTSTANDING	VESTED		
\$ 0.00 - \$ 4.99	1,193,128	97,657	\$ 2.96	6.6 Years
\$ 5.00 - \$ 9.99	191,100	191,100	6.75	3.0 Years

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\$10.00 - \$14.99	41,000	41,000	11.94	4.1 Years
\$15.00 - \$19.99	324,320	318,820	16.41	6.0 Years
\$20.00 - \$24.99	1,974,972	1,403,672	22.15	7.1 Years
\$25.00 - \$28.99	884,566	496,933	27.02	7.8 Years
	-----	-----		
Total	4,609,086	2,549,182	16.98	6.7 Years
	=====	=====		

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14. CAPITAL STOCK (cont'd)

(e) EARNINGS (LOSS) PER SHARE

	YEARS ENDED DECEMBER	
	2001	2000
	-----	-----
Net earnings (loss) applicable to common shareholders:		
Earnings (loss) before cumulative effect of changes in accounting principles and extraordinary items	\$ (183,848)	\$ (31,837)
Cumulative effect of changes in accounting principles, net of income tax benefit of \$37,286	--	(61,110)
Extraordinary gain on repurchase of convertible subordinated notes, net of income tax expense of \$16,843	38,734	--
	-----	-----
	\$ (145,114)	\$ (92,947)
	=====	=====
Weighted average number of common shares:		
Issued and outstanding, beginning of year	30,051,514	29,757,888
Weighted average number of shares issued during the year	864,167	116,227
	-----	-----
Weighted average number of shares used in computing basic earnings (loss) per share	30,915,681	29,874,115
Assumed exercise of stock options, net of shares assumed	--	--
Assumed conversion of Subordinated Notes	--	--
	-----	-----
Weighted average number of shares used in computing diluted earnings (loss) per share	30,915,681	29,874,115
	=====	=====

The calculation of diluted loss per share for 2001 and 2000 excludes options to purchase common shares of stock which were outstanding, and common shares issuable upon conversion of the Subordinated Notes, as the impact of these exercises and conversions would be anti-dilutive.

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If the methodology prescribed by FAS 123, had been adopted by the Company, pro forma results for the year ended December 31, would have been as follows:

	2001 -----	2000 -----	1999 -----
Net earnings (loss)	\$(155,404)	\$(99,314)	\$20,362
Earnings (loss) per share:			
Basic	\$ (5.03)	\$ (3.32)	\$ 0.69
Diluted	\$ (5.03)	\$ (3.32)	\$ 0.64

The weighted average fair value of common share options granted in 2001 at the time of grant was \$3.2 million (2000 - \$24.1 million, 1999 - \$14.7 million). The fair value of common share options granted is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, an average risk free interest rate of 4.5% (2000 - 6.0%, 1999 - 6.0%), 20% forfeiture of options vesting greater than two years, expected life of one to five years and expected volatility of 200% due to the potential significant fluctuations in the Company's stock price.

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15. CONSOLIDATED STATEMENTS OF OPERATIONS SUPPLEMENTAL INFORMATION

The Company, as part of its review of financial results and ongoing assessment of the carrying value of the Company's assets, primarily due to industry-wide economic and financial difficulties faced by many of the Company's customers, recorded the following charges:

- (a) Within costs of goods and services, the Company recorded a charge of \$16.5 million in 2001 (2000 - \$8.6 million, 1999 - \$nil) based on the reduced fair values of the Company's film assets. In 2001, the Company also recorded a charge of \$4.1 million for inventories (2000 - \$nil, 1999 - \$nil), due to a reduced net realizable value.
- (b) The Company recorded a charge of \$4.5 million to selling, general and administrative expenses in 2001 (2000 - \$13.1 million, 1999 - \$0.9 million) relating to the Company's accounts receivable, as collectibility on certain accounts was considered uncertain.
- (c) In performing its assessment of the carrying value of long-term investments, the Company recorded \$5.6 million in 2001 (2000 - \$4.1 million, 1999 - \$nil) in charges for declines in the value that are considered to be other than temporary.

16. RESTRUCTURING COSTS AND ASSET IMPAIRMENTS

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	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
Restructuring costs(1)	\$16,292	\$ --	\$ --
Asset impairments			
Net investment in leases(2)	13,633	--	--
Fixed assets(3)	26,660	11,152	--
Other assets	3,283	--	--
Total	\$59,868	\$11,152	\$ --

- (1) In its efforts to stabilize and rationalize its business, the Company has been focused on reducing expenses and changing its corporate structure to reflect industry-wide economic and financial difficulties faced by many of the Company's customers. The Company has relocated its Sonics sound-system facility in Birmingham, Alabama to near Toronto, Canada, and has reduced its overall corporate workforce by 208 employees. In 2001, the Company recorded expenses of \$12.6 million for staff severances and \$3.7 million for premises relocation charges. As at December 31, 2001 the Company had accrued liabilities of \$5.1 million (2000 - \$nil) for costs of severed employees to be paid to employees over the next three years.
- (2) In its assessment of the carrying value of the Company's net investment in leases for the year ended December 31, 2001, the Company recorded a charge of \$13.6 million (2000 - \$nil, 1999 - \$nil), as collectibility associated with certain leases was considered uncertain.
- (3) The Company, in assessing the carrying value of its fixed and other assets pursuant to FASB Statement of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("FAS 121"), recorded charges of \$26.7 million in 2001 (2000 - \$11.2 million, 1999 - \$nil) relating to fixed assets.

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17. CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,	
	2001	2000
(a) Changes in other non-cash operating assets and liabilities comprise of the following:		
Decrease (increase) in:		
Accounts receivable	\$ 1,331	\$ (111)

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Net investment in leases	5,687	(9,258)
Inventories	6,852	(6,657)
Prepaid expenses	(33)	(1,939)
Increase (decrease) in:		
Accounts payable	(9,862)	(7,127)
Accrued liabilities	9,251	2,361
Deferred revenue	(9,335)	(8,613)
Income taxes payable (recoverable)	10,629	(42,585)
	-----	-----
	\$ 14,520	\$ (73,929)
	=====	=====
(b) Cash payments made during the year on account of:		
Income taxes	\$ 1,107	\$ 33,613
	=====	=====
Interest	\$ 21,910	\$ 21,500
	=====	=====
(c) Depreciation, amortization and write-downs comprise of the following:		
Depreciation and amortization:		
Film assets	\$ 10,544	\$ 9,346
Fixed assets	8,652	11,131
Other assets	3,075	4,982
Goodwill and intangibles	3,005	2,114
Deferred financing costs	1,149	1,213
	-----	-----
	26,425	28,786
Write-downs:		
Accounts receivable	4,469	13,086
Net investment in leases	13,633	--
Inventories	4,053	--
Film assets	16,514	8,602
Fixed assets	26,660	11,152
Other assets	8,047	--
	-----	-----
	73,376	32,840
	-----	-----
	\$ 99,801	\$ 61,626
	=====	=====

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 (Tabular amounts in thousands of U.S. dollars, unless otherwise stated)

18. SEGMENTED AND OTHER INFORMATION

As of December 31, 2001, the Company has three reportable segments: IMAX systems, films and other. The Company's digital projection systems operating segment was disposed of effective December 11, 2001 and has been reflected as discontinued operations (see note 3). The IMAX systems segment designs, manufactures, sells or leases and maintains IMAX theater projection systems. The films segment produces and distributes films, and performs film post-production services. The other segment includes camera rentals and theater operations. The accounting policies of the segments are the same as those described in note 2. Segment performance is evaluated based on gross margin less selling, general and administrative expenses,

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research and development expenses, amortization, income (loss) from equity-accounted investees and restructuring costs and asset impairments. Inter-segment transactions are not significant.

(a) OPERATING SEGMENTS

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
REVENUE			
IMAX systems	\$ 76,582	\$ 113,226	\$ 126,826
Films	29,923	41,711	47,227
Other	12,154	18,179	18,783
Total	\$ 118,659	\$ 173,116	\$ 192,836
EARNINGS (LOSS) FROM OPERATIONS			
IMAX systems	\$ 4,226	\$ 38,660	\$ 70,403
Films	(33,022)	(13,734)	244
Other	(21,850)	(23,321)	(1,980)
Corporate overhead	(43,233)	(19,936)	(14,232)
Total	\$ (93,879)	\$ (18,331)	\$ 54,435
DEPRECIATION, AMORTIZATION AND WRITE-DOWNS			
Depreciation and amortization:			
IMAX systems	\$ 12,548	\$ 8,187	\$ 5,741
Films	8,725	11,208	14,044
Other and corporate	5,152	9,391	4,494
	26,425	28,786	24,279
Write-downs:			
IMAX systems	24,421	13,086	949
Films	30,901	8,602	--
Other and corporate	18,054	11,152	--
	73,376	32,840	949
Total	\$ 99,801	\$ 61,626	\$ 25,228
PURCHASE OF FIXED ASSETS			
IMAX systems	\$ 173	\$ 3,600	\$ 9,934
Films	3	15,147	5,778
Other	915	8,896	6,753
Total	\$ 1,091	\$ 27,643	\$ 22,465

AT DECEMBER 31,

2001	2000	1999
------	------	------

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ASSETS			
IMAX systems	\$182,319	\$222,119	\$254,940
Films	30,372	68,609	65,149
Other	9,014	38,262	47,099
Corporate	39,807	101,219	130,371
Discontinued operations	--	61,891	40,678
	-----	-----	-----
Total	\$261,512	\$492,100	\$538,237
	=====	=====	=====

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18. SEGMENTED AND OTHER INFORMATION (cont'd)

(b) GEOGRAPHIC INFORMATION

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

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
REVENUE			
Canada	\$ 5,524	\$ 8,454	\$ 15,289
United States	71,357	82,987	99,184
Europe	21,880	43,141	34,953
Japan	3,971	4,512	10,835
Rest of World	15,927	34,022	32,575
	-----	-----	-----
Total	\$118,659	\$173,116	\$192,836
	=====	=====	=====

	AT DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
LONG-LIVED ASSETS			
Canada	\$ 52,654	\$ 61,427	\$ 73,278
United States	33,802	53,246	33,089
Europe	1,126	3,773	350
Japan	40	840	131
Rest of World	4,057	8,580	1,847
	-----	-----	-----

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Total	\$ 91,679	\$127,866	\$108,695
	=====	=====	=====

(c) REVENUE AND COST OF GOODS AND SERVICES

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
Revenue:			
Products	\$ 80,403	\$121,478	\$141,816
Services	38,256	51,638	51,020
	-----	-----	-----
Total revenue	\$118,659	\$173,116	\$192,836
	=====	=====	=====
Costs of goods and services:			
Products	\$ 63,270	\$ 66,321	\$ 58,272
Services	34,121	46,334	39,701
	-----	-----	-----
Total costs of goods and services	\$ 97,391	\$112,655	\$ 97,973
	=====	=====	=====

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

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19. FINANCIAL INSTRUMENTS

From time to time the Company engages in hedging activities to reduce the impact of fluctuations in foreign currencies on its profitability and cash flow. The Company is exposed to market risk from changes in foreign currency rates. The Company does not use financial instruments for trading or other speculative purposes.

A substantial portion of the Company's revenues are denominated in U.S. dollars while a substantial portion of its costs and expenses are denominated in Canadian dollars. A portion of the net U.S. dollar flows of the Company are converted to Canadian dollars to fund Canadian dollar expenses, either through the spot market or through forward contracts. Existing foreign exchange contracts expired on October 16, 2001 and the Company recorded a loss of \$0.1 million. The Company plans to convert Canadian dollar expenses to U.S. dollars through the spot and forward markets on a go-forward basis. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese Yen flows are converted to U.S. dollars generally through forward contracts to minimize currency

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exposure. The Company also has cash receipts under leases denominated in Japanese Yen and French francs which were converted to U.S. dollars generally through forward contracts to minimize currency exposure. These contracts were sold on August 9, 2001 for proceeds of \$0.7 million. The Company plans to convert Japanese Yen and French franc lease cash flows to U.S. dollars through the spot and forward markets on a go-forward basis.

The Company entered into an interest rate swap transaction in May 1999 for a term commencing June 1, 1999 and terminating on December 1, 2002. The Company had agreed to pay a floating rate of LIBOR plus 1.49% to June 1, 2000 and LIBOR plus 2.09% for the remainder of the term and the counterparty had agreed to pay a fixed rate of 7.875% on notional principal of \$65.0 million. The floating rate was revised every 1st of December, March, June and September. The Company adjusted interest expense over each three-month period for the net amount it was to receive from, or pay to, the counterparty. The Company sold its entire position in the swap to a third party on January 10, 2001 for net proceeds of \$0.2 million.

The Company's adoption of FASB Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" effective January 1, 2001 did not have a significant impact on the accounts.

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

	2001		CARRYING AMOUNT
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	
Investments in marketable debt securities	\$	--	\$
Other investments		--	
Senior Notes	200,000	80,000	20
Subordinated Notes	29,643	9,189	10
Foreign currency contracts		--	
Interest rate swap contracts		--	

The fair value of investments in marketable debt securities approximates carrying value due to the short-term maturity of the investments. The fair value of other investments is based on quoted market prices or dealer quotes. The fair values of the Company's Senior Notes and Subordinated Notes are estimated based on quoted market prices for the Company's debt. The fair value of foreign currency contracts held for hedging purposes represents the estimated amount the Company would receive upon termination of the agreements, taking into consideration current exchange rates and the credit worthiness of the counterparties. The fair value of the interest rate swap contracts represents the estimated amount the Company would pay to the counterparty to terminate the agreement, taking into account the interest rate at year end.

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19. FINANCIAL INSTRUMENTS (cont'd)

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

A substantial proportion of the Company's revenues are generated from customers in the commercial exhibition industry, which experienced significant deterioration in financial condition in 2001 and 2000. To minimize its credit risk in this area, the Company retains title to underlying theater systems leased, registers theater systems sold as collateral, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts.

20. EMPLOYEE PENSION PLANS

(A) DEFINED BENEFIT PLAN

On July 12, 2000, the Company established a defined benefit pension plan covering its two Co-Chief Executive Officers. The plan provides for a lifetime retirement benefit from age 55 determined as 75% of the member's best average 60 consecutive months of earnings during the 120 months preceeding retirement. Once benefit payments begin, the benefit is indexed annually to the cost of living and further provides for 100% continuance for life to the surviving spouse. The benefits were 50% vested as at July 12, 2000, the plan initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. The vesting percentage of a member whose employment terminates other than by voluntary retirement shall be 100%. Also, upon the occurrence of a change in control prior to termination of a member's employment, the vesting percentage shall become 100%. The following assumptions were used in determining the unfunded status of the Company's defined benefit pension plan at December 31:

	2001

Discount rate	7.0%
Rate of increase in compensation levels	1.5%

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The amounts accrued for the plan are determined as follows:

Projected benefit obligation:	2001
Obligation, beginning of year	\$ 11,595
Obligation arising on initiation of plan	--
Service cost	1,701
Interest cost	871
Actuarial gain	(348)

Obligation, end of year	\$ 13,819
	=====
Unfunded status:	
Obligation, end of year	\$ 13,819
Unrecognized prior service cost	(9,224)
Unrecognized actuarial gain	1,316

Accrued pension liability	\$ 5,911
	=====

In addition, included in accrued liabilities, is a minimum pension liability of \$6.6 million (2000 - \$8.5 million), representing unrecognized prior service costs.

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20. EMPLOYEE PENSION PLANS (cont'd)

(a) DEFINED BENEFIT PLAN (cont'd)

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

	2001

Service cost	\$ 1,701
Interest cost	871
Amortization of prior service cost	1,398

Pension expense	\$ 3,970
	=====

At the time the Company established the defined benefit pension plan, it

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also took out life insurance policies on its two Co-Chief Executive Officers. The Company intends to use the proceeds of such insurance policies to satisfy, in whole or in part, the survival benefits due and payable under the plan, although there can be no assurance that the Company will elect to do so. At December 31, 2001, the cash surrender value of the insurance policies is \$0.4 million.

(b) DEFINED CONTRIBUTION PLANS

The Company also maintains defined contribution employee pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount equal to 5% of their base salary subject to certain prescribed maximums. During 2001, the Company contributed and expensed an aggregate of \$0.5 million (2000 - \$0.6 million, 1999 - \$0.6 million) to the Canadian plan and an aggregate of \$0.3 million (2000 - \$0.4 million, 1999 - \$0.2 million) to the Company's defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

21. IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

(a) FASB STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 142, "GOODWILL AND OTHER INTANGIBLE ASSETS" ("FAS 142")

With the adoption of FAS 142, goodwill will no longer be subject to amortization over its estimated useful life but instead will be subject to at least an annual assessment for impairment by applying a fair-value-based test. The Company must adopt the requirements of FAS 142 effective January 1, 2002.

As of December 31, 2001, the Company carried the following values for goodwill and intangibles on its balance sheet, net of accumulated amortization:

INTANGIBLES

Patents, trademarks and other intangibles

GOODWILL

IMAX

Sonics Associates, Inc.

The amortization of goodwill for the year ended December 31, 2001 was \$2.3 million. Prior to the implementation of FAS 142 goodwill amortization was projected to be approximately \$2.3 million per year for the years 2002, 2003 and 2004.

The Company is currently evaluating the effect of adopting this pronouncement.

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21. IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (cont'd)

(b) FASB STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 144, "ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS" ("FAS 144")

FAS 144 supercedes FAS 121 and the accounting and reporting provisions of APB 30 for segments of a business to be disposed of. The pronouncement is effective January 1, 2002, and will be adopted by the Company at that time.

The Company is currently evaluating the effect of adopting this pronouncement.

22. SUBSEQUENT EVENTS

On January 7, 2002 and January 9, 2002, the Company and a wholly owned subsidiary of the Company purchased an additional \$19.5 million in the aggregate of the Company's Subordinated Notes for \$7.3 million, consisting of \$5.2 million in cash by the subsidiary and common shares by the Company valued at \$2.1 million. The Company will record an additional extraordinary pre-tax gain of \$12.2 million as a result of this transaction in the first quarter of 2002. These transactions had the effect of reducing the principal of the Company's outstanding Subordinated Notes to \$10.1 million.

On January 1, 2002, the Company entered into an agreement with its print supplier, Technicolor Inc. ("Technicolor"), under which the Company receives certain favorable discounts on its, its affiliates' and its customers' film processing costs. Such discounts, which are based on, among other things, footage of work provided to Technicolor by the Company on an annual basis, are to be credited against an upfront payment provided by Technicolor to the Company in February 2002. As collateral, a priority mortgage on the Company's Mississauga facility was registered in favor of Technicolor, which mortgage will be released after a portion of the upfront payment is recouped by Technicolor, or upon the occurrence of certain other conditions. The agreement with Technicolor, which requires the Company to use only Technicolor or Technicolor affiliates for its large-format film processing, expires September 30, 2006.

On February 14, 2002, the Company and Regal Cinemas, Inc. ("Regal") signed an agreement pursuant to which Regal agreed to assume its master system lease agreement with the Company dated June 23, 1997, as modified by the parties, in connection with Regal's bankruptcy proceeding, resulting in Regal's six existing IMAX theaters remaining in operation. As part of the agreement, pursuant to Regal's Motion for Entry of Agreed Order Authorizing Assumption of Executory Contract with IMAX Corporation filed in the United States Bankruptcy Court, Middle District of Tennessee, Regal paid the Company \$6.45 million in satisfaction of all of the Company's claims against Regal in its bankruptcy.

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23. ACQUISITIONS

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

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

Cash
Accounts receivable
Inventories
Fixed assets
Other assets
Accounts payable and accrued liabilities
Deferred income tax
Goodwill

In 2000, the Company recorded an increase of \$0.9 million to goodwill in finalizing the purchase allocation and the additional amounts arising under the escrow arrangements.

As described in note 3, the Company disposed of DPI effective December 11, 2001.

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

The Company increased goodwill in 2001 by \$1.0 million (2000 - \$0.3 million) to account for the guaranteed earn-out amount paid to the former shareholders.

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24. CHANGES IN ACCOUNTING POLICIES

- (a) SEC STAFF ACCOUNTING BULLETIN NO. 101, "REVENUE RECOGNITION IN FINANCIAL STATEMENTS" ("SAB 101")

In preparing its financial statements for the year ended December 31, 2000, the Company reviewed its revenue recognition accounting policies in the context of SAB 101. In accordance with the interpretive guidance of SAB 101, the Company, effective January 1, 2000, recognizes revenue on theater systems, whether pursuant to sales-type leases or sales, at the time that installation is complete. Prior to January 1, 2000, the Company recognized revenue from sales-type leases and sales of theater systems at the time of delivery. The effect of applying this change in accounting principle was a fiscal 2000 non-cash charge of \$54.5 million, net of income taxes of \$33.4 million, or \$1.82 per share, representing the cumulative impact on retained earnings as at December 31, 1999.

The following are pro forma amounts for the year ended December 31, 1999 as if SAB 101 had been applied during all years presented:

Revenue
Net earnings
Basic earnings per share
Diluted earnings per share

- (b) AICPA STATEMENT OF POSITION 00-2, "ACCOUNTING BY PRODUCERS OR DISTRIBUTORS OF FILMS" ("SOP 00-2")

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

25. FINANCIAL STATEMENT PRESENTATION

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

IMAX CORPORATION

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

Richard L. Gelfond.....	46	Co-Chairman and Co-Chief Executive Officer and Director
Bradley J. Wechsler.....	50	Co-Chairman and Co-Chief Executive Officer and Director
Kenneth G. Copland.....	64	Director
J. Trevor Eyton.....	67	Director
Garth M. Girvan.....	52	Director
Ellis B. Jones.....	48	Director
G. Edmund King.....	68	Director
Murray B. Koffler.....	78	Director
Sam Reisman.....	49	Director
Marc A. Utay.....	42	Director
W. Townsend Ziebold.....	40	Director
Francis T. Joyce.....	49	Chief Financial Officer
Greg Foster.....	39	President, Filmed Entertainment
Robert D. Lister.....	33	Executive Vice President, Business & Legal Affairs and
Mary Pat Ryan.....	45	Executive Vice President, Worldwide Marketing
Brian Bonnick.....	45	Senior Vice President, Technology
David B. Keighley.....	53	Senior Vice President & President, David Keighley Prod
Larry O'Reilly.....	39	Senior Vice President, Theatre Development & Film Dist
G. Mary Ruby.....	44	Deputy General Counsel, Senior Vice President, Legal A and Corporate Secretary
Mary C. Sullivan.....	38	Senior Vice President, Human Resources & Administratio
Mark Welton.....	38	Senior Vice President, Business Affairs
Kathryn A. Gamble.....	34	Vice President, Finance and Controller
Edward MacNeil.....	37	Vice President, Finance, Special Projects

Under the Articles of IMAX Corporation, the Board of Directors is divided into three classes, each of which serves for a three year term. The term of Class II directors, currently composed of Kenneth G. Copland, Garth M. Girvan, Murray B. Koffler and Marc A. Utay expires in 2002. The term of Class I directors, currently composed of J. Trevor Eyton, O.C., G. Edmund King, Sam Reisman and W. Townsend Ziebold expires in 2003. The term of Class III directors, currently composed of Richard L. Gelfond, Ellis B. Jones and Bradley J. Wechsler expires in 2004.

RICHARD L. GELFOND has been Co-Chairman of the Company since June 1999 and

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Co-Chief Executive Officer since May 1996. From March 1994 to June 1999 Mr. Gelfond served as Vice Chairman of the Company. In addition, Mr. Gelfond serves on the boards of Mainframe Entertainment, Inc. and several private and philanthropic entities.

BRADLEY J. WECHSLER has been Chairman or Co-Chairman of the Company since March 1994 and Co-Chief Executive Officer with Mr. Gelfond since May, 1996. Mr. Wechsler serves on the boards of Mainframe Entertainment, Inc., NYU Hospital, the Kernochan Center for Law, Media and the Arts, and the American Museum of the Moving Image.

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ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (cont'd)

KENNETH G. COPLAND, a Director of the Company since June 1999, is the Chairman of KGC Ltd. Mr. Copland was the Vice-Chairman of BMO Nesbitt Burns Inc. from 1994 to May 2001. He is Chairman of Humber College Foundation and HC Educational Ventures Limited. Mr. Copland is a director of the Investment Dealers Association of Canada. Mr. Copland is a Canadian citizen.

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

GARTH M. GIRVAN, a Director of the Company since 1994, is a partner of McCarthy Tetrault, Canadian counsel to the Company. Mr. Girvan is a Canadian citizen.

ELLIS B. JONES, a Director of the Company since June 2001, has been the Chief Executive Officer of Wasserstein & Co., LP, a merchant banking and venture capital firm since January, 2001. Prior to that he was a Managing Director in charge of merchant banking at Wasserstein Perella & Co., Inc. Mr. Jones serves as a director for a number of privately held companies.

G. EDMUND KING, a Director of the Company since June 1999, has been Deputy Chairman and a director of McCarvill Corporation since January, 1996. Mr. King is also a director of Falconbridge Ltd., and Afton Food Group Ltd. From June 1994 to January 1998, Mr. King was Chairman of WIC Western International Communications. Mr. King is a Canadian citizen.

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

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SAM REISMAN, a Director of the Company since June 1999, has been the principal shareholder, Chairman and Chief Executive Officer of The Rose Corporation, a real estate finance and investment company which was previously a real estate development company, since September 1986. Mr. Reisman is currently the principal shareholder of Hayden Industrial Products of Corona, California, formerly a division of The Equion Corporation. Mr. Reisman is a Canadian citizen.

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

W. TOWNSEND ZIEBOLD, a Director of the Company since June 1999 and has been the Non-Executive Chairman of the Board since June 2001. Mr. Ziebold is currently President of the Venture Capital Practice of Wasserstein & Co., L.P., formerly the private equity arm of Wasserstein Perella Group Inc. Previously, Mr. Ziebold was a Managing Director of Wasserstein Perella & Co., Inc. and head of its Venture Capital Practice. Mr. Ziebold was a director of Maybelline, Inc. and Collins & Aikman Corporation and currently serves on several private company boards in the media, entertainment and Internet industries.

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IMAX CORPORATION

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (cont'd)

FRANCIS T. JOYCE joined the Company in March, 2001, as Chief Financial Officer. Prior to joining the Company Mr. Joyce held the position of Chief Financial Officer of the Internet company theglobe.com from 1998 until his employment with the Company. From 1997 to 1998, Mr. Joyce served as Chief Financial Officer of Reed Travel Group, a division of Reed Elsevier PLC and from 1994 to 1997 served as Chief Financial Officer of the Alexander Consulting Group, a division of Alexander and Alexander Services Inc., an international professional services firm. Mr. Joyce is a member of Financial Executive International and the American Institute of Certified Public Accountants.

GREG FOSTER joined the Company in March, 2001 as President, Filmed Entertainment. Prior to joining the Company, Mr. Foster was Executive Vice-President of Production at MGM/UA. Prior to that Mr. Foster held other senior positions including Senior Vice-President of Motion Picture Marketing Research during his 15 years at MGM/UA.

ROBERT D. LISTER joined the Company as Senior Vice President, Legal Affairs and General Counsel in May 1999 and was appointed Executive Vice President, Business & Legal Affairs in May 2001. Prior to joining the Company, Mr. Lister was Vice President, General Counsel and Secretary of Clearview Cinemas, a film exhibitor, from March 1998 until his employment with the Company. Prior to that, Mr. Lister served as Associate General Counsel of Merit Behavioral Care Corporation, a behavioral healthcare company, from March 1996 through March

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1998. Mr. Lister is a member of the New York State Bar Association.

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

BRIAN BONNICK joined the Company in 1999 as Vice President, Research & Development and was appointed Senior Vice President, Technology in August 2001. Prior to joining the Company, Mr. Bonnick was Vice President, Engineering and Operations for Electrohome Corporation. Prior to that Mr. Bonnick was Vice President and General Manager at TSB International Inc. a telecommunications company. Mr. Bonnick is registered as a professional engineer by the Association of Professional Engineers of Ontario. Mr. Bonnick is a Canadian citizen.

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

LARRY O'REILLY joined the Company in 1994 as the Sales Manager, Film Distribution and was appointed Senior Vice President, Theatre Development & Film Distribution in January 2002. Mr. O'Reilly has held various positions within the Company including Manager, Business Development: Film; Director, Strategic Partnerships; Director, Commercial Marketing: The Americas and Vice President, Sales, The Americas. Mr. O'Reilly is a Canadian citizen.

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ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (cont'd)

G. MARY RUBY joined the Company in 1987 as Associate General Counsel and was appointed Senior Vice President, Legal Affairs in 2001. Ms Ruby was General Counsel from February 1989 to February 1997. Ms. Ruby is Deputy General Counsel and acts as Corporate Secretary to the Board of Directors. Ms. Ruby is a member of the Ontario Bar and is a Canadian citizen.

MARY C. SULLIVAN joined the Company in 1996 as Director, Human Resources and was appointed Vice President, Human Resources and Administration in 1998 and Senior Vice President, Human Resources and Administration in 2000. Prior to joining the Company, Ms. Sullivan was Director, Human Resources of Central Park Lodges. Ms. Sullivan is a Canadian citizen.

MARK WELTON joined the Company in July 1997 as Director, Business Affairs and was appointed Senior Vice President, Business Affairs in September 2001. Previous to that Mr. Welton was Vice President, Business Affairs, a position he held since January, 2000. Prior to joining the Company Mr. Welton was an Associate Lawyer at Stikeman, Elliot from 1994 until his employment with the Company. Mr. Welton is a Canadian citizen.

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KATHRYN A. GAMBLE joined the Company in July 2001 as Vice President, Finance and Controller. Prior to joining the Company Ms. Gamble served as Vice President, Finance and Chief Financial Officer of an Internet company, Healthyconnect.com Inc. from 2000 until her employment with the Company. From 1996 to 2000, Ms. Gamble served as Vice President and Chief Financial Officer of Med-emerg Inc. a Nasdaq listed healthcare company. Ms. Gamble is a member of the Canadian Institute of Chartered Accountants and a Canadian citizen.

EDWARD MACNEIL joined the Company in April, 1994 as Director, Taxation & Treasury and was appointed Vice President, Finance, Special Projects in September 2001. From October 1999 to August 2001, Mr. MacNeil held the position of Director and Senior Vice President, Digital Projection Limited, a former IMAX subsidiary. Prior to joining the Company Mr. MacNeil was a Taxation Manager at PricewaterhouseCoopers. Mr. MacNeil is a member of the Canadian Institute of Chartered Accountants and a Canadian citizen.

ITEM 11. EXECUTIVE COMPENSATION

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

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IMAX CORPORATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the beneficial ownership of each class of the Company's securities as at December 31, 2001 or as otherwise indicated in the notes below, including (i) all beneficial owners of more than 5% of the Company's voting capital stock, (ii) all directors and Named Executive Officers individually, and (iii) all directors and executive officers as a group.

TITLE OF CLASS	BENEFICIAL OWNERS	SHARES BENEF NUMBER OF SHARES (1)
Common Shares	WASSERSTEIN PERELLA GROUP: Wasserstein Perella Partners, L.P. Wasserstein Perella Offshore Partners, L.P. WPPN, L.P. Michael J. Biondi solely in his capacity as Voting Trustee	10,195,384 (3)

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Wasserstein Capital, L.P.

PRUDENTIAL FINANCIAL, INC.:	3,094,054 (4)
Prudential Financial, Inc.	
Jennison Associates LLC	
Richard L. Gelfond	2,070,900 (5)
Bradley J. Wechsler	1,945,800 (6)
Kenneth G. Copland	31,836 (7)
J. Trevor Eyton	17,934 (8)
Garth M. Girvan	59,734 (9)
Ellis B. Jones.....	11,902 (10)
G. Edmund King	21,836 (7)
Murray B. Koffler	32,200 (11)
Sam Reisman	96,865 (12)
Marc A. Utay	273,836 (9)
W. Townsend Ziebold	21,836 (7)
Greg Foster.....	2,500
Andrew Gellis.....	64,500 (13)
Richard Intrator.....	105,000 (14)
David B. Keighley.....	90,500. (15)
All executive officers and directors as a group (25 persons)	5,007,381 (16)

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

* less than 1%

- (1) Includes number of shares owned at December 31, 2001 and common shares as to which each individual had at December 31, 2001 the right to acquire beneficial ownership through the exercise of options plus options that vested within 60 days of December 31, 2001 and shares issuable upon conversion of 5.75% Subordinated Notes due April 1, 2003.
- (2) Based on dividing the Number of Shares by the total shares outstanding as of December 31, 2001 adjusted for shares issuable upon conversion of 5.75% Subordinated Notes due April 1, 2003 adjusted for shares issuable through the exercise of options to the Beneficial Owners.
- (3) Based on information contained in a Schedule 13G/A dated February 14, 2002 filed by Wasserstein Management Partners LP, 1301 Avenue of the Americas, New York, New York and information provided directly to the Company by Wasserstein & Co. LP on March 12, 2002.

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IMAX CORPORATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT (cont'd)

- (4) Based on information contained in a Schedule 13G/A dated February 11, 2002

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filed by Prudential Financial, Inc., 751 Broad Street, Newark, New Jersey and information contained in a Schedule 13G dated February 8, 2002 filed by Jennison Associates LLC, 466 Lexington Avenue, New York, New York.

- (5) Included in the amount shown are 538,000 common shares as to which Mr. Gelfond had the right to acquire beneficial ownership through the exercise of options.
- (6) Included in the amount shown are 538,000 common shares as to which Mr. Wechsler had the right to acquire beneficial ownership through the exercise of options.
- (7) Included in the amount shown are 21,836 common shares as to which Messrs. Copland, King and Ziebold had the right to acquire beneficial ownership through the exercise of options.
- (8) Included in the amount shown are 17,934 common shares as to which Mr. Eyton had the right to acquire beneficial ownership through the exercise of options.
- (9) Included in the amount shown are 33,836 common shares as to which Messrs. Girvan and Utay had the right to acquire beneficial ownership through the exercise of options.
- (10) Included in the amount shown are 11,902 common shares as to which Mr. Jones had the right to acquire beneficial ownership through the exercise of options.
- (11) Included in the amount shown are 28,000 common shares as to which Mr. Koffler had the right to acquire beneficial ownership through the exercise of options.
- (12) Included in the amount shown are 21,836 common shares as to which Mr. Reisman had the right to acquire beneficial ownership through the exercise of options and 28,029 common shares as to which Mr. Reisman had the right to acquire upon conversion of the 5.75% Subordinated Notes due April 1, 2003.
- (13) Included in the amount shown are 64,500 common shares as to which Mr. Gellis had the right to acquire beneficial ownership through the exercise of options.
- (14) Included in the amount shown are 100,000 common shares as to which Mr. Intrator had the right to acquire beneficial ownership through the exercise of options.
- (15) Included in the amount shown are 80,500 common shares as to which Mr. Keighley had the right to acquire beneficial ownership through the exercise of options.
- (16) Included in the amount shown are 1,712,081 common shares as to which all directors and executive officers as a group had the right to acquire beneficial ownership through the exercise of options and the conversion of the 5.75% Subordinated Notes due April 1, 2003.

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IMAX CORPORATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT (cont'd)

SHAREHOLDERS' AGREEMENTS

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

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

The Shareholders Agreement also provides that the Corporation, WP and each of Messrs. Wechsler and Gelfond shall use their best efforts to cause the Corporation to establish a nominating committee of the Board of Directors consisting of two directors, one designated by WP and the other designated by Messrs. Wechsler and Gelfond. In addition, WP has the right, subject to the approval of Messrs. Wechsler and Gelfond, to designate a WP Employee Designee for appointment by the Board of Directors of the Corporation as the Non-Executive Chairman of the Board, as long as WP holds at least 2,948,607 common shares. W. Townsend Ziebold has been approved as such designee. If Mr. Ziebold no longer holds that position, then WP is to propose three replacements and Messrs. Wechsler and Gelfond shall select one of those proposed for appointment by the Board as the Non-Executive Chairman. Each of Messrs. Wechsler

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and Gelfond is entitled to be appointed as a Co-Chairman or Chairman of the Corporation as long as he is a Co-Chief Executive Officer or the Chief Executive Officer of the Corporation. The Agreement provides that the duties of the Non-Executive Chairman and the Co-Chief Executive Officers shall be as set forth in the Bylaws, including the requirement that the following actions be approved by the Non-Executive Chairman and at least one of the Co-Chief Executive Officers: setting the dates and times of meetings of the directors and shareholders (other than normal quarterly Board of Directors, and annual shareholders' meetings), setting the agenda of such meetings, and appointing members of committees of the Board of Directors other than persons designated by WP and Messrs. Wechsler and Gelfond as provided in the Shareholders' Agreement. Each of WP and Messrs. Wechsler and Gelfond have the right to designate one director to serve on each committee of the Board of Directors of the Corporation, provided that each such person meets applicable regulatory requirements.

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IMAX CORPORATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT (cont'd)

SHAREHOLDERS' AGREEMENTS (cont'd)

Each of WP and Messrs. Wechsler and Gelfond agreed to use their best efforts to cause there no longer to be CEO Advisors as of the date upon which all of the WP Employee Designees are elected as directors of the Corporation. All of the WP Employee Designees were elected as directors at the Corporation's annual and special meeting of shareholders held June 7, 1999 and the CEO Advisors were disbanded in June, 1999.

REGISTRATION RIGHTS AGREEMENT

The Corporation, WP and Messrs. Wechsler and Gelfond also entered into a registration rights agreement (the "Registration Rights Agreement") dated as of February 9, 1999, which carried forward the corresponding provisions of the June 16, 1994 shareholders agreement, and pursuant to which each of WP and Messrs. Wechsler and Gelfond have certain rights to cause the Corporation to use its best efforts to register their securities under the U.S. Securities Act of 1933. WP is entitled to effect up to four demand registrations and Messrs. Wechsler and Gelfond are entitled to make two such demand registrations. WP and Messrs. Wechsler and Gelfond also have unlimited piggy-back rights to register their securities under the Registration Rights Agreement whenever the Corporation proposes to register any securities under the U.S. Securities Act, other than the registration of securities pursuant to an initial public offering or the registration of securities upon Form S-4 or S-8 under the U.S. Securities Act or filed in connection with an exchange offer or an offering of securities solely to the Corporation's existing shareholders. In addition to these provisions, if Messrs. Wechsler and Gelfond hold at least 25% of their original holdings, WP has recouped its original investment plus a 30% compounded annual return on such investment, and WP initiates the sale of the Corporation, then for 60 days thereafter, WP will enter into exclusive negotiations with Messrs. Gelfond and Wechsler, and for another 60 days thereafter WP may not enter into an agreement for the sale of the Corporation to a third party. The Registration Rights Agreement also provides that Messrs. Wechsler and Gelfond will have the right from March 1 to March 31 in any, but only one, of 1999, 2000 and 2001, to notify the Corporation of their decision to require the Corporation to take action to liquidate their common shares. The Corporation is required to use its best

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efforts to cause at its option either (i) the sale of the Corporation within a period of 180 days from receipt of the notice to liquidate, (ii) the filing of a registration statement pursuant to the U.S. Securities Act within a period of 120 days from its receipt of the notice to liquidate, or (iii) purchase the securities owned by Messrs. Gelfond and Wechsler for cash at the fair market value as agreed upon by the Corporation and Messrs. Gelfond and Wechsler within 20 days of the notice to liquidate, or in the event of their failure to reach an agreement, as determined by a procedure utilizing nationally recognized investment banking firms. In the event that Messrs. Gelfond and Wechsler exercise their rights to require the Corporation to take such action, they may be entitled to certain cash bonus payments as described in the Proxy Statement under "Executive Compensation - Employment Contracts".

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

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

STANDSTILL AGREEMENT

See Standstill Agreement in Item 13.

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IMAX CORPORATION

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

STANDSTILL AGREEMENT

On July 9, 2001 pursuant to Section 3(c)(iv) of the Second Amended and Restated Shareholders' Agreement dated as of February 9, 1999 entered into by and among Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., WPPN, Inc., and the Michael J. Biondi Voting Trust (the preceding entities together, "WP"), IMAX Corporation (the "Corporation"), Richard L. Gelfond and Bradley J. Wechsler (the "Shareholders Agreement"), the Corporation and each of Messrs. Gelfond and Wechsler entered into a Standstill Agreement (the "GW Standstill Agreement"). Under the terms of the GW Standstill Agreement, each of Messrs. Gelfond and Wechsler agreed to vote in any election for directors in favour of each person nominated by the then current Board of Directors, not to participate in or facilitate proxy contests, not to deposit into a voting trust or subject voting securities to an agreement with respect to voting such securities, not to acquire or affect or attempt to acquire or affect control of the Corporation or to participate in a "group" as defined pursuant to Section 13(d) of the U.S. Securities Exchange Act of 1934, which owns or seeks to acquire beneficial ownership or control of the Corporation, and not to attempt to influence the Corporation except through normal Board of Directors' processes; provided, however, that the GW Standstill Agreement does not prevent either of Messrs. Gelfond and Wechsler from taking any action in his capacity as an officer or employee of the Corporation or any of its subsidiaries, including as Co-Chief Executive Officer or Co-Chairman of the Corporation. As a result of entering into the GW Standstill Agreement, in the event of the resignation, death, disqualification under the Canada Business Corporations Act or the removal or expiration of the term of any director designated by Messrs. Gelfond

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and Wechsler pursuant to the Shareholders Agreement, Messrs. Gelfond and Wechsler shall have the right to designate a replacement for such director pursuant to the terms of the Shareholders Agreement, and WP shall use its best efforts to cause each such designated director to be elected or appointed as a director of the Corporation. The GW Standstill Agreement expires on July 8, 2002, and provides that Messrs. Gelfond and Wechsler may, from time to time, extend the term of the GW Standstill Agreement for additional one year terms thereafter (but in no event beyond March 1, 2004).

The Articles of the Corporation set forth the requirement that certain matters be approved by 75% of the directors then in office. These matters are: (i) hiring or terminating the employment of the Chief Executive Officer or any Co-Chief Executive Officer of the Corporation; (ii) issuing any shares of capital stock for a purchase price, or incurring indebtedness, in an amount of \$25.0 million or more; (iii) disposing of any material single asset, or all or substantially all of the assets of the Corporation or approving the sale or merger of the Corporation; (iv) acquiring a substantial interest in any other entity or entering into any major strategic alliance; and (v) entering into or changing the terms of any agreement or transaction with WP or Messrs. Wechsler and Gelfond (other than agreements in the ordinary course of business, such as employment agreements).

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) FINANCIAL STATEMENTS

The consolidated financial statements filed as part of this Report are included under Item 8 in Part II.

(a) (2) FINANCIAL STATEMENT SCHEDULES

Financial statement schedule for each year in the three-year period ended December 31, 2001

II. Valuation and Qualifying Accounts

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IMAX CORPORATION

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (cont'd)

(A) (3) EXHIBITS

The Items listed as Exhibits 10.1 to 10.12 relate to management contracts or compensatory plans or arrangements.

EXHIBIT NO.	DESCRIPTION
*3.1	Articles of Amalgamation of IMAX Corporation, dated January 1, 2002.

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- 3.2 New By-Law No.1 of IMAX Corporation enacted on June 7, 1999. Incorporated by reference to Form 10-Q for the quarter ended September 30, 1999.
- 4.1 Share Option Agreement, dated as of March 1, 1994, between WGIM Acquisition and Douglas Trumbull. Incorporated by reference to Exhibit 4.1 to Form 10-K for the year ended December 31, 2000.
- 4.2 Shareholders' Agreement, dated as of January 3, 1994, among WGIM Acquisition and Selling Shareholders as defined therein, Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., Bradley J. Wechsler, Richard L. Gelfond and Douglas Trumbull ("Selling Shareholders' Agreement"). Incorporated by reference to Exhibit 4.2 to Form 10-K for the year ended December 31, 2000.
- 4.3 Amendment, dated as of March 1, 1994, to the Selling Shareholders' Agreement. Incorporated by reference to Exhibit 4.3 to Form 10-K for the year ended December 31, 2000.
- 4.4 Amended and Restated Shareholders Agreement, dated as of February 9, 1999, among Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., Michael J. Biondi Voting Trust, Bradley J. Wechsler and Richard L. Gelfond and Douglas Trumbull. Incorporated by reference to Exhibit 4.10 to Form 10-K for the year ended December 31, 2000.
- 4.5 Standstill Agreement, dated as of July 9, 2001 by and among IMAX Corporation, Bradley J. Wechsler and Douglas Trumbull. Incorporated by reference to Exhibit 4.9 to Form 10-K for the year ended June 30, 2001.
- 4.6 Registration Rights Agreement, dated as of February 9, 1999, by and among IMAX Corporation, Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., Michael J. Biondi Voting Trust, Bradley J. Wechsler and Richard L. Gelfond. Incorporated by reference to Exhibit 4.12 to Form 10-K for the year ended December 31, 1998.
- 4.7 Indenture, dated as of April 9, 1996, between IMAX Corporation and Chemical Bank, related to the issue of the 5.75% Convertible Subordinated Notes due April 1, 2005, by reference to Exhibit 4.3 to Amendment No.1 to the Company's Registration Statement (File No.333-5212).
- 4.8 Indenture, dated as of December 4, 1998 between IMAX Corporation and U.S. Bank as Trustee, related to the issue of the 7.875% Senior Notes due December 1, 2005. Incorporated by reference to Exhibit 4.9 to Form 10-K for the year ended December 31, 1998.
- 10.1 Stock Option Plan of IMAX Corporation, dated June 7, 1999. Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 1999.
- 10.2 Employment Agreement, dated as of July 15, 1997 between David Keighley Productions and David B. Keighley. Incorporated by reference to Exhibit 10.7 to Form 10-K for the year ended December 31, 1997.
- 10.3 Employment Agreement, dated July 1, 1998 between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended September 30, 1998.
- 10.4 Amended Employment Agreement, dated July 12, 2000 between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.10 to Form 10-Q for the quarter ended September 30, 2000.
- 10.5 Amended Employment Agreement, dated April 3, 2001 between IMAX Corporation and Bradley J. Wechsler. Incorporated by reference to Exhibit 10.15 to Form 10-Q for the quarter ended June 30, 2001.

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ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K
(cont'd)

(A) (3) EXHIBITS (cont'd)

EXHIBIT NO.	DESCRIPTION
10.6	Employment Agreement, dated July 1, 1998 between IMAX Corporation and Rich Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended Sept
10.7	Amended Employment Agreement, dated July 12, 2000 between IMAX Corporation Gelfond. Incorporated by reference to Exhibit 10.9 to Form 10-Q for the quarter 30, 2000.
10.8	Amended Employment Agreement, dated April 3, 2001 between IMAX Corporation Gelfond. Incorporated by reference to Exhibit 10.16 to Form 10-Q for the quarte 2001.
*10.9	Employment Agreement, dated March 9, 2001 between IMAX Corporation and Greg Foste
10.10	Employment Agreement, dated October 8, 1998 between IMAX Corporation and Incorporated by reference to Exhibit 10.6 to Form 10-K for the year ended Decembe
10.11	Amended Employment Agreement, dated August 17, 2000 between IMAX Corporation and Incorporated by reference to Exhibit 10.11 to Form 10-K for the year ended Decemb
10.12	Employment Agreement, dated February 17, 2000 between IMAX Corporation and Richar Incorporated by reference to Exhibit 10.12 to Form 10-K for the year ended Decemb
*21	Subsidiaries of IMAX Corporation.
*23	Consent of PricewaterhouseCoopers LLP.
*24	Power of Attorney of certain directors.

* Filed herewith

(b) REPORTS ON FORM 8-K

The Company filed a report on Form 8-K on October 25, 2001 under Item 5 -
Other events. The Company reported the purchase of approximately \$48.0 million
in face value of the Company's 5.75% Subordinated Notes due April 1, 2003.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange
Act of 1934, the registrant has duly caused this report to be signed on its
behalf by the undersigned, thereunto duly authorized.

IMAX CORPORATION

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By /s/ FRANCIS T. JOYCE

Francis T. Joyce
Chief Financial Officer

Date: March 21, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 21, 2002.

/S/ BRADLEY J. WECHSLER

Bradley J. Wechsler
Director and
Co-Chief Executive Officer
(Principal Executive Officer)

/S/ RICHARD L. GELFOND

Richard L. Gelfond
Director and
Co-Chief Executive Officer
(Principal Executive Officer)

/s/ KATHRYN A. GAMBLE

Kathryn A. Gamble
Vice President, Finance and Controller
(Principal Accounting Officer)

KENNETH G. COPLAND*

Kenneth G. Copland
Director

GARTH M. GIRVAN*

Garth M. Girvan
Director

ELLIS B. JONES*

Ellis B. Jones
Director

MURRAY B. KOFFLER*

Murray B. Koffler
Director

SAM REISMAN*

Sam Reisman
Director

W. TOWNSEND ZIEBOLD*

W. Townsend Ziebold
Director

By * /S/ FRANCIS T. JOYCE

Francis T. Joyce (as attorney-in-fact)

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IMAX CORPORATION

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(In thousands of U.S. dollars)

	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO EXPENSES	DED
	-----	-----	-----
ALLOWANCE FOR NET INVESTMENT IN LEASES			
Year ended December 31, 1999(2).....	\$ 2,870	\$ 45	
Year ended December 31, 2000.....	302	6,511	
Year ended December 31, 2001.....	6,813	11,257	
ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE			
Year ended December 31, 1999(2).....	\$ 4,626	\$ 949	
Year ended December 31, 2000(2).....	4,494	\$15,870	
Year ended December 31, 2001.....	19,168	4,469	
DEFERRED INCOME TAX VALUATION ALLOWANCE			
Year ended December 31, 1999.....	\$ 2,811	\$ 116	
Year ended December 31, 2000.....	2,927	1,388	
Year ended December 31, 2001.....	4,265	41,239	
PROVISION FOR LOANS RECEIVABLE FROM DISCONTINUED OPERATIONS			
Year ended December 31, 1999.....	\$ --	\$ --	\$
Year ended December 31, 2000.....	--	--	
Year ended December 31, 2001.....	--	12,700	

(1) Amounts represent write-offs of amounts previously charged to the provision.

(2) Revised from amounts reported in prior years to be consistent with current year's presentation.