NELVANA LIMITED

ANNUAL INFORMATION FORM

April 25, 1997

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ITEM 1: INCORPORATION

Nelvana Limited ("Nelvana" or the "Company") was incorporated under the laws of Ontario on July 30, 1971. On May 13, 1994, Nelvana amalgamated with Nelvana Holdings Inc. and in connection with such amalgamation, Subordinate Voting Shares, Multiple Voting Shares and Preference Shares in the capital of the Company were created. On April 8, 1997 Articles of Amendment were filed creating Non-Voting Shares in the capital of the Company. The Company's Articles permit it to ensure that non-Canadian levels of ownership of its voting shares be monitored and limited. Where reference is made herein to Nelvana or the Company, the term shall include reference to its divisions and subsidiaries, unless the context requires otherwise.

The Company's registered and principal office is located at 32 Atlantic Avenue, Toronto, Ontario, M6K 1X8.

Subsidiaries

The following is a list of the principal subsidiaries of the Company and their respective jurisdictions of incorporation. The voting shares of these subsidiaries are owned 100% by the Company. There are no non-voting shares issued by any of these subsidiaries.

Name	Jurisdiction of Incorporation/Continuance
Nelvana Enterprises Inc.	Ontario
Nelvana Marketing Inc.	Ontario
Nelvana Communications, Inc.	California

ITEM 2: GENERAL DEVELOPMENT OF THE BUSINESS

Nelvana is a leading Canadian entertainment company whose primary business is the production of high-quality animated television programs, live-action programs and animated feature films for the children's and family market. Nelvana also distributes internationally certain of the television series and feature films that it has produced and licenses character rights for merchandising purposes. Nelvana was founded in 1971 by Michael Hirsh, Patrick Loubert and Clive Smith. In its early years, the Company produced documentaries and short dramatic films as well as animation service work.

On May 17, 1994, the Company completed an initial public offering of Subordinate Voting Shares and on June 2, 1994, an over-allotment option was exercised by the underwriters. The initial public offering resulted in aggregate net proceeds to the Company of $23.8 million. The Company utilized these proceeds for working capital requirements, acquiring certain library and distribution rights, acquiring certain new digital production technology including an ink, paint and compositing computer system for use in the animation production process, expanding its digital picture editing systems, repaying a $0.6 million revolving loan with a Canadian trust company and investing in a computer graphics animation studio.

On December 11, 1996, the Company completed a Special Warrants Offering, which resulted in net proceeds to the Company of $12,714,975. The Company intends to use up to approximately twenty percent (20%) of the net proceeds from this offering to expand the Company's computer animation facilities, and the balance will be used as working capital for general corporate purposes.

ITEM 3: NARRATIVE DESCRIPTION OF THE BUSINESS

Nelvana's primary business is the production of high-quality animated television programs, live action programs and animated feature films for the children's and family market. Nelvana's library includes both television programs and feature films in which it holds ownership and/or distribution rights ("library assets"). Nelvana also produces television programs and feature films on a payment for services-rendered basis ("service production"), in which Nelvana may have limited future participation rights. Nelvana competes with other North American companies for creative properties, talent, financing and licensing. Management believes that Nelvana's primary competitors in the production of animated programs include Disney, Warner Bros., Dreamworks SKG, Hanna-Barbera, Marvel Entertainment, Saban, Film Roman and Cinar, and in the production of live-action programs include Alliance and Atlantis.

In 1996, one customer of the Company accounted for more than 15.07% of the Company's total consolidated revenue and one customer accounted for more than 10% of total consolidated revenue. In 1995, revenue from one customer totalled approximately 10.4% of the Company's gross revenue. In 1996, approximately 61% of the Company's gross revenue was generated from the United States, 10% from Canada and 29% from other countries.

Acquisition of Production and Merchandising Rights

Nelvana identifies or creates characters which have the potential to be the basis for series, specials, or feature films, and, where necessary, negotiates to acquire the rights. The Company's strategy is to focus on acquiring properties and related characters ("Properties") for which there is a high level of public awareness. The acquisition of rights to well-known

Properties is central to the Company's strategy of commercially exploiting its productions in audiovisual media and through merchandising.

Options

The Company may either purchase rights to a Property or, as is more commonly the case, enter into an option agreement to acquire those rights. Option agreements detail the nature and extent of the rights that may be acquired upon exercise of the option, which may include production rights, audiovisual exploitation rights in various media, and merchandising and licensing rights. The option agreement generally specifies the term of the option and the fees and profit participation entitlements of the grantor of the option and any other holder of underlying rights. The Company has entered into or is currently negotiating option agreements in respect of various Properties, including *Bob and Margaret, Callahan Comic Strips, Dumb Bunnies, Junior Kroll, Ned's Newt, No Flying in the House, St. Trinians and Thelwell*.

Production and Merchandising Rights

The Company has been successful in acquiring production and merchandising rights to numerous well-known Properties. The length and extent of the Company's rights depend upon the negotiated contractual terms relating to each Property.

Where the Company has production rights in respect of a Property, such rights will extend for a specified term, generally being the initial production period plus an additional two to seven years thereafter. Often, the term of such production rights will be continuously extended provided the Company continues to produce new programs based on the Property.

In most instances, the Company shares merchandising rights with third parties or acts as an agent for the actual owner of the rights. Merchandising rights generally extend for two to four years following the initial production period. Generally, the Company will maintain its merchandising rights as long as it maintains its production rights. In the case of some Properties, the Company may maintain the right to extend its merchandising rights by making minimum guarantee payments on an annual basis to the underlying rights owner.

Development

Once Nelvana has acquired the rights to a Property and determined that it is likely that there will be demand for its exploitation, the Company will move forward with development. The process of the development of an animated program begins with the creation of a literary guide, a pilot script and sample artwork for presentation. If the project is accepted by a network, the Company is awarded a production contract with the network paying a substantial portion of the costs of each episode. Although the Company has numerous projects in development and is continuously considering new projects for potential exploitation, only a relatively small number of such projects will ultimately be produced each year.

Generally, Nelvana endeavours to involve broadcasters in the development of a program in the early stages of program development. Usually, a broadcaster will make a financial contribution to the development costs, participate in the choice of writer, director and key actors, and approve the script, budget, schedule and key production personnel. This active involvement by a broadcaster assists in ensuring that the program will meet the needs of the target audience and enhances the likelihood that the broadcaster will be satisfied with the completed development.

Currently, Nelvana is developing a number of animated series for production. Some of the animated series currently in development are *Dumb Bunnies*, *Rolie Polie Olie*, *Bob and Margaret* and a live-action *Barbarella*. The Company is also developing several live-action television series and a live-action movie of the week.

Financing

When considering production of library assets, the Company identifies sources that will provide a significant contribution to the direct costs of a production by one or more of (i) network, cable licence, home video, or other licence fees for audio-visual exploitation of the project, (ii) financial contributions by coproducers, (iii) sales of foreign distribution rights, (iv) Telefilm Canada, (v) federal and provincial tax credits, and (vi) other available sources. Although the Company aims to achieve coverage of 75% of direct costs, if this cannot be achieved the Company may commence production in any event for a variety of reasons. The Company attempts to recoup its contribution to the financing of its productions through the exploitation of the remaining rights to the production, but there can be no assurance that it will be able to do so.

During 1996, Nelvana recognized $5.3 million in production and distribution financing from federal and provincial agencies and incentive programs of which $3.8 million related to live-action production. During 1996, the Company recognized non-refundable government grants amounting to $758,000 which were credited against investment in completed projects and distribution rights. Certain of the Company's productions also qualified for Canadian Film or Video Production Tax Credits and the Ontario Film and Television Tax Credits in 1996. The Company reduced its capitalized investment in film and television programs by $3.6 million in respect of such credits in 1996.

Agency funding is provided on the basis that the production being financed satisfies certain criteria. If a funding agency subsequently determines that its funding criteria have not been met in respect of a particular project, it may require repayment of the funds advanced for that project, even if the funds were advanced as a non-repayable grant.

The Company's primary source of financing has come through pre-sales of programs in the U.S. and international markets. The Company tries to qualify its productions as certified Canadian content through the Canadian Audio-Visual Certification Office ("CAVCO") wherever possible. The Company has applied for CAVCO certification for most of its 1996 proprietary productions, and has applied for, or intends to apply for, CAVCO certification for most of its 1997 proprietary productions.

On many of its productions, interim financing is usually necessary because the timing of cash flows from pre-sales do not match the cash flows required for production. The interim financing which is obtained from banks or other industry lenders is secured by certain of the pre-sale distribution contracts relating to the particular production and is repaid out of the proceeds of the pledged contracts. Additional security may be granted by the Company on its assets for these interim financing loans.

The expenditure of the production budget for an animation production is generally spread fairly evenly over a 30 to 40-week period. In live action series productions, the majority of a production budget is spent or committed over a much shorter period of time, typically 13 weeks for a 13 episode series. The longer time frame for budget expenditures for an animation production generally gives the Company more flexibility in its animation financing arrangements than is the case with live action productions.

The Company's primary source of financing has been through presales of programs in Canada, the U.S. and international markets. Nelvana intends to continue to develop series in order to attract buyers such as the major U.S. broadcasters (ABC, CBS, FOX, WB Network and Nickelodeon) and will develop some animated series for the U.S. syndication and cable markets, and for international coproductions.

Production

The Company derives revenues from its productions in several ways. In the case of library assets, the Company will generate revenue through broadcast licence fees and distribution fees. In the case of service productions, Nelvana earns a fee for the use of its studio and equipment, and a producer's fee. The Company may also be granted rights to receive certain revenues from future net profits derived by the series once the production costs are recovered, according to a specified formula. Only in rare circumstances will the Company earn revenues from its interest in future profits from service productions.

Animated Production - Television

In 1996, Nelvana recognized revenue from the delivery of *Ace Ventura Pet Detective,* 13 episodes of each of Scholastic's *The Magic School Bus* Series III, *Waynehead, Little Bear* Series I and II, *Blazing Dragons, Stickin' Around, The Neverending Story* Series II and J*ake and the Kid* Series II, and 11 episodes of *Gargoyles - The Goliath Chronicles* and 1 *Cryptkeeper Special*.

Animation Production — Television

The key stages of design and production take place at the Company's Toronto studio. This centralized approach facilitates communication, efficiency and quality control.

The production of an animated television series (typically comprising 13 to 26 episodes) generally takes between six months and one year. The first step in the production process is script writing. This process is supervised by story editors. The Company has a staff of several story editors and writers who work out of its facility in Toronto. The Company also engages freelance story editors and writers. The resulting scripts are then story boarded, which is the process of creating "blueprints" in order to permit the artists to visualize the story and action. Voices and songs are recorded and the resulting sound tracks are carefully analyzed and timed for animation purposes. Simultaneously, the design departments begin work on the character designs, the key backgrounds and the layouts. Animation drawings are done both in Nelvana's own studios and through subcontractors. The drawings are then taken through a process of colouring, either by hand painting on clear acetate cels or digitally by computer, then combined with the backgrounds. The resultant film, videotape or digital master is then enhanced by the addition of original sound effects and music. This editing process is accomplished in Nelvana's studio using digital technology.

Computers continue to change the way in which sound and images are generated and manipulated. The Company continues to shift its production methods from the mechanical to the digital in order to take advantage of the new opportunities being created by emerging technologies.

Live Action Production — Television

During the 1980's the Company produced four live action series for television which are *The Edison Twins, Mr. Microchip, T and T* and *The Twenty Minute Workout.* In 1995 and 1996 the Company produced for Canwest Global 26 one-hour episodes of a series known as *Jake and The Kid,* based on the short stories and radio plays written by W.O. Mitchell. The Company has also recently produced 13 half-hour episodes based on the Hardy Boys and 13 half-hour episodes based on Nancy Drew, both for Westcom TV Group and New Line Television. *The Hardy Boys* and the *Nancy Drew* series are based on the popular novels first published over 60 years ago. As with its animation productions, the Company also seeks to exploit classic live action properties that are widely recognized.

Animation Production — Feature Films

The Company has produced five animated feature films: *Rock & Rule, The Care Bears Movie, The Care Bears Movie II: A New Generation, The Care Bears Adventure in Wonderland* and *Babar: The Movie.* Given the success of recent animated feature films in the industry the Company believes that this market has significant growth potential. Nelvana is currently coproducing the animated feature film *Pippi Longstocking* with AB Svensk Filmindustri ("AB Svensk"), IdunaFilm Producktiongesellschaft GmbH ("IdunaFilm") and TFC Trickompany Filmproduktions GmbH ("Trickompany") and is producing a second animated feature film featuring Babar.

U.K. Film Production Franchise Fund

The Company has, as a member of a consortium of five companies, applied to the Arts Counsel of England for funding under the Film Production Franchise scheme. This funding was established to encourage the development of a U.K. feature film industry. The Counsel decision on the award of franchises is to be made on May 14, 1997 and the announcement of the Counsel decision is scheduled for May 21, 1997.

Distribution

In 1987, Nelvana Enterprises Inc. was established by the Company to conduct its distribution activities. Since 1987, the Company has acted as a distributor in Canada, the United States and internationally for certain of the television series and feature films that it has produced. In the case of library assets, Nelvana holds long-term distribution rights. In Canada, Nelvana has licensed television series to Canwest Global, Westcom Entertainment, CBC, SRC, YTV, Canal Famille, TVO, The Family Channel and TELETOON. In the United States, the Company has licensed its shows to CBS, ABC, Fox, HBO, The Disney Channel, Nickelodeon and USA Network. Nelvana also acts as distributor in international markets for third parties.

Working through its head office in Toronto, its offices in Los Angeles and London, England, and its representative office in Paris, France, Nelvana has become an internationally recognized distributor of animated television programs. Nelvana exhibits at major international trade shows such as Marché Internationale des Programmes de Television (MIP-TV) and Marché Internationale des Films et Programmes pour la Télévision, la Vidéo, le Cable et le Satellite (MIPCOM-TV), which are held annually in Cannes, France, National Association of Television Program Executives (NATPE) which is held annually in the United States, and Marché Internationale des Programmes (MIP-ASIA) which is held annually in Hong Kong.

The revenue from international exploitation of audiovisual rights may trail North American exploitation of audiovisual rights by a period of 12 to 18 months. The Company usually sells to broadcasters directly, but utilizes subagents in certain markets where it would be inefficient to do otherwise, such as the Middle East and Japan.

As a distributor, Nelvana licenses telecast rights to broadcasters and distribution rights to home video and theatrical distributors. Nelvana distributes programs at two different stages: by way of pre-sales which contribute to the financing of the production, and then by way of acquisitions made after the program has been completed.

In the case of television distribution, as distributor Nelvana negotiates a licence fee with a broadcaster for telecast rights. Generally, Nelvana grants a licence to telecast a program for specified periods of time, channels, territories, and languages. Once that licence expires, the exhibition rights are available for relicensing. Of the licence proceeds paid to Nelvana, the Company is normally entitled to retain a distribution fee and to recover certain of its distribution costs. The distribution fees generally range up to 30% of the gross licence fees received. The distribution fee is compensation for Nelvana's distribution services, and the distribution fee percentage is determined through negotiations with all third party financing and profit participants in the production. Any profit after the deduction of the distribution fees and allowable distribution costs is distributed amongst all profit participants including the Company, if it is entitled to such participation.

In the case of video distribution, Nelvana licenses a video distributor to manufacture and distribute devices embodying the programs for a specified period of time and in specified territories and languages. The video distributor generally pays to the Company an advance to be applied against royalties and may also commit to a minimum royalty guarantee. The Company is paid a royalty based on the wholesale selling price for every unit sold. Such royalties range from 8% to 20% of the wholesale selling price. Nelvana is entitled to deduct its distribution fees from the advances and royalties paid by such video companies before the balance is disbursed to the profit participants, including Nelvana.

In the case of feature films, Nelvana licenses such films directly to exhibitors or to theatrical distributors and/or home video companies for a specified period of time and in specified territories and languages. The Company is paid a portion of theatrical rentals based on a negotiated distribution fee that is earned by the theatrical distributor. The theatrical distributor generally pays the Company an advance to be applied against the payments to it and may also commit to a minimum payment guarantee. Nelvana earns its distribution fees from the advances and payments remitted by such distributors.

Library

Animation has a timeless quality and has significant international appeal. This generally results in high-quality animated program libraries having longer lifespans than those of live action. Nelvana's commitment to quality has earned the Company an international reputation which makes its programming highly attractive.

There are a limited number of internationally recognizable characters that are suitable for the basis of animation programming. Nelvana has distribution rights in programs with many highly recognized characters. Because buyers of animation tend to purchase a variety of types of programs from the same supplier, the Company also benefits from the diversity of the characters and properties in its library. As the Company is an active current producer of animation, the Company's ability to offer new programs stimulates relicensing of existing library programs.

At April 25, 1997, the Company had distribution rights to 18 animated television series, 6 animated feature films, and 8 live action series. These distribution rights, and Nelvana's entitlements to receive revenues therefrom, vary with respect to duration, territory, and language. Nelvana considers any television program or feature film in which it holds any distribution rights to form part of its library. Service productions, such as *Beetlejuice*, are not included in Nelvana's library unless Nelvana acquires distribution rights. Nelvana expects relicensing of its program library to generate a continuing stream of revenues.

The nature of the initial licensee of a program may be significant to the future value and marketability of that program. For example, Nelvana initially licensed *The Care Bears* series to ABC for two seasons. Additional episodes of the series were subsequently produced for distribution in the United States in syndication. The series was then licensed in the U.S. to The Disney Channel, where it is still running. In Canada, the series has continued to run on Global Television since the series was launched in 1986.

At April 25, 1997, Nelvana had distribution rights in the following programs:

	No. of Episodes (half-hour unless or Acquisition	**Years of Production otherwise noted)**
Animated Series and Specials		
Blazing Dragons	13	96
Little Bear	26	96
Robin	27 X 3 min	96
The Neverending Story	26	95-96
Scholastic's The Magic School Bus	39	94-96
Rupert	52	91-95
Jim Lee's WildC.A.T.s Covert Action Teams	13	94
Stickin' Around	26 x 1 min.	94
Stickin' Around	13	96
Tales from the Cryptkeeper	26	93-94
Cadillacs and Dinosaurs	13	93-94
Jim Henson's Dog City	31	92-94

Fievel's American Tails	13	92
Legend of the North Wind	13	94
The Adventures of Tintin	39	91-92
Little Rosey	13	90
Babar	65	89-91
Clifford the Big Red Dog	6	88
Care Bears Series	52	86-88
My Pet Monster	13	87
Take Me Up to the Ballgame	1	80
Easter Fever	1	80
Romie-O and Julie-8	1	79
Intergalactic Thanksgiving	1	79
The Star Wars Special	1	78
The Devil and Daniel Mouse	1	78
Cosmic Christmas	1	77

Live Action Series

Nancy Drew	13	95
The Hardy Boys	13	95
Jake and the Kid	26 x 60 min.	95-96
Young Duke	13	96
Attack of the Killer 'B's	13	95-96
T and T	65	87-89
The Edison Twins	78	83-86
Mr. Microchip	13	83

Animated Feature Films

Babar: The Movie	89
The Care Bears Adventure in Wonderland	87
Pippi Longstocking	96-97
Rock and Rule	83
Legend of the North Wind	94
Return of the North Wind	94

1997 Production Commitments

As at April 25, 1997, Nelvana has commenced production on the following:

Proprietary Series	**Number of Episodes**
Donkey Kong Country	26
Franklin	13
Little Bear Series III	13
Ned's Newt	13
Pippi Longstocking Series I and II	26
Rupert Series V	13
Sam and Max	13

As well, the Company is arranging its financing for *Blazing Dragons II* and *Stickin' Around II*. In addition, Nelvana has commenced 13 half-hour animated production service episodes for delivery in 1997.

Nelvana has many additional projects in development. The Company is continually negotiating options to acquire rights to well-known characters and properties.

Merchandise Licensing

In 1990, Nelvana Marketing Inc. was established by the Company to conduct its merchandise licensing activities. The Company is a licensing agent for certain characters in certain territories, and in that capacity licenses third parties to manufacture products based upon or containing images of the characters appearing in television series and feature films that it produces. To date, Nelvana has concentrated its merchandising efforts in North America and Europe. In certain circumstances, the Company will retain subagents in territories outside North America who earn a fee for their services. Merchandising provides an important contribution to the Company's earnings, beyond those revenues earned from production and distribution. Merchandising programs generally involve little direct financial risk for the

Company in that the licensees absorb the cost and risk associated with producing the merchandise. The agreements into which Nelvana typically enters with licensees require the licensee to comply with strict quality control standards, to provide detailed reports of sales to Nelvana on a regular basis and to remit appropriate royalties. Royalties generally range between 6% to 8% of the licensee's net wholesale revenue. The Company endeavours to obtain significant advances and minimum guarantees of royalty payments. Merchandising expenses include payments to underlying rights holders and other third-party participants.

Some of the most popular characters featured in Nelvana's productions, such as Rupert and Babar, have achieved a high level of recognition and popularity, which makes them valuable assets for the merchandise licensing market. These classic characters are vital to Nelvana's merchandise licensing program because they are positioned as long-term brands. At present, the Company has approximately 40 licence agreements, primarily in the U.K., with manufacturers of products featuring the Rupert characters. These products include plush, figures, food, clothing, publishing, stationery, party goods, and comic books.

Nelvana Limited and The Clifford Ross Company, Ltd. jointly license Babar, the classic character originally created by Jean de Brunhoff. Nelvana Limited and The Clifford Ross Company, Ltd. currently have approximately 100 licence agreements with licensees world wide to manufacture and sell products. For example, Nelvana Limited and The Clifford Ross Company, Ltd., working with Takara Co., Ltd. in Japan, engineered a high-profile Babar consumer advertising campaign for United Airlines Japan in which the popular elephant was featured on posters, leaflets, point of purchase displays and other print advertisements on behalf of the "United Vacation" effort. Recently Friemanit International, Inc. has been granted rights to develop an extensive Babar clothing line for infants and toddlers in the U.S. and Canada.

Nelvana intends to continue to exploit merchandise licensing opportunities for Babar, Rupert and Little Bear and commence licensing of the Franklin character.

Other

Le Studio Ellipse S.A.

Nelvana was a co-founder of and currently holds an interest of approximately 20% in Le Studio Ellipse S.A., which is an animation studio located in Paris, France. One of the other co-founders, Ellipse Programme S.A., was the coproducer, with Nelvana, of *Rupert* (Episodes 1-39), *The Adventures of Tintin* and *Babar*: *The Movie.* Le Studio Ellipse has also provided production services for such programs as *Doug*, *Orson and Olivia* and *MOT*. Le Studio Ellipse is controlled by Canal + and Ellipse Programme.

Music Publishing

Many of Nelvana's programs feature original background music and theme songs specifically created for the program. Where Nelvana controls the publishing rights in the music from a production, it is entitled as music publisher to receive the publisher's share of the public performance royalties generated from the broadcast of the program. Nelvana charges an administration fee on the portion of the royalties it receives from the various music performing rights societies in other territories around the world in which the programs are aired. These royalties and fees provide the Company with an additional source of revenue. The collection of such revenue trails the initial broadcast of a series by a 12 to 18 month period. In the 1996-1997 television season, Nelvana produced 6 series for which it administers music publishing and expects to receive revenues in 1997 and thereafter in respect of the broadcast of these productions.

TELETOON

In September 1996, the CRTC granted a Canadian analog licence to TELETOON, a specialty cable animation channel. Nelvana currently has a 10% interest in TELETOON, on account of which it will contribute $200,000, and has the option to acquire an additional 10% interest upon payment of an additional $200,000. The other shareholders in the channel, which is scheduled to be launched in the fall of 1997, are The Family Channel Inc., YTV Canada, Inc. and Cinar Films Inc. TELETOON will provide new opportunities for the Canadian animation industry. Nelvana and the other shareholders of TELETOON may provide a several, but not joint, guarantee of TELETOON's bank financing commitment in proportion to their ownership interests. Mr. Hirsh, Chairman of Nelvana Limited, is also the Chairman of the Board of Directors of TELETOON.

Windlight Studios

In 1995 Nelvana acquired a 1% interest in Windlight Studios, L.L.C. ("Windlight") and took a debt position in the amount of U.S. $329,000 which is convertible into a 15.67% equity interest in Windlight. Nelvana also has an option to purchase up to an additional 66 2/3% interest in Windlight for a fixed price. Windlight is a computer graphics leader in the development of 3-D computer animation called 'motion capture', a system which uses live performers and computer technology to articulate computer generated characters or objects.

New Technology

Traditionally, most animated series were produced using hand-drawing and hand-painting animation processes. Approximately one half of Nelvana's current productions are being coloured and composited through the use of owned computer technology. The Company believes that computers will be able to assist in all facets of the animation process over the next few years. The Company intends to acquire and/or utilize new animation technologies including "motion capture" in the production process as they become cost-effective and efficient. In 1996, the Company commenced a Canada-France coproduction with Medialab to produce 26 3-D episodes of *Donkey Kong Country* based on Nintendo's video game of the same name.

New Media

The Company may attempt to exploit opportunities emerging as the result of the development of new media such as video games, CDI, CD-ROM, computer software, interactive television, and virtual reality. The Company has licensed certain Properties controlled by it to software developers or publishers for their use in connection with their software. The Company may acquire merchandising and production rights to characters made popular through the emergence of new media to utilize in its own programs. The Company may develop its own software applications utilizing its existing high profile Properties for use in new media. Finally, the Company may provide animation services to the producers of such products for incorporation into the computer and video games they produce.

Animation Cels

The Company currently possesses a substantial archival collection of artwork and animation cels, the still-frame drawings on acetate used to produce animated sequences. The Company's collection includes over one million of such drawings and the Company owns a facility for their storage and maintenance. This collection includes animation cels used in the production of many of the animated series and feature films that the Company has produced since its inception. A market for such artwork and cels may exist, although the Company does not have exclusive ownership of all of such cels and may, in certain cases, be entitled to retain only a portion of the revenues generated by the sale of such cels. The sale of cels, or some portion of them, either by retail sales or by sales to art galleries or art collectors, could result in revenues to the Company. Because of ongoing advances in computer-assisted animation, management believes that cels will eventually not be produced as a component of the animation process and thus enhance value as collectors' items.

In 1994, the Company made a donation of cels, drawings and related production artwork to the Art Gallery of Ontario. These items have been designated as Canadian Cultural Property and valued at approximately $6.5 million by the Canadian Cultural Property Export Review Board. The donated items had an insignificant carrying value in the Company's financial records. This donation generated an income tax benefit of approximately $2.4 million which was reflected in the 1994 financial statements. The Company estimates that the donated items represented less than 10% of the Company's entire collection.

STRATEGY

The Company's strategic objectives are to:

(1) acquire and develop additional rights to exploit the audiovisual, licensing and merchandising opportunities of new Properties;

(2) build the Company's library and merchandising business by producing and exploiting high-quality family television programs, as well as by acquiring rights to television programs owned by others, that have broad Canadian, U.S. and international appeal;

(3) increase Nelvana's production efficiency through the use of digital animation production systems;

(4) identify and exploit new market opportunities which result from emerging computer and interactive media technologies; and

(5) pursue opportunities to enter into new but related areas of business.

The Company expects that future growth in its revenue will be attributable primarily to the expansion of its core production, distribution, and merchandising businesses, and entry into new but related areas of business. As it pursues its strategic objectives, the Company believes that Nelvana's reputation and recognition will continue to grow in the marketplace.

In 1996, the Company entered into discussions with Golden Books Family Entertainment, Inc. ("Golden Books") regarding a possible business combination. At that time, the Company established an independent committee to review proposals regarding this and other potential transactions (the "Independent Committee"). The Company also had preliminary discussions with other interested parties with whom the Company entered into confidentiality and standstill agreements. Michael Hirsh, a director, an executive officer, and a principal shareholder of the Company, also advised the Company of his intention to participate in a possible alternative business combination, and entered into a confidentiality and standstill agreement with the Company under which he agreed, for a one year period, not to participate in any transactions of a similar nature, other than the transaction he was then considering, without the approval of the Board of Directors of the Company or the Chairman of the Independent Committee. The Company has terminated its discussions with Golden Books and all of the other interested parties. Subsequent to the termination of discussions with Golden Books, the Board of Directors has retained a consultant to assist senior management in reaching a consensus concerning the steps required to implement the Company's long-term strategic goals.

Acquisition and Development of New Properties

The Company believes that its most important business strategy is to continue to seek out and acquire rights in highly recognizable characters as the basis for new productions and merchandise licensing. Management believes that its diversified inventory of rights together with additional strategic acquisitions will enable the Company to maintain and increase its strength in existing and new markets. The Company recognizes that the animation market is constantly changing. Accordingly, the Company seeks to maintain a diversified slate of programs by acquiring rights to a wide range of characters, thus ensuring that it is not overly reliant upon one type of product and providing the Company with the opportunity to react to changes.

Library Assets

In order to expand the Company's library, the Company will continue to acquire, develop and produce high-quality children's and family television programs and feature films which the Company believes will appeal to Canadian, U.S. and international audiences.

Nelvana has established a worldwide reputation for producing high quality animation programs. Consistent with its high quality standards, the Company has developed and will seek to attract, develop and retain a core of talented and dedicated creative personnel with extensive industry experience, although there can be no assurance that it will be successful in doing so.

The Company developed a strategic relationship with Canal +, which has resulted in the coproductions of *Babar: The Movie*, *The Adventures of Tintin*, *Rupert* (Episodes 1-39) and *Blazing Dragons*, and the creation of Le Studio Ellipse. The Company will look to expand and build upon that relationship. As well, the Company will attempt to initiate similar relationships with other important international broadcasters. International coproductions provide a number of advantages to the Company, which include: (i) diversifying the Company's target markets, and thereby reducing dependence upon the U.S. Saturday morning network market; (ii) diversifying the Company's library through programs which have a broader international appeal; (iii) providing an important additional source of financing; and (iv) building the Company's presence in the international marketplace.

The Company will continue to increase its participation in the animated feature film industry. It is currently working on a coproduction with AB Svensk, IdunaFilm and Trickompany on the animated feature *Pippi Longstocking*. The Company intends to continue to produce animated feature films with budgets in the range of $2 million to $10 million for television, home video or theatrical release.

Merchandising Business

Generally, it is not possible to predict which Properties will lead to successful merchandising and licensing opportunities. The Company meets regularly with representatives of the major toy companies and other potential licensees in order to introduce new characters and to identify new market trends. The Company endeavours to support its merchandising and licensing activities with new audio-visual programs.

Employees

As of April 25, 1997, the Company had approximately 425 employees and contract personnel. The Company is not subject to any collective bargaining agreements in respect of its employees.

ITEM 4: SELECTED CONSOLIDATED FINANCIAL INFORMATION

Comparability of Data

In connection with the amalgamation of Nelvana and Nelvana Holdings Inc. on May 13, 1994, Subordinate Voting Shares, Multiple Voting Shares and Preference Shares in the capital of the Company were created. After the Company completed an initial public offering in May 1994 and after the exercise of the over-allotment option in June 1994, 2,541,718 Subordinate Voting Shares, 2,639,390 Multiple Voting Shares and no Preference Shares were issued and outstanding. After conversion of 270,950 Multiple Voting Shares into 270,950 Subordinate Voting Shares by certain Principals of the Company in July 1995, 2,812,668 Subordinate Voting Shares, 2,368,440 Multiple Voting Shares and no Preference Shares were issued and outstanding at December 31, 1995. The total number of shares of the Company issued and outstanding at December 31, 1996 was 5,137,428. The total number of shares of the Company outstanding at December 31, 1995 and December 31, 1994 was 5,181,108. This compares with the 3,347,776 shares notionally outstanding at December 31, 1993 after giving retroactive effect to the share capital reorganization described in the Company's prospectus dated May 3, 1994.

The Company's net earnings and earnings per share for 1994 include an income tax benefit of approximately $2.4 million as a result of a donation to the Art Gallery of Ontario in December 1994. This transaction was outside the scope of the Company's regular operations.

The following tables set forth selected financial information for Nelvana for the years indicated:

	YEAR ENDED DECEMBER 31 (in thousands of dollars, except earnings per share information)

	1996	1995	1994	1993	1992
Revenue	64,673	56,450	58,323	31,320	32,482
Net Earnings <loss> before income taxes	7,404	8,127	6,120	3,672	1,092
Net Earnings <loss>	4,450	4,751	6,223	2,184	995
Earnings <loss> per share (1)	.86	0.92	1.39 (2)	0.65	0.30
Total Assets	81,912	63,981	51,605	22,148	21,618
Total Long Term Debt	3,110	3,545	3,857	4,437	1,558

	ACCUMULATED REVENUE BY QUARTER (In thousands of dollars, except per share information)							
	Year Ended Dec. 31,1996	Nine Months Ended Sept. 30, 1996	Six Months Ended Jun. 30, 1996	Three Months Ended Mar. 31, 1996	Year Ended Dec. 31,1995	Nine Months Ended Sept. 30, 1995	Six Months Ended Jun. 30, 1995	Three Months Ended Mar. 31, 1995
Revenue	64,673	37,752	22,765	14,405	56,450	25,983	12,309	8,499
Net Earnings before income taxes	7,404	3,288	1,919	2,334	8,127	2,875	1,563	840
Net Earnings	4,450	1,887	1,110	1,339	4,751	1,653	889	519
Earnings per share (1)	0.86	0.36	0.21	0.26	0.92	0.32	0.17	0.10
Weighted Average # of Shares (1)	5,187,676	5,185,856	5,181,678	5,181,108	5,181,108	5,181,108	5,181,108	5,181,108

(1) Basic earnings per share have been calculated after giving retroactive effect to the share capital reorganization described in the Company's prospectus dated May 3, 1994. The fully diluted weighted average number of shares would differ by an insignificant amount.

(2) Earnings per share in 1994 of $1.39 reflects approximately $0.54 per share attributable to the income tax benefit generated by the donation to the Art Gallery of Ontario.

Dividend Policy

The Company's current policy is to retain its earnings and not pay dividends.

ITEM 5: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations commencing on page 15 in the 1996 Annual Report of the Company is incorporated herein by reference.

ITEM 6: MARKET FOR SECURITIES

The Subordinate Voting Shares are traded on The Toronto Stock Exchange and the Montreal Exchange under the symbol "NTV".

ITEM 7: DIRECTORS AND OFFICERS

The name, municipality of residence, position held with the Company and periods of service of each of the Company's Directors and Officers and their principal occupations are set out below. The present term of office of each Director will expire immediately prior to the election of Directors at the 1996 Annual General Meeting of Shareholders on June 17, 1997.

Name	Position with Company	Principal Occupation	Director Since
Michael Hirsh (1)(3) Toronto, Ontario	Director & Chairman	Officer of the Company	July 30, 1971
Patrick Loubert (1)(3) Toronto, Ontario	Director & President	Officer of the Company	July 30, 1971
Clive Smith (1) Toronto, Ontario	Director & Executive Vice-President	Officer of the Company	July 30, 1971
Eleanor Olmsted (1)(2) Toronto, Ontario	Director & Chief Operating Officer & General Counsel	Officer of the Company	March 15, 1994

James E. Kofman (2)(3)(4)(5) Toronto, Ontario	Director	Director, Bunting Warburg Inc.	March 15, 1994
Michael St. B. Harrison (2)(3)(4)(5) Montreal, Quebec	Director	President, MacDougall, MacDougall & MacTier Inc.	March 15, 1994
T. Richard Davies (2)(4) Willowdale, Ontario	Director	Retired Bank Executive	May 27, 1994
Jamie C. Kellner (4) Beverly Hills, California	Director	Chief Executive, WB Television Network	June 29, 1994
Jill Fraser Toronto, Ontario	Vice-President, Business Affairs	Officer of the Company	
Sheila Murray-Tateishi Toronto, Ontario	Chief Financial Officer and Treasurer	Officer of the Company	
John Vandervelde King City, Ontario	Vice-President, Finance and Corporate Secretary	Officer of the Company	

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Compensation Committee
(4) Member of the Independent Committee
(5) Member of the Nominating Committee

The Directors and Officers of the Company as a group beneficially own directly or indirectly approximately 1.8% of the Subordinate Voting Shares and approximately 97.7% of the Multiple Voting Shares, representing approximately 85.1% of the voting interests attached to all voting shares of the Company.

The Multiple Voting Shares are held by 1078959 Ontario Inc.; a corporation controlled by Michael Hirsh; 1078960 Ontario Inc.; a corporation controlled by Patrick Loubert; Ho Ho Holdings Inc.; a corporation controlled by Clive Smith; Eleanor Olmsted and Toper Taylor.

The Company has an Executive Committee, an Audit Committee, a Compensation Committee, an Independent Committee and a Nominating Committee.

All of the persons named above who are officers of the Company have held positions with the Company for more than the past five years, except that prior to August 1993, Mr. Vandervelde was a Senior Manager with the chartered accounting firm which is now known as KPMG. All of the persons named above who are not officers of the Company have held the positions indicated above for more than the past five years except Mr. Kofman who, prior to January, 1997, was a partner of the law firm of Osler, Hoskin & Harcourt and Mr. Davies who, prior to his retirement, was an executive of a Canadian chartered bank.

ITEM 8: ADDITIONAL INFORMATION

Additional information, including election of Directors, compensation and indebtedness of Directors and Executive Officers, principal holders of the Company's securities, options to purchase securities and the interest of insiders in material transactions, is contained in the Management Proxy Circular dated April 25, 1997. Additional financial information is provided in Nelvana's consolidated financial statements for the fiscal year ended December 31, 1996 which are contained in the 1996 Annual Report.

Copies of the Management Proxy Circular and the 1996 Annual Report may be obtained from the Corporate Secretary of the Company on request. Requests for such copies should be directed to the Corporate Secretary, Nelvana Limited, 32 Atlantic Avenue, Toronto, Ontario, M6K 1X8.