NELVANA LIMITED

RENEWAL ANNUAL INFORMATION FORM

May 19, 2000

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PLEASE NOTE:

Unless otherwise indicated:

(i) the information contained in this Renewal Annual Information Form is presented as of December 31, 1999, the final day of the fiscal year;

(ii) monetary values are expressed in Canadian Dollars; and

(iii) the Company and its underlying rights holders are the owners of the copyright and trademark rights in the names and titles shown in italics in this document.

INCORPORATION

Nelvana Limited ("Nelvana" or the "Company") was founded by Michael Hirsh, Patrick Loubert and Clive Smith and incorporated under the laws of Ontario on July 30, 1971. On May 13, 1994, the Company amalgamated with Nelvana Holdings Inc. and in connection with this amalgamation, the Company created Subordinate Voting Shares, Multiple Voting Shares and Preference Shares in the capital of the Corporation. On April 8, 1997 the Company filed Articles of Amendment creating Non-Voting Shares in the capital of the Company. On September 1, 1999 the Company filed Articles of Amendment providing that in any vote taken with respect to the election of directors at an annual meeting, two of the directors to be elected would be elected solely by a vote of the holders of Subordinate Voting Shares, and the holders of Multiple Voting Shares would not be entitled to cast any votes with respect to the election of those two directors. The Company's Articles permit it to ensure that the level of ownership of its voting shares by non-Canadians may be monitored and limited where necessary, to preserve the Company's status as Canadian controlled.

The terms Nelvana or the Company 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. The Company has sales offices in Toronto, London, Paris, Tokyo and Los Angeles, and its international distribution headquarters are located in Shannon, Ireland.

Nelvana's shares are traded on the Toronto Stock Exchange under the trading symbol "NTV". On April 28th, 2000, the Company filed a Preliminary Prospectus with the Ontario Securities Commission and a Registration Statement with the Securities and Exchange Commission. The Company has applied to have its Subordinated Voting Shares quoted on the NASDAQ National Market under the symbol "NELV", and anticipates closing its proposed equity offering in spring or early summer, 2000.

Subsidiaries

The following is a list of the principal subsidiaries of the Company and their respective jurisdictions of incorporation. The outstanding shares of these subsidiaries are owned 100% by the Company.

Name	Jurisdiction of Incorporation/Continuance
Nelvana Communications, Inc.	California
Nelvana Enterprises Inc.	Ontario
Nelvana International Limited	Ireland
Nelvana Marketing Inc.	Ontario
Kids Can Press Ltd.	Ontario
Klutz [1]	California

[1] Acquired May 12th, 2000

The general activities of the Company and its subsidiaries are as follows:

Nelvana Communications, Inc. conducts the Company's development activities in the United States. The Company itself conducts development activities in Canada and internationally.

Nelvana Enterprises Inc. conducts the Company's Canadian film and television distribution activities.

Nelvana International Limited was established in April 1999 to conduct the Company's international film and television distribution activities, and to develop the Company's international co-productions and business partnerships, particularly in Europe.

Nelvana Marketing Inc. conducts the Company's merchandising activity worldwide.

Kids Can Press Ltd. and Klutz are each in the business of children's publishing.

The Company carries on film and television production activities itself in Canada.

GENERAL DEVELOPMENT OF THE BUSINESS

Nelvana is a leading integrated children's entertainment company that develops, produces, markets and distributes high quality branded media content and related products for children worldwide. Nelvana entertains children by providing them with quality animated film and television programming, traditional story and information books, activity books, interactive games and related merchandise. Nelvana's character portfolio includes internationally recognized characters such as *Babar*, *Franklin*, *Little Bear*, *Rupert*, and *Pippi Longstocking*. The Company continues to expand its character portfolio and branded products through its operations in film and television production and distribution, publishing and merchandise licensing.

Nelvana was founded in 1971 by Michael Hirsh, Patrick Loubert and Clive Smith. During the Company's first decade of business it operated primarily as a proprietary production company producing television specials such as *A Cosmic Christmas* and *The Devil and Daniel Mouse*. During the next decade, it began to provide animation service production to third parties producing series such as *Ewoks, Droids* and *Beetlejuice*, deriving as much as 50% of its revenue from third party service work during this period. The Company enjoyed critical acclaim and received many awards for its early productions including Emmy, ACE, Gemini, Sept D'or and Golden Reel awards. The Company has worked with such notable producers and directors as George Lucas, Steven Spielberg, Tim Burton, Joel Silver, Robert Zemekis, and Richard Donner and produced animation series broadcast on CBS, ABC, Fox, HBO, Nickelodeon and The Disney Channel.

In 1994 Nelvana completed an initial public offering and secondary offering of subordinate voting shares, becoming a public company in Canada, with a listing of its subordinate voting shares on The Toronto Stock Exchange. Between 1994 and 1997, the company continued as both a proprietary film and television producer and a provider of third party service work. Beginning in 1997 and continuing in 1998, as the Company's access to capital improved, Nelvana shifted away from providing third party service production work and began focusing exclusively on proprietary production. This shift in strategy resulted in higher margins, a more stable earnings stream and a substantial increase in the cumulative program library episodes to which the Company owns ongoing rights.

In December 1996, the Company completed a Special Warrants Offering, which resulted in net proceeds to the Company of $12,714,975.

In 1996, the Company also co-founded and acquired a 10% equity stake in TELETOON, Canada's only all-animation television specialty service. Since its launch in 1997, TELETOON has consistently been ranked, as measured by its viewing audience, among the top five Canadian specialty services. During the fall of 1997, the Company exercised its option to increase its equity ownership position in TELETOON to 20% from 10%.

Beginning in 1997, NELVANA expanded its merchandise licensing activities beyond *Babar,* which it had licensed since the mid-1980's, to include the *Franklin* and *Little Bear* lines of product. The ratings success of Nelvana's television programs during the past several years has helped to drive the growth of the Company's merchandise licensing business, and in particular those three retail brands.

In December 1997, Nelvana acquired Windlight Studios, a small 3-D production studio specializing in commercial service work. Key Windlight employees moved to Toronto in 1998 and lead the set-up and management of the Company's new 3-D facility. In 1998, NELVANA expanded its animation production beyond 2-D animation and traditional 3-D animation, to include 3-D computer generated imaging, (CGI) with the successful launch of programs such as *Rolie Polie Olie* and *Donkey Kong Country.* In 1998, the Company also extended its demographic reach into prime time, with the successful debut of its first prime time series *Bob & Margaret,* which aired on Comedy Central in the United States and on Global Television Network in Canada.

In February 1998, the Company completed the issuance of 1,350,250 Subordinate Voting Shares. The transaction yielded net proceeds to Nelvana of $35.4 million. The Company used the proceeds to fund its 1998 proprietary production slate, working capital requirements, acquisitions and capital expenditures.

In August 1998, Nelvana expanded its activities to include children's publishing with the acquisition of Kids Can Press Ltd. ("Kids Can"). Kids Can is one of Canada's leading English language publishers of children's books, and holds the rights to the internationally acclaimed *Franklin* property. With the acquisition of Kids Can, Nelvana was able to consolidate its animation, merchandising and publishing rights to this popular character brand. In addition, Kids Can provides a cost effective source for developing further Canadian book-based programs, as more than 75% of Nelvana's television series originate from books.

In January 1999, Nelvana arranged an $86.5 million bank credit facility with the Royal Bank of Canada. This facility provided Nelvana with additional operating capital and streamlined the Company's production financing procedures. The facility has supported Nelvana's production requirements while providing a more balanced capital structure.

In February 2000, in connection with proposed acquisition of Klutz, the Company increased its available credit facilities with the Royal Bank of Canada to $200 million. These credit facilities include a revolving operating demand facility, a term facility granted specifically for the Klutz acquisition, a bridge facility to fund the Klutz acquisition, a revolving term facility for permitted investments, acquisitions and general operations, a term facility for financing capital expenditures, and a foreign exchange hedging facility.

In 1999, the Company entered into a number of strategic distribution agreements, including a three year agreement with PBS in the United States, to produce the network's first ever Saturday morning children's programming block, scheduled to launch in Fall 2000. Under this Agreement, the Company will produce and deliver six book-based children's series. This six-series Saturday morning block will be branded the "PBS Kids Bookworm Bunch". Under the terms of this agreement, PBS also commissioned for subsequent seasons a minimum of two of the six book-based series as 40 episodic daily strips for its weekday KIDS Ready-to-Learn service. This agreement also allows Nelvana to develop corporate sponsorships, a new source of financing, which the Company hopes to extend to other series and its other operations over the next several years.

In 1999, the Company also entered into a multi-year output agreement with RTV, a subsidiary of Ravensburger, one of Germany's largest producers and distributors of children's programming. This agreement involves the licensing of current and library programming under a long-term distribution agreement, as well as an ongoing three-year output arrangement for future productions and co-productions. As part of the agreement, RTV has committed to purchase each year 65 half-hour episodes of Nelvana's new programming for a three-year period. During the same period, Nelvana will acquire a minimum of 26 episodes a year of RTV programming. These strategic output relationships provide earnings stability and secure important shelf space in key distribution markets.

The Company recently launched Nelvana New Media, a strategic new division, which will focus on developing new applications, products and delivery channels for the Company's growing character portfolio. Nelvana New Media is working towards creating a fun-filled children's Internet destination and recently commenced production of interactive games based upon the Company's portfolio of character brands for both CD-Rom and Internet distribution. In this connection, the Company recently entered into a multi-year agreement with Havas Interactive, a leading publisher of entertainment and educational software, to distribute CD-ROM titles based on the Company's most popular book-based characters. The Company has contracted to produce at least two CD-ROMs per year to be distributed by Havas worldwide. The Company's first two titles will be based on the popular *Franklin* character brand. Havas will provide the Company with a non-refundable cash advance which will generally cover costs of production, reducing the Company's production risk. The revenue and profits derived from the CD-ROM business will be used to offset a portion of the investment required for the Company's Internet and e-commerce development activities.

On April 3rd, 2000, the Company applied for further broadcast licenses in the current round of digital service applications before the CRTC. The Company believes the competition for these licenses will be significant, and, accordingly, it is difficult at this time to predict whether Nelvana will be successful in its efforts and, if licensed, whether the Company will proceed.

On April 10, 2000 the Company issued a $19 million convertible, unsecured, subordinated debenture to a merchant bank associated with the Ontario Teachers' Pension Plan Board. The debenture has a five-year term, bears interest at 8% and is convertible at the option of the holder into the Company's subordinate voting shares at a conversion price of $27.50 per subordinate voting share. On the date the Company agreed to the terms of the subordinated convertible debenture its share price was $22.00. The debenture is non-callable for a period of three years and thereafter is redeemable by the Company, provided the market price of its subordinate voting shares exceeds 125% of the conversion price for a period of 20 consecutive trading days. Upon issuance of the debenture, the Company also issued the investor warrants to purchase 90,500 subordinate voting shares at a price of $23.65 per subordinate voting share. The warrants expire on April 10, 2003.

On April 11, 2000, Nelvana entered into a definitive stock purchase agreement to acquire all the issued and outstanding shares of privately-held Klutz, in a transaction valued at approximately U.S.$74 million. The transaction was completed on May 12th, 2000. The Company expects that the acquisition of Klutz, one of the leading branded children's book publishers in the United States, will broaden the Company's children's entertainment platform and increase the contribution of its Branded Consumer Products business

BUSINESS OF NELVANA

Overview

Nelvana is a leading integrated children's entertainment company that develops, produces, markets and distributes high quality branded media content and related products for children worldwide.

Nelvana operates through two core business segments:

- **Production and Distribution—**television, feature film and other media content production and distribution activities; and

- **Branded Consumer Products—**children's book publishing and merchandise licensing activities.

To support these two core business segments, Nelvana has developed a comprehensive entertainment business platform focused on leveraging its children's programming and branded consumer products across principal media and markets, through the following activities:

- *Television Programming*. Nelvana's valuable program library currently includes 1,355 half-hour equivalent episodes of television programming across 47 series and six television specials.

- *Feature Films*. Nelvana's library also includes a total of seven animated feature-length films equaling 21 half-hour equivalent episodes.

- *Video*. Nelvana's television programs and feature films are packaged in video format and are distributed through a variety of retail distributors to children and parents worldwide. Over the past two years Nelvana released 23 of its series or features on video in Canada and internationally.

- *Broadcasting*. Nelvana is a co-founder and 20% shareholder of TELETOON which operates a 24-hour, all-animation cable television specialty service in Canada, broadcasting in both the English and French languages. Nelvana and TELETOON itself also recently applied to the CRTC for a number of new digital broadcast licenses.

- *Story and Information Books*. Through Kids Can Press, Nelvana is the largest Canadian-owned, English language publisher of children's books. Kids Can Press has a catalog of over 310 titles, including the well-known *Franklin* series, which through Kids Can, its distributors and licensees has sold over 25 million units worldwide.

- *Activity Books*. With the recent acquisition of Klutz, Nelvana will be one of the leading branded children's book publishers in the United States, and one of the largest publishers in the "books plus" category, which is the industry term for Klutz's popular craft and hobby books targeted at children and sold with related merchandise. Klutz is a leader in this publishing category with a catalog of over 125 books, crafts, guides and toys.

- *Merchandising.* Through Nelvana's merchandise licensing activities, Nelvana's most popular characters, including *Little Bear*, *Franklin*, *Babar* and *Rupert*, have become valuable long-term children's merchandising brands. Nelvana believes its Production and Distribution and Publishing operations will continue to provide a pipeline of new, quality book-based characters which it can develop into new brands for merchandise licensing.

- *Interactive Products.* Nelvana's newly launched division, Nelvana New Media, will focus on developing new applications, products and delivery channels for the Company's character and product portfolio. Nelvana recently began producing character-based CD-ROM's, and intends to produce similar games for the Internet. The Company expects that these newly created Interactive products, the new website it is creating, Klutz's new website, and the e-commerce and web-casting opportunities created by these websites will create a further growth vehicle for the development and distribution of its character brands.

The Company's efforts to exploit its programming and products across all distribution channels, and all markets, has resulted in significant growth of the Company's overall business in recent years. Over the three years from 1997 to 1999, revenue increased from $55.5 million in 1997 to $91.7 million in 1999, a compound annual growth rate of 29%, EBITDA increased from $9.6 million in 1997 to $18.8 million in 1999, a compound annual growth rate of 40% and net earnings increased from $4.9 million in 1997 to $10.1 million in 1999, a compound annual growth rate of 44%. On a pro forma basis for the Klutz acquisition, the Company's total 1999 revenue and EBITDA would have been $153.1 million and $30.9 million, respectively, with each of the two core business segments contributing approximately 50% to both revenue and EBITDA in 1999.

Competition

Nelvana competes with numerous suppliers of children's television programming and related products, including major motion picture studios, national television networks, independent television production companies and book publishers and distributors. Some of Nelvana's competitors in our Production and Distribution business include Cinar Corporation, Nickelodeon, Fox Children's Network, Inc., BrittAllcroft Ltd., Motion Works, Catalyst Entertainment Inc., Decode Entertainment Inc., and Disney Enterprises Inc. These competitors also compete with Nelvana in its branded merchandise activities.

In children's book publishing, some of the Company's principal competitors include Golden Books Family Entertainment, Inc., Scholastic Inc., Andrew McMeel Universal, Usborne Publishing Limited, as well as small, privately held book publishers in Canada.

In 1999 and 1998 revenue from one customer accounted for approximately 13% and 12% of the Company's total consolidated revenue respectively. On a pro forma basis for the Klutz acquisition, no customer accounts for greater than 10% of the Company's revenue. However, a significant portion of the Company's revenue is derived from sales to a relatively small number of customers. Although Nelvana sells its programming to a broad number of broadcasters and distributors around the world, in fiscal 1999, the Company's top 10 customers accounted for 57% of total Production and Distribution revenue.

Likewise, in 1999, Klutz's ten largest customers accounted for approximately 51% of its net sales. The Company anticipates that Klutz will continue to rely on a relatively small number of retail customers for a significant percentage of its sales for the foreseeable future.

In 1999, approximately 35% of the Company's revenue was generated from the United States, 25% from Canada and 40% from other countries. In 1998, approximately 40% of the Company's gross revenue was generated from the United States, 23% from Canada and 37% from other countries.

PRODUCTION AND DISTRIBUTION

Nelvana is a world leader in the development, production and distribution of children's animated programming for television. In 1999 the Company produced 214 proprietary half-hour episodes and since its inception in 1971, has completed nearly 50 major productions.

Nelvana's state-of-the-art production facility in Toronto, houses the latest in 2-D and 3-D animation technology which permits the Company to remain on the leading edge of current animation production techniques. Nelvana distributes its programming to over 160 countries around the world through its five sales and distribution offices.

Production and Distribution contributed $71.6 million of revenue and $15.6 million of EBITDA in 1999, representing 78% and 83% of revenue and EBITDA, respectively.

Program Development

The production process begins with the identification of existing characters, or the creation of original characters, which have the potential to form the basis for a television series, television specials, or feature length films. The Company also identifies the programming needs of the market through extensive and ongoing discussion with the Company's major North American and international broadcast customers, and with co-production partners worldwide. The Company's internal development activities involve the work of a team of producers, directors, writers, animators and designers who research, identify and develop creative ideas to be pre-sold to the broadcasting market.

As part of the development process, printed development presentation materials are prepared to facilitate the pre-sale and co-production process. For the adaptation of books and existing material, the Company either purchases rights to a property outright, including production rights, audio-visual exploitation rights in various media and merchandising and licensing rights, or it enters into an option agreement to acquire those rights. Some of the animated series and feature films currently in development include *Dr. Doolittle*, *Puff the Magic Dragon*, and Mercer

Mayer's *Little Critter*, as well as exclusive television deals based on some of the books and properties of Maurice Sendak, Rosemary Wells and William Joyce.

Production

The Company's primary animation production facilities are located in Toronto. These facilities house over 350 artists and technicians as well as the Company's digital production and post-production operations. Pre-production, production and post-production activities include overall direction, voice and music casting, storyboard layout, design, animation, rendering and compositing, sound effect creation, music track cutting/lay-in, and picture editing. The production of an animated program is a creative and labor-intensive process. The typical length of time necessary to complete development and production of one half-hour episode is approximately 9 to 13 months.

The Company's animation activities are carried on through three divisions: 2-D animation, 3-D animation, and feature films. Each division consists of teams of artists and technicians. Each team is managed by a line producer and a supervising producer. In addition, the Company has a production executive in its Paris office to supervise the work of the Company's international co-production partners.

The production process is increasingly influenced by computerization and the utilization of new technologies. The Company has started to deliver programs in digital format and one of the Company's 2000 series, *Quads*, will be the Company's first full-length series to be produced entirely with flash software. Nelvana believes that ongoing monitoring, evaluation and adoption of the latest software and digital advances will increase its efficiency, expand its creative potential and prepare the Company to deliver content on the Internet.

Programming

Beginning in 1997, Nelvana shifted away from providing third party service work to proprietary production. 1998 was the first year the Company focused exclusively on proprietary production, with no third party service work.

In 1998, Nelvana expanded its production techniques beyond traditional 2-D animation. It produced and delivered *Rolie Polie Olie*, its first 3-D computer-generated imaging series, and *Bob & Margaret*, its first prime time animation program. Both series have had successful ratings and have been renewed by lead broadcasters for multiple seasons. In addition, the Company produced and delivered *Elliot Moose*, a pre-school series that combines animation with live action.

In 1999, the Company continued to expand its proprietary production slate with record renewals of ten series, and the launch of six new series. Over the past three years the Company has grown its proprietary production deliveries from 116 in 1997 to 214 in 1999, a compound annual growth rate of 36%.

The following are some highlights of the series produced and delivered in 1999:

- 11 episodes of *Anatole*, bringing cumulative library episodes for this series to 26;

- 13 episodes of *Dumb Bunnies* and *Flying Rhino Junior High*, bringing cumulative library episodes for each of these series to 26;

- 13 episodes of *Tales from the Cryptkeeper* and *Ned's Newt*, bringing cumulative library episodes for each of these series to 39;

- 17 episodes of *Rolie Polie Olie*, bringing cumulative library episodes for this series to 30;

- 18 episodes of *Mythic Warriors*, bringing cumulative library episodes for this series to 26; and

- 24 episodes of *Franklin*, bringing cumulative library episodes for this series to 50.

During 1999, Nelvana acquired the distribution rights for selected territories to three series totaling 94 half hour equivalents, including *Cardcaptors*, *PJ Katie's Farm*, and *Sheherdzade*. With the 214 proprietary episodes being added to the library in 1999, and the 94 half-hour equivalent episodes acquired for distribution, half-hour library episode equivalents reached 1,376 at December 31, 1999, up 28% from 1,073 episodes at December 31, 1998.

Library

Animation is an evergreen product that has significant international appeal. This generally results in high-quality animated program libraries having longer life spans than those of live action program libraries. Nelvana's commitment to quality has earned the Company an international reputation which makes its programming highly attractive.

At December 31, 1999, the Nelvana library included 38 animated television series, six television specials, seven animated feature films and nine live action series. Of the 1,376 half-hour equivalent episodes, 1,103 were animated and 273 were live action. Nelvana believes that this library has lasting value as children's programs can typically be resold continually to new generations of audiences around the world

The Company's animated and live action productions include such critically-acclaimed series as *Franklin; Little Bear; Rolie Polie Olie; Donkey Kong Country; Babar; Pippi Longstocking; Anatole; Ned's Newt; Rupert; The Magic School Bus; Dumb Bunnies, Birdz and Stickin' Around*. More recent productions include *Elliot Moose, Flying Rhino Junior High* and *Mythic Warriors*: *Guardians of the Legend*. New productions to be produced in 2000/2001 include *Corduroy, George Shrinks, Timothy Goes to School, Seven Little Monsters* and *Pelswick,* among others.

For Nelvana's program library as of December 31, 1999 please refer to pages 41 through 43 of the Company's 1999 Annual Report.

Sales and Distribution

Nelvana is a significant supplier of animated programming in many countries, including the United States, where it had a record 23 productions broadcast in 1999. Leading this effort is the Company's sales and marketing team selling the Company's programming in over 160 countries, through sales offices in Los Angeles, London, Paris, Tokyo and the Company’s international distribution headquarters in Shannon, Ireland.

The Company's geographic revenue mix from Production and Distribution varies substantially with major sales from year to year. However, the United States remains the Company's largest market. In 1999 the U.S. market accounted for 33% of Production and Distribution revenue, the Canadian market 20% of the total with the balance of 47% from all other international territories. The bulk distribution deal with RTV in Germany during 1999 substantially increased the concentration of revenue from international territories as compared to prior years, where international territories typically contributed approximately 40% of total revenue.

In the United States, some of the broadcasters the Company has licensed its series to include CBS, ABC, PBS, Comedy Central, Fox Children’s Network, Fox Family, HBO, The Disney Channel, Nickelodeon, Paramount, Cartoon Network, WB and USA Home Entertainment. Nearly all of the Nelvana's 1999 series had a strong broadcaster in the U.S. market with six series airing on CBS Television, two series airing on and one sold to Nick Jr., and one series airing on each of The Disney Channel, Comedy Central, Fox Family Entertainment and HBO.

In Canada, some of the broadcasters Nelvana has licensed its series to include Global, WIC, CBC, SRC, YTV, Canal Famille, TVOntario, The Family Channel and TELETOON. Nelvana's series have also performed very well in Canada, with *Franklin*, *Little Bear* and *Rolie Polie Olie* often rated in the top three shows in their time slots for children two to five.

In 1999, the Company entered into the multi-year output deal with RTV, a subsidiary of Ravensburger, one of Germany's largest distributors and producers of children's programming. This agreement secures important distribution for the Company's current and library productions in Germany, Eastern Europe and select Nordic territories and established a new co-production partner for future projects. Outside of the United States and Canada, the Company licenses its productions to a broad base of broadcasters including those in the United Kingdom, Germany, France, Italy, Spain, Australia, Mexico, Latin America, the Far East, Africa, and Scandinavia.

As part of the Company's international distribution strategy the Company exhibits at major international trade shows such as: March— Internationale des Programmes de Television (MIP-TV) and March— Internationale des Films et Programmes pour la T—l—vision, la Vid—o, le Cable et le Satellite (MIPCOM), each held annually in Cannes, France; National Association of Television Program Executives (NATPE), held annually in the United States; and March— Internationale des Programmes (MIP-ASIA), held annually in the Far East.

Financing

A significant portion of the Company's shows are produced and financed as co-productions with established production companies and broadcasters worldwide. Through these relationships the production costs of a show are divided between the co-production partners, thereby reducing the financial obligations of each of the parties. As a result, the Company's investment in co-produced programming is leveraged, since in general, Nelvana's share of the revenue from a co-production exceeds its percentage investment. The Company also benefits from increased control of the Company's overhead costs, as a portion of overhead is absorbed by the co-production partners. This allows the Company to complete a greater number of productions without expanding its facilities. In addition, international co-productions allow the Company to take advantage of certain film and television co-production treaties which exist between Canada and over 46 countries around the world. These international treaty co-productions are considered ‘‘domestic product’’ in each of Canada and the international co-producers territories and therefore are eligible for certain benefits and government incentives.

Nelvana's production budgets generally range from US$250,000 to US$450,000 per half-hour episode, with the budgets for 3-D and prime time series being at the higher end of the range. Contributions of foreign co-producers to the aggregate production budget typically range from 15% to 50%, with the 1999 average being approximately 20%. Nelvana moves a project from development into production once it has passed the ‘‘greenlighting’’ process. This process generally requires, among other things, that the following two criteria are met: (i) the Company has financed 70% of its share of the production budget (less allocation of overhead); and (ii) the Company is able to project a specified return on its share of the aggregate budget (including allocation of overhead) over the first three years of exploitation. The principal way the Company meets the first criterion, to finance 70% of its share of a production budget, is through the following:

- licensing of television, home video and other broadcast distribution rights in selected markets prior to the delivery of production. These sales are known in the industry as ‘‘pre-sales’’ and they are typically the Company's primary source of financing;

- Canadian federal and provincial tax credits; and

- Telefilm Canada, the Canadian Television Fund and other Canadian industry funding sources.

Where a project warrants, the Company may greenlight a project that does not meet these criteria. In these cases, greenlighting criteria may be based on the overall financial profile of the Company's slate on a pooled basis, so that an individual series may fall short in one of the above criteria, provided the pool of shows in production have exceeded that criteria, thereby making up the shortfall.

BRANDED CONSUMER PRODUCTS

Through the success of the Company's film, television and other media productions, Nelvana has established some of the most identifiable children's character brands in the world. The Company's strategy is to further exploit its character brands through its Branded Consumer Products segment which includes publishing and merchandise licensing activities. Branded Consumer Products contributed $20.2 million of revenue and $3.2 million of EBITDA in 1999, representing 22% and 17% of revenue and EBITDA, respectively. Pro forma for the Klutz acquisition, 1999 revenue and EBITDA from Branded Consumer Products would have been $81.5 million and $15.4 million, respectively, contributing approximately 53% of revenue and 50% of EBITDA.

Publishing

According to industry sources, the children's publishing market in North America had sales of over $1.7 billion in 1999. The Company expects Kids Can Press and Klutz to provide a solid base for sustained growth in the children's publishing sector and a pipeline of new characters and products for its production and distribution and its merchandise licensing activities. In 1999, publishing revenue and EBITDA reached $14.1 million and $1.8 million respectively. Pro forma for the Klutz acquisition, 1999 publishing revenue and EBITDA would have been $75.5 million and $13.9 million, respectively.

Storybooks and Information Books

Through Kids Can Press, Nelvana is the largest Canadian owned English language publisher of books for children. Kids Can publishes novels for children of all ages, collections of poetry, craft books, science and nature activity books and a rich list of Canadian history and information books. Kids Can has a strong inventory of more than 300 backlist titles, and in 1999 Kids Can published 48 brand new front list titles. *Franklin* is Kids Can's most successful series, and through Kids Can, its distributors and licensees, *Franklin* book sales reached a cumulative total of 25 million units at December 31, 1999.

Elliot Moose, based on Andrea Beck's recently published children's book, was produced in 1998 by Nelvana as a 26-episode, half-hour series combining live action puppetry and animation for pre-schoolers, and was Nelvana's first television series based on a Kids Can property since the acquisition.

Activity Books

Klutz pioneered the ‘‘books plus’’ (or activity books) format with its first book in 1977, *Juggling For The Complete Klutz,* a book with three beanbags attached. Keeping close to the format pioneered by the juggling idea, and skewing the content more towards children, Klutz gradually increased the number of new products developed each year. The *Klutz* brand is a recognized and respected brand in the children's publishing area and is one of the leading branded children's book lines in the United States.

In 1999, Klutz had 125 products including 92 backlist and 33 front list products. Historically, Klutz ‘‘books plus’’ have been Klutz’s primary product. However, over the past three years Klutz has diversified its product line, which now includes the following: *Klutz Books; Klutz Kits; Klutz Guides;* and *Klutz Toys.* Klutz’s operations are located in Palo Alto, California. In fiscal 1999, Klutz had revenue of US$41.4 million and EBITDA of US$8.2 million.

Merchandising

Successfully exploiting Nelvana's character rights through targeted merchandising programs is an important aspect of the Company's character brand management. As a leading licensor of classic and contemporary character brands, the Company's merchandising efforts focus on marketing its most popular brands and coordinating with leading retailers to promote its character merchandise in North America and around the world. The Company anticipates that this expansion will be fuelled by a combination of the continued growth of the Company's existing brands, the launch of new brands from the Company's production pipeline, increasing its ownership percentage in its existing brands, and the acquisition of brands with proven revenue streams.

Merchandise licensing has been a small but stable performer for Nelvana as a result of its *Babar* licensing program, which began over a decade ago. In 1998 Nelvana began to see increased growth in its merchandising license activities as it began to build the *Franklin* and *Little Bear* merchandise licensing programs. In 1999, merchandising revenue grew 58% to $6.0 million from $3.8 million in 1998, while merchandising EBITDA increased 40% to $1.4 million in 1999 from $1.0 million in the prior year.

Nelvana typically acquires the merchandising rights for the characters featured in its film and television productions. It becomes either the licensor or the agent, on behalf of the owner of the property for most product categories, including toys, plush, apparel, gifts, book publishing, and interactive products.

License Agreements.

Nelvana's typical license agreement with a licensee includes provisions addressing the specific product category subject to the license, the term of the license, the applicable territory and distribution channels, and the royalty payments payable, including any royalty guarantees. Licensees assume the majority of the risk by prepaying a portion of their royalties to the Company by way of an advance, and by investing in the product development and inventory costs associated with their licensed products. Nelvana manages the product approval process to ensure that all licensed products meet quality standards for its character brands. The Company also manages the overall marketing of a character brand, and complements its licensees’ sales efforts by promoting the character brand to various retailers.

Licensed Products

The *Babar* brand has produced consistent advance and royalty revenue for Nelvana over the last decade. Nelvana jointly licenses the *Babar* brand with The Clifford Ross Company Ltd. *Babar* has traditionally had a strong licensing program and presence in the European market, particularly France, with publishing, toy and apparel product categories expanding into the mass market over the last few years. The Company believes that *Babar* provides it a strong foothold in the European market and helps it expand other international character brand licensing activities. At the end of 1999, Nelvana had 91 *Babar* licensees worldwide. In North America *Babar* is maintained as a high-end character brand for the gift and department store channels.

Nelvana also has two other active North American licensing programs in place, for each of the *Little Bear* and *Franklin* brands. Both character brands currently have series airing on Nick Jr., one of the most actively watched U.S. broadcasters of children's programming, available in over 72 million households in the United States. At the end of 1999, *Little Bear* had 40 licensees worldwide, with 19 new licensees added in 1999. *Little Bear* airs in over 100 countries worldwide. The strength of the North American *Little Bear* licensing program is evidenced by strong sales of licensed products such as puzzles by Hasbro and CD-ROMs by The Learning Company at many mass merchant retailers.

The *Franklin* brand's licensing program is growing rapidly in North America as well, and is beginning to contribute revenue from Europe. The animated series launched in the United States on Nick Jr. in January 1999 and has enjoyed strong ratings with children two to five. Nelvana believes that the combination of a strong television viewership and 14 years of publishing success, with over 25 million books sold worldwide to date, has helped attract 52 new *Franklin* licensees in 1999 alone. This brings the total number of licensees to 80 by the end of 1999.

Many of the new *Franklin* products will be distributed commencing summer 2000 at 850 U.S. full-line Sears stores during a major *Franklin* in-store retail promotion. The Company expects that the retail success of consumer products should also be complemented by the release of the first *Franklin* feature film, which is expected to debut in late Summer 2000.

New Character Brands

In 2000, the Company is introducing three new character brands, *Elliot Moose*, *Maggie and the Ferocious Beast* and *Cardcaptors*. *Maggie* will launch on YTV in Canada and Nick Jr. in the United States in 2000. *Elliot* has had successful ratings in Canada on TVOntario in 1999, and will begin airing on PBS in the United States in Fall 2000. Initial cash advances were received in 1999 for *Elliot Moose* and *Maggie and the Ferocious Beast*. Both *Elliot* and *Maggie* had significant U.S. apparel deals signed in 1999, along with other key specialty-toy license deals. Merchandising advances from these brands are expected to continue to grow in 2000, in both the United States and Canada, as the television series debuts in the U.S. market in 2000.

The Company recently acquired the North American television, video and merchandise rights to the Japanese anime series *Cardcaptors*. The series, produced by Kodansha, one of Japan's leading book and multi-media publishers, is a half-hour adventure program targeted at the youth market of girls aged six to eleven. The *Cardcaptors* series will be aired by Kids WB beginning in Fall, 2000. The Company's acquisition of *Cardcaptors* is consistent with its strategy of acquiring existing brands which are successful in one market but unknown in others.

Nelvana New Media

Nelvana recently launched Nelvana New Media, a strategic new division, which will focus on developing new applications, products and delivery channels for the Company's growing character portfolio. The Company expects that Nelvana New Media will create a children's Internet destination and produce interactive games based upon the Company's portfolio of characters for both CD-ROM and Internet distribution.

Broadcasting

TELETOON

Nelvana is a co-founder and 20% shareholder of TELETOON which operates a 24-hour, all-animation cable television service in Canada, broadcasting in both the English and French languages. TELETOON has achieved approximately 50% and 80% cable subscriber penetration rates in English Canada and French Canada, respectively. As of December 31, 1999, TELETOON had 5.3 million subscribers to its service. TELETOON revenue increased by approximately 61% to $37 million for the 12 months ended December 31, 1999, driven by strong subscriber gains and advertising revenue. For as long as the Company maintains its ownership interest in TELETOON, it is entitled to provide a significant portion of TELETOON's programming on an annual basis. The Company is currently one of TELETOON's largest suppliers of programming, with a total of 21 library and current series airing on TELETOON in 1999.

In April 2000, the Company filed applications with the CRTC for the following two new channels: *Booknet* – an entertainment and information service for children and adults based on classic and contemporary books and characters. If licensed, Nelvana will own 40% of Booknet, with Corus Entertainment owning the remaining 60% interest. Booknet was submitted as both a Category 1 and Category 2 digital application. Category 1 licenses (approximately ten of which will be licensed) benefit from the ''digital access privileges'', (i.e. distributors are not permitted to distribute these services on a stand-alone basis unless they are also carried as part of a package and each Category 1 service must be packaged and marketed on an equitable basis as compared to any other new digital service). If licensed as a Category 1 service the Company estimates that its cash investment would be approximately $1.3 million over the first two years of operation. If approved as a Category 2 service, Booknet will not benefit from the ''digital access privileges'' and accordingly it will only be launched if it achieves sufficient support from distribution carriers. The Company has also applied for *The Nelvana Channel*, a Category 2 entertainment service which will feature Nelvana's programs on screen in combination with additional supporting graphic and text material. As a Category 2 license, implementation of the service will be at the Company's discretion. If implemented, the broadcast signal would be windowed into a number of distinct viewing areas designed to suggest a computer screen. These windows would simultaneously broadcast streams of video, graphics and text. One of the windows would be dedicated to the real-time broadcast of programming from Nelvana's library of animation and live action programs. The other windows would enhance the featured program by thematically linking additional Nelvana-created material. This new channel is expected to work hand in hand with its companion website, and would enable Nelvana to interact directly with its viewers, and is designed as a channel for the new digital age.

As a shareholder of TELETOON, the Company also participated in TELETOON's applications for six ‘‘splinter’’ services based on the success of TELETOON's popular format. These Category 2 applications include English and French language services of TELETOON Action, TELETOON Adult/Adulte, TELETOON Art, TELETOON Pop, TELETOON Retro/R—tro and the multilingual service, TELETOON Multi. The Company expects decisions on these applications in the fourth quarter of 2000.

Regulatory Considerations

Canadian Content Requirement for Broadcasters

Canadian conventional, specialty, pay and pay-per-view television services are required to devote a certain amount of their programming schedules to Canadian productions. These requirements provide support to the market for Canadian programs such as the ones Nelvana produces, as long as they qualify as Canadian programs for purposes of the Canadian Audio Visual Certification Office (‘‘CAVCO’’) or the CRTC.

In addition to scheduling requirements, Canadian conventional, specialty, pay and pay-per-view television services are typically required to meet exhibition or expenditure requirements with respect to Canadian programs based on the nature of the particular service and financial performance. The requirement for a broadcaster to spend a specific amount on Canadian programs is often a condition of its license.

CAVCO and the CRTC determine the criteria for qualification of a program as ‘‘Canadian’’. Generally, a program will qualify if it is produced by an individual Canadian producer with the involvement of individual Canadians in principal functions, and where a substantial portion of the budget is spent on Canadian elements. In addition, the Canadian producer must have full creative and financial control over the project.

Nelvana will continue to be considered to be a Canadian producer as long as Canadians hold multiple voting shares and subordinate voting shares representing a majority of the voting power of the Company's stock. After giving effect to the Company's proposed equity offering, the Company's principal shareholders will continue to hold at least 67% of the Company's aggregate voting power.

Canadian Ownership Requirement for Broadcasters

TELETOON, a Canadian broadcaster, is required to have a minimum of 80% of its voting shares and voting power owned by Canadians. If Canadian ownership of TELETOON drops below these threshold tests, it would be seen to be in-eligible to hold a Canadian broadcast license and TELETOON could lose its broadcast license.

International Treaty Co-Productions

Canada is a party to co-production treaties with many countries throughout the world, excluding the United States. These international co-production treaties allow for the reduction of the risks of production by permitting the pooling of creative, technical and financial resources of Canadian producers with non-Canadian producers under prescribed conditions. Canadian co-production treaty partners include China, France, Great Britain, Germany and Australia. A production that qualifies as a co-production for treaty purposes is considered to be a domestic product in each of the participating countries and, as such, is entitled to many aspects of national treatment in each country. More specifically, the co-production usually qualifies for domestic treatment under applicable broadcasting legislation and certain government subsidies. The copyright in the production is jointly held by the co-producers, while the domestic distribution rights are generally owned by each co-producer in their respective domestic market. Sharing of foreign revenue is based on the respective contribution of each co-producer, subject to negotiation between the co-producers and approval by the appropriate government authorities. Most of Nelvana's series are produced through international treaty co-productions.

Industry Incentives

Film and Television

Nelvana generally receives federal ‘‘content’’ tax credits, and Ontario ‘‘content’’, ‘‘services’’ or ‘‘OCASE’’ tax credits, on its series and feature films, which typically provide benefits of between 16% and 20% of the Canadian production budget. During fiscal 1999, Nelvana accrued federal and Ontario production tax credits of Cdn.$16.4 million.

Federal

A Canadian Film or Video Production Tax Credit (the ‘‘content credit’’) is available under the *Income Tax Act* (Canada) for eligible film and television productions undertaken by qualified Canadian corporations. This tax credit is determined as 25% of the qualified labor expenditure limited to 48% of the amount (the ‘‘threshold amount’’) by which the total production costs of a given project exceed any other government assistance, including any provincial refundable tax credit. Since labor expenditures typically exceed this limitation, most production companies, including Nelvana, are eligible to receive a federal tax credit equal to 12% (i.e., 25% of 48%) of the threshold amount. The tax credit is calculated on the basis of each individual production and is available only to taxable Canadian corporations whose activities are primarily those of a Canadian film or video production business carried on in Canada and which are Canadian-controlled as determined for the purposes of the *Investment Canada Act*. The Company generally qualifies for the federal content credit and believes that so long as, among other things, it continues to be Canadian-controlled, for the purposes of the *Investment Canada Act*, it will continue to so qualify.

The Film or Video Production Services Tax Credit (the ‘‘services credit’’) provides eligible production corporations engaged in an accredited production with a tax credit determined as 11% of the qualified Canadian labor expenditures. An eligible production corporation is a corporation that carries on film or video production activities through a permanent establishment in Canada, and that owns the copyright in an accredited production throughout the period in which it is produced in Canada or that has contracted directly with the owner of the copyright. Given that Nelvana's series and feature films generally qualify for the federal content credit, the Company is excluded from applying for this services tax credit.

Ontario

Several Canadian provinces have programs that mirror the federal content and services credits. The Company generally qualifies for either the Ontario Film and Television Tax Credit or the Ontario Film and Television Production Services Tax Credit. The Company also qualifies for certain benefits under the Ontario Computer Animation and Special Effects (‘‘OCASE’’) tax credit.

The Ontario Film and Television Tax Credit (the ‘‘Ontario content’’ credit) is available for eligible film and television productions undertaken by qualified Ontario corporations. The Ontario content credit is determined as 20% of eligible Ontario labor expenditures, limited to 48% of total eligible production costs. Since labor expenditures typically exceed this limitation, production companies qualifying for this content credit are eligible to receive 9.6% (i.e., 20% of 48%) of total eligible production costs.

The Ontario Film and Television Production Services Tax Credit (the ‘‘Ontario services’’ credit) provides eligible production corporations with a tax credit determined as 11% of eligible Ontario labor expenditures.

The Ontario Film Development Corporation also administers the OCASE tax credit. Regardless of whether an Ontario production company applies for the federal or Ontario content or services tax credits, it may also apply for an additional OCASE tax credit determined as 20% of Ontario labor costs, capped at 48% of prescribed computer animation and special effects costs. This tax credit provides up to an additional 9.6% (i.e., 20% of 48%) of Ontario tax credits.

Other

The Canadian Television Fund, a partnership of certain public and private television industry participants, administers the License Fee Program (‘‘LFP’’), an incentive that benefits select, visibly Canadian, television series. This program provides a supplement to a series’ Canadian license fees, contributing an additional 13% of the Canadian budget of the series. Nelvana has received LFP funding for one or two series on an annual basis in the past, however, given the limited resources of this program, the Company may or may not obtain LFP funding for future productions.

The Canadian Television Fund, together with Telefilm Canada, also administers the Equity Investment Program (‘‘EIP’’), under which select Canadian series receive an equity contribution of up to 49% of the Canadian budget. Given the limited resources of this program, the Company has no assurances that it will receive EIP funding.

Publishing

Canadian book publishers benefit from a variety of cultural and industrial grants, from both federal and provincial sources. During fiscal 1999, Kids Can Press received grants totalling $0.7 million from several different programs. The Company will continue to qualify as a Canadian publisher as long as 75% of its voting power is held by Canadians. After giving effect to the Company's proposed equity offering (and assuming 90% of the shares sold under that offering are sold to non-Canadians), the Company estimates that approximately 87% of its aggregate voting power will be held by Canadians.

Federal

The Book Industry Publishing Development Program (‘‘BIPDP’’) is available through the Department of Canadian Heritage for qualifying Canadian publishers who meet certain sales and profitability criteria. The Association for the Export of Canadian Books, an agency of the Department of Canadian Heritage, provides export marketing assistance to qualifying Canadian publishers who meet the BIPDP requirements as well as certain other export sales criteria. In addition, The Canada Council provides funding to qualifying Canadian publishers for domestic titles deemed to be of Canadian cultural significance.

Ontario

The Ontario Arts Council provides funding to qualifying Ontario publishers for Canadian titles deemed to be of Canadian cultural significance.

INDUSTRY OVERVIEW

As a vertically integrated children’s entertainment company the Company is attentive to two distinct audiences. Nelvana strives to provide products that capture the fascination and imagination of children, but which are also pleasing to their parents. Demand by advertisers for the attention of children is leading cable and broadcast networks to increase the time they devote to children’s entertainment. In addition, the structure of the cable and broadcast television markets are changing as technology allows the expansion of current channel offerings.

Programming

In recent years the North American television-broadcasting industry has experienced significant market segmentation. This has provided viewers with greater channel selection, and has resulted in a substantial increase in the demand for original programming for specialty channels. Many services around the world program exclusively for children. Nelvana believes the outlook for the Canadian independent production business, the worldwide animation business and the children’s entertainment sector remains favorable. Growth in the children’s entertainment sector, and the animation market in particular, are being fueled by several factors:

- growth of the 3-D animation market;

- the migration of animation to prime time and evening broadcast schedules, thereby broadening the target demographics;

- the shift of audiences from traditional broadcast networks (with, on average, 4 hours a week of programming) to specialty services (with up to 168 hours a week of programming);

- the growth of digital television services, providing a new platform for additional cable and satellite services, and accordingly new programming opportunities;

- continuing international expansion by all types of programming services, including major U.S. broadcasters and domestic children's services;

- the growth in advertising dollars devoted to the children's sector on a year-round basis as a result of the increase in broadcast hours devoted to children; and

- the growth in demand for content featuring recognizable characters, on the Internet. According to industry sources, total spending on programming in the United States is expected to grow from an estimated US$39.5 billion in 1998 to US$55.6 billion in 2003. In part due to the proliferation of cable and satellite services, channels targeting children have increased substantially in recent years. Children spend a significant amount of time watching television, and advertisers strive to ensure that their messages reach this large and growing market. In the U.S., the children's television marketplace has expanded to include over 630 hours of programming per week. This programming is spread across twelve different channels. Fragmentation and specialization has led four services to adopt formats solely dedicated to children, while other channels set aside dedicated program blocks targeting children. PBS, for example, has announced their first ever Saturday morning children's programming block. On school days, 60% of children ages 6 to 11 said they watch one or two hours of television per day, while 29% watch three to five hours. On weekends, 45% say they watch three to five hours of television, while 24% watch six to ten hours. These numbers are consistent with similar surveys conducted prior to the rise in the popularity of the Internet, which suggests that television remains a central activity for children. The Internet and personal computers, in general, provide incremental opportunities to reach and entertain children.

Publishing

The United States consumer book industry consists of various segments including the trade book market, mass-market paperback, religious books, book clubs and university presses. The consumer book publishing industry has evolved over the past several years, principally relating to a restructuring of the book distribution and retailing environment. According to industry sources, the completion of the most dramatic changes in the book distribution infrastructure, coupled with rapid growth in sales of books via the Internet, is forecast to yield a respectable 5.0% annual growth rate for the book industry over the next five years. Total spending on consumer books is forecast to increase from US$16.9 billion in 1998 to US$22.5 billion by 2003.

Juvenile publishing is one of the strongest performing segments in the consumer book industry, with excellent prospects for ongoing continued growth. According to industry sources, in the United States alone, the juvenile publishing sales of paperbacks grew an estimated 23.5% to US$660.8 million, and juvenile publishing sales of hard bound books grew an estimated 11.1% to US$1.1 billion in 1999. The primary factors behind this growth are parents' desire to ensure their children are introduced to reading at an early age, and the crossover of children's characters across various media outlets such as from books to television. Research by the Book Industry Study Group shows that 66% of children's book buyers have attended college and 21% have postgraduate degrees. The median income for children's book purchasers is US$46,477, with one-third of buyers earning over US$60,000 per year. Meanwhile, the kindergarten to grade 12 school population continues to grow steadily in the United States, with an expected increase from 52.7 million in 1997-1998 to 54.3 million in 2008.

Merchandising

Merchandising has seen a boost from the relatively new and fast-growing popularity of toys that tie into movie, book and television characters. According to industry sources, in 1999, licensed retail sales worldwide were approximately US$115 billion. North America represented US$74 billion (64%) of this market, and Western Europe represented US$26 billion (23%) of the market, with the balance of US$15 billion (13%) from the rest of the world. There are a number of different types of properties that can be licensed, such as art, celebrity, entertainment/characters, fashion, toys/games, sports, trade-mark/brand, and others. All of Nelvana's character brands fall into the entertainment/character property type category. According to industry sources, retail sales of entertainment/character based licensed merchandise within the United States and Canada totaled approximately US$16 billion in 1999, a 6% increase over 1998. Of the total, toys and games comprised 34%, video games and software comprised 16%, and apparel and accessories comprised 14%. The upward trend in the distribution of entertainment and character-based merchandising is evident in the recent trends in the growth of retail stores specializing in such products. For example, The Disney Stores expanded significantly in 1999, adding 29 new stores in the United States and Canada, ten in Europe and ten in the Far East-Pacific region, bringing their total number of stores to 728. Likewise, Warner Bros. has opened approximately 200 stores worldwide

NELVANA'S POSITION IN THE WORLDWIDE PRODUCTION & DISTRIBUTION AND BRADED CONSUMER PRODUCTS INDUSTRIES

Competitive Strengths

Nelvana believes that its competitive strengths position it to continue to grow its business in future years. Its competitive strengths include the following:

- *Established Character Brands with a Global Following.* The Company believes the quality and wide-spread recognition of its brands will lead to continued growth in demand for its programming and for its branded consumer products.

- *Extensive Programming Library*. Nelvana's cumulative program library totals over 1,376 half-hour equivalent episodes comprising 47 animated television series, six animated television specials, seven animated feature-length films and nine live action series.

- *Experienced Creative Personnel*. Nelvana believes that the experience and creative talent of its sales, development and production staff have made it successful in identifying and developing new content, characters and books for television and feature films. NELVANA has exclusive arrangements with numerous Canadian scriptwriters and other valuable production personnel.
- *Growing Branded Merchandising Business*. Nelvana believes the strength of its character brands and its television ratings success will allow it to establish relationships with key licensees and leading retailers worldwide to promote its branded merchandise.

- *Worldwide Distribution Business*. Nelvana is a leading supplier of animated programming, distributing its programming to over 160 countries around the world, including the United States, where it had a record 23 series airing in 1999, more than any other independent producer of children's entertainment.

- *Innovative and Strategic Program Distribution Arrangements*. The Company has entered into a number of innovative multi-year distribution arrangements with various broadcasters and distributors worldwide, including our three year agreement with the Public Broadcasting Service (PBS) in the United States and a three year agreement with RTV Family Entertainment AG (RTV), a subsidiary of Ravensburger, one of Germany's largest producers and distributors of children's programming.

- *Exclusive Deals with Talented Authors*. The Company has exclusive relationships with some of the world's leading children's authors, including Maurice Sendak, William Joyce, Rosemary Wells, and Mercer Mayer, to bring high-quality children's book properties to life in television, feature films and merchandising. The name recognition of these authors and their properties has enabled the Company to leverage its selling and marketing efforts.

- *Klutz Brand*. With the recent acquisition of Klutz, the Company will be a leader in the ‘‘books plus’’ or activity books category of publishing with a recognized and respected brand

- *Quality Programming with Strong Ratings*. The Company enjoys critical acclaim worldwide for its animated programs and has enjoyed many awards, superior ratings for its programming and consistent renewals of its animated series.

- *Strong and Committed Management*. The Company has assembled an experienced team of creative talent and business professionals who have effectively and consistently brought its products to market on time and on budget.

Strategies

Nelvana's strategy is to build and manage its classic and contemporary children's brands, and to acquire new brands and to exploit those brands across established and new distribution channels and outlets. The key elements of its strategy include the following:

- *Continue Building Its Valuable Program Library*. The Company is committed to increasing its program library over the next three years through the production of new proprietary series and the select acquisition of rights to existing third party properties, which it believes will allow it to maintain the momentum it has achieved over the past four years as its program library has more than doubled in size. The Company intends to increase the size of its cumulative program library by nearly 20% to over 1,650 half-hour equivalent episodes by the end of 2000, and to over 2,250 half-hour equivalent episodes by the end of 2002.

- *Continue to Increase Distribution for Its Programming with Innovative and Strategic Dealmaking*. The Company intends to augment the value of its expanding production slate by broadening its relationships with existing customers and by developing new relationships with leading U.S. and international customers. The Company intends to actively pursue additional innovative and strategic program distribution arrangements, such as the recently completed PBS and RTV arrangements, in targeted markets worldwide to secure greater audiences for its programs and to expand further the scope of its distribution channels.

- *Continue to Broaden Its Demographic Reach*. The Company intends to continue to broaden the reach of its programming beyond the pre-school audience through increased pre-teen and prime time family offerings. Its acquisition of Klutz will significantly strengthen its presence in the six to twelve-year old children's market, a demographic sector that it believes is strategically important to its future growth.

- *Broaden the Scope of Animation Through New Technology*. The Company plans to continue to utilize new technology in its animation production and distribution operations to remain a leader in the animation industry. The Company believes that its use of new technology allows it to produce its animated series more quickly and efficiently with a higher level of quality and to reach wider audiences through non-traditional distribution channels, such as the Internet.

- *Expand Its Merchandising Business*. The Company intends to actively expand its merchandise business and diversify its portfolio of character brands. The Company expects that this expansion will result from a combination of the continued growth of its existing character brands, the launch of new brands from its production pipeline, increasing its ownership position in its existing brands, and through the acquisition of new character brands with proven merchandising revenue streams.

- *Capitalize on Revenue Opportunities Created by the Internet*. The Company intends to participate in the growth of the Internet by creating a highly personalized interactive destination website for children that is anchored by its proprietary media content and its branded consumer products. The Company also believes that Klutz is well positioned to extend the reach of its vision, brand and content through its newly revamped website.

- *Develop Growth Opportunities between Klutz and Kids Can Press*. With the recent acquisition of Klutz, Klutz and Kids Can Press will jointly pursue a number of growth opportunities. These opportunities will include the potential expansion of Klutz's international sales efforts, the ability for Kids Can Press to piggyback its U.S. distribution efforts off Klutz's successful network and joint opportunities for editorial collaboration.

- *Grow Its Business Through Strategic Acquisitions*. The Company intends to expand its operations through continued internal growth and select strategic acquisitions that will complement its existing children's entertainment businesses. The Company will seek to maintain the balance between its Production and Distribution and Branded Consumer Products business segments, targeting acquisition of children's program libraries, character brands with proven merchandising potential and unique children's book publishers.

EMPLOYEES

As of December 31, 1999, the Company had approximately 545 full and part-time employees (including independent contractors). None of the Employees are unionized. With the recent acquisition of Klutz, the Company now has an additional 67 employees, (non-union) of which 14 are employed on a part-time basis. All of these (non-union) employees are located in California.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Comparability of Data

In connection with the amalgamation of Nelvana and Nelvana Holdings Inc. on May 13, 1994, the Company created Subordinate Voting Shares, Multiple Voting Shares and Preference Shares in the capital of the Company. 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 the year-ends listed below were as follows:

December 31, 1999 - 7,259,749
December 31, 1998 - 7,259,069
December 31, 1997 - 5,882,591
December 31, 1996 - 5,202,228
December 31, 1995 - 5,181,108

During 1997, Nelvana changed its accounting policy for the recognition of proprietary production and distribution revenue from the series basis to the episodic basis. Under the new policy, revenue is recognized when an episode is available for delivery, rather than when the full series is completed and delivered. The change in revenue recognition policy was made to reduce quarter-to-quarter variations, enhance the predictability of quarterly earnings and conform Nelvana's reporting to industry norms.

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)				
	1999	1998[1]	1997[1]	1996[1]	1995[1]
Revenue	$91,740	$73,6490	$56,195	$62,082	$58,724
Net Earnings before Income taxes	14,993	15,163	8,509	6,126	9,310
Net Earnings	10,086	8,643	4,928	3,682	5,443
Earnings per share [2]	1.39	1.21	0.86	0.71	1.05
Total Assets [4]	203,147	169,658	103,403	87,143	75,342
Total Long Term Debt	8,320	3,068	5,182	3,110	3,545

	ACCUMULATED REVENUE BY QUARTER (In thousands of dollars, except per share information)							
	Year Ended Dec. 31, 1999	Nine Months Ended Sept. 30, 1999	Six Months Ended June. 30, 1999	Three Months Ended Mar. 31, 1999	Year Ended Dec. 31, 1998 [1]	Nine Months Ended Sept. 30, 1998 [1]	Six Months Ended Jun. 30, 1998 [1]	Three Months Ended Mar. 31, 1998 [1]
Revenue	$91,740	$46,953	$24,693	$11,492	$73,649	$34,848	$15,194	$6,505
Net Earnings Before Income taxes	14,993	7,432	3,558	1,412	15,163	7,492	3,362	1,244
Net Earnings	10,086	4,965	2,327	884	8,643	4,361	1,998	721
Earnings per Share [2]	1.39	0.68	0.32	0.12	1.21	0.62	0.29	0.11
Weighted Average # of Shares [2] (000's)	7,259	7,259	7,259	7,259	7,118	7,071	6,980	6,723

[1] Restated to reflect changes in revenue recognition policy made in 1997.

DIVIDEND POLICY

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

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 46 in the 1999 Annual Report of the Company is incorporated herein by reference.

MARKET FOR SECURITIES

The Subordinate Voting Shares are traded on The Toronto Stock Exchange under the symbol "NTV". The Company has recently applied to have its subordinate voting shares quoted on the NASDAQ National Market under the symbol "NELV".

DIRECTORS AND OFFICERS

The name, municipality or residence, position held within the Company and periods of service of each of the Company's Directors and Officers and their principal occupations are set out below as at December 31, 1999. Each Director named below was re-elected at the Annual General and Special Meeting of Shareholders held on May 11th, 1999.

Name	Position with Company	Principal Occupation	Director Since
Directors			
Michael Hirsh [1, 3] Toronto, Ontario	Director & Co-Chief Executive Officer	Officer of the Company	July 30, 1971
Patrick Loubert [1, 3] Toronto, Ontario	Director & Co-Chief Executive Officer	Officer of the Company	July 30, 1971
Clive Smith [1, 4] Toronto, Ontario	Director & Senior Executive Vice-President	Officer of the Company	July 30, 1971
James E. Kofman [2, 3] Toronto, Ontario	Director	Director, Bunting Warburg Inc.	March 15, 1994
Michael St.B. Harrison [4] Montreal, Quebec	Director & Chairman	President, MacDougall, MacDougall & MacTier Inc.	March 15, 1994
T. Richard Davies [2] Willowdale, Ontario	Director	Retired Bank Executive	May 27, 1994

Jamie C. Kellner [5] Beverly Hills, California	Director	Chief Executive, WB Television Network	June 29, 1994
William Ardell [2] Toronto, Ontario	Director	Chairman, Apollo Gas Inc.	June 17, 1997
John Tevlin [3] Toronto, Ontario	Director	Management Consultant	June 17, 1997
Colin D. Watson Toronto, Ontario.	Director	Vice-Chairman & CEO Spar Aerospace Limited	August 12, 1999

Corporate Officers

Michael Hirsh Toronto, Ontario	Co-Chief Executive Officer	Officer of the Company
Patrick Loubert Toronto, Ontario	Co-Chief Executive Officer	Officer of the Company
Clive Smith Toronto, Ontario	Senior Executive Vice President	Officer of the Company
Sally Moyer Kent Toronto, Ontario	Senior Vice President, Chief Financial Officer	Officer of the Company
Stephen Hodgins Toronto, Ontario	Senior Vice President, Production	Officer of the Company
Harriet Reisman Toronto, Ontario.	Senior Vice President, General Counsel and Corporate Secretary	Officer of the Company
Patricia Burns Paris, France	Vice President, Production	Officer of the Company
Scott Dyer Toronto, Ontario	Vice President, Information Technology	Officer of the Company
John Vandervelde Toronto, Ontario	Vice President, Treasurer	Officer of the Company
Christine Nalborczyk Toronto, Ontario	Vice President, Controller	Officer of the Company
Suzanne Cross Toronto, Ontario	Vice President, Business Affairs	Officer of the Company

Subsidiary Officers

Toper Taylor	President Nelvana Communications, Inc.
Sid Kaufman	Executive Vice President, Worldwide Merchandising Nelvana Communications, Inc.
John Cassidy [6]	President & CEO Klutz
Jurgen Lew [6]	Chief Operating Officer Klutz
Valerie Hussey	President & CEO, Kids Can Press Ltd.
Carrie Dumont	Vice President, Distribution and Merchandise Licensing, Nelvana Enterprises, Inc.

[1] Member of the Executive Committee
[2] Member of the Audit Committee
[3] Member of the Compensation Committee
[4] Member of the Nominating Committee
[5] Recently Resigned
[6] Affective May 12, 2000

The Directors and Officers of the Company as a group beneficially own, directly or indirectly, approximately 1% of the Subordinate Voting Shares and 100% of the Multiple Voting Shares, representing approximately 78.6% 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; by 1078960 Ontario Inc., a corporation controlled by Patrick Loubert; by Ho Ho Holdings Inc., a corporation controlled by Clive Smith; and personally by Toper Taylor.

The Company has an Executive Committee, an Audit Committee, a Compensation Committee, a Nominating Committee and an Independent Committee to consider Canadian Status Benefits.

All of the persons named above who are officers of the Company have held positions with the Company for more than the past 5 years, except: Sally Moyer Kent joined Nelvana Limited in August 1997 as Senior Vice President, Chief Financial Officer. Prior to joining Nelvana she was the Vice President, Finance and Chief Financial Officer at Rogers Cablesystems Limited. Harriet Reisman joined Nelvana in January 2000, as Senior Vice President, General Counsel and Corporate Secretary. Prior to joining Nelvana, Ms. Reisman was President of Salter New Media Ltd. She also held senior positions at Atlantis Communications Inc. as Vice-President, Business Affairs, General Counsel and Corporate Secretary, and with the Ontario Governments' Privatization Secretariat as Vice-President, Corporate Development. Valerie Hussey was the

President & CEO of Kids Can Press before it was acquired by Nelvana. Mr. Cassidy was the President & CEO of Klutz before it was acquired by Nelvana. Prior to joining Klutz in 1999, Jurgen Lew was the Chief Operating Officer of OddzOn, a toy company and division of Hasbro, Inc.

In connection with the reorganization of Nelvana's divisions, Stephen Hodgins and Patricia Burns were appointed Senior Vice President, Production and Vice President, Production respectively in October 1997. Scott Dyer joined Nelvana in 1997 as part of the Windlight Studios Inc. acquisition and was appointed Vice President, Information Technology in March of 1998. Prior to joining Nelvana he was President and CEO of Windlight Studios Inc. Christine Nalborczyk joined Nelvana in July 1998 as Vice President, Controller. Prior to joining Nelvana she was Controller at Allelix Biopharmaceuticals Inc. Prior to 1996 she was Finance Systems Project Manager at Digital Equipment of Canada Limited and prior to 1994 she was a manager at Ernst & Young. Suzanne Cross joined Nelvana in September 1997, and was appointed Vice President, Business Affairs in March 1998. Prior to joining Nelvana, she was legal counsel at Telefilm Canada.

All of the persons named above who are not officers of the Company have held the positions indicated above for more than the past 5 years except Mr. Kofman who prior to January 1997 was a partner of the law firm Osler, Hoskin and Harcourt, and Mr. Davies who prior to his retirement was an executive of a Canadian chartered bank.

ADDITIONAL INFORMATION

Additional information, including election of Directors, compensation of Directors and Executive Officers, principal holders of the Company's securities, options to purchase securities and the interest of insiders in material transaction, is contained in the Management Proxy Circular dated May 1st, 2000. Additional financial information is provided in Nelvana's consolidated financial statements for the fiscal year ended December 31, 1999 which are contained in the 1999 Annual Report.

Copies of the Renewal Annual Information Form, the Management Proxy Circular, the 1999 Annual Report, any interim financial statements available for the current fiscal year, and any other documents incorporated by reference therein may be obtained from the Corporate Secretary of the Company on request, subject to the payment of a reasonable charge if the person making the request is not a holder of securities of the Company and the Company is not in the course of distribution pursuant to a short form prospectus. Requests for such copies should be directed to the Corporate Secretary, Nelvana Limited, 32 Atlantic Avenue, Toronto, Ontario, M6K 1X8.