Execution Copy

2,500,000 Subordinate Voting Shares

NELVANA LIMITED

UNDERWRITING AGREEMENT

June 1, 2000

BEAR, STEARNS & CO. INC.
SG COWEN SECURITIES CORPORATION
RBC DOMINION SECURITIES CORPORATION
c/o Bear, Stearns & Co. Inc.
245 Park Avenue
New York, N.Y. 10167

Dear Sirs:

Nelvana Limited, a corporation existing under the laws of Ontario (the "Company"), proposes, subject to the terms and conditions stated herein, to issue and sell to the several underwriters named in Schedule I hereto (the "Underwriters") an aggregate of 2,434,032 of the Company's subordinate voting shares (the "Subordinate Voting Shares") and 1078959 Ontario Inc. and Ho Ho Holdings Inc. (the "Selling Shareholders") propose, subject to the terms and conditions stated herein, to sell to the Underwriters 30,000 and 35,968 outstanding Subordinate Voting Shares, respectively. The 2,434,032 Subordinate Voting Shares to be sold by the Company and the aggregate of 65,968 Subordinate Voting Shares to be sold by the Selling Shareholders are referred to herein as the "Firm Shares". The Company also proposes, subject to the terms and conditions stated herein, to sell for the sole purpose of covering over-allotments in connection with the sale of the Firm Shares, at the option of the Underwriters, up to an additional 375,000

Subordinate Voting Shares (the "Additional Shares"). The Firm Shares and any Additional Shares purchased by the Underwriters are referred to herein as the "Shares". The Shares are more fully described in the Offering Documents referred to below. The Firm Shares and the Additional Shares to be offered and sold outside Canada are herein called the "U.S. Firm Shares" and the "U.S. Additional Shares", respectively. The Firm Shares and the Additional Shares to be offered and sold within Canada are herein called the "Canadian Firm Shares" and the "Canadian Additional Shares", respectively. The U.S. Firm Shares and the U.S. Additional Shares are hereinafter collectively called the "U.S. Shares" and the Canadian Firm Shares and the Canadian Additional Shares are hereinafter collectively called the "Canadian Shares". The issuance and sale by the Company and sale by the Selling Shareholders of the Shares to the Underwriters pursuant hereto is herein referred to as the "Offering".

On April 11, 2000, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Klutz pursuant to which the Company agreed to acquire all of the outstanding stock of Klutz (the "Klutz Acquisition"). On May 12, 2000 the Klutz Acquisition closed in accordance with the terms of the Acquisition Agreement and the Company acquired all of the outstanding stock of Klutz.

The Company has prepared and filed with the Ontario Securities Commission, which has been notified that it has been selected as the principal jurisdiction regulating the Offering of the Shares (the "Reviewing Authority"), and with the securities regulatory authorities in each of the Provinces of Canada (collectively, the "Canadian Securities Regulatory Authorities") an English and French language version, as applicable, of a preliminary short form prospectus relating to the Shares as well as an amended preliminary short form prospectus relating to the Shares (together, the "Canadian Preliminary Prospectus"). In addition, the Company has prepared and filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form F-10 (File No. 333-11882) for the registration of the Shares under the United States Securities Act of 1933, as amended (the "Act"), including the Canadian Preliminary Prospectus (with such deletions therefrom and additions thereto as are permitted or required by Form F-10 and the applicable rules and regulations of the Commission under the Act (the "Rules and Regulations")). The Company has elected to rely upon the rules and procedures established pursuant to (i) National Policy 43-201 of the Canadian Securities Administrators and (ii) National Policy No. 44 of the Canadian Securities Administrators for the pricing of securities after the final receipt for a prospectus has been obtained (the "PREP Procedures"). The Company (i) has prepared and filed (a) with the

Reviewing Authority and each of the Canadian Securities Regulatory Authorities, and will obtain from the Reviewing Authority a final MRRS decision document for, a final short form prospectus relating to the Shares (the "Final PREP Prospectus") omitting the PREP Information (as hereinafter defined) and (b) with the Commission, an amendment to such registration statement, including the Final PREP Prospectus (with such deletions therefrom and additions thereto as are permitted or required by Form F-10 and the Rules and Regulations) omitting the PREP Information, which most recent such amendment has been declared effective by the Commission, and (ii) will prepare and file, as soon as possible and in any event within two business days after the execution and delivery of this Agreement, (x) with the Reviewing Authority and each of the Canadian Securities Regulatory Authorities, in accordance with the PREP Procedures, a supplemented prospectus setting forth the PREP Information (the "PREP Prospectus Supplement") and (y) with the Commission, in accordance with General Instruction II.L of Form F-10, the PREP Prospectus Supplement with such deletions therefrom and additions thereto as are permitted or required by Form F-10 and the Rules and Regulations (the "U.S. Prospectus Supplement"). The information, if any, included in the PREP Prospectus Supplement that is omitted from the Final PREP Prospectus for which a final MRRS decision document has been obtained from the Reviewing Authority but that is deemed under the PREP Procedures to be incorporated by reference into the prospectus as of the date of the PREP Prospectus Supplement is referred to herein as the "PREP Information."

Each prospectus used in the United States relating to the Shares used (i) before the Effective Date and (ii) after the Effective Date and prior to the filing of the PREP Prospectus Supplement, in each case, including the documents incorporated by reference therein, that omits the PREP Information, is herein called a "Preliminary Prospectus." The registration statement on Form F-10, including the prospectus, financial statements and schedules, exhibits and all other documents filed as or part thereof and the documents incorporated by reference therein, as amended at the Effective Date and including, if applicable, the PREP Information, is herein called the "Registration Statement." The prospectus included in the Registration Statement at the Effective Date, including the documents incorporated by reference therein, is herein called the "Prospectus," except that, if a U.S. Prospectus Supplement containing the PREP Information is furnished to the Underwriters after the execution of this Agreement (whether or not such prospectus is required to be filed pursuant to the Rules and Regulations), the term "Prospectus" shall refer to such U.S. Prospectus Supplement, including the documents incorporated by reference therein. The Final PREP Prospectus, for which a final MRRS decision document has been obtained from the Reviewing Authority, including the documents incorporated by

reference therein, is herein referred to as the "Canadian Prospectus," except that, if, after the execution of this Agreement, a PREP Prospectus Supplement containing the PREP Information is (x) furnished to the Underwriters or (y) filed with the Reviewing Authority, the term "Canadian Prospectus" shall refer to such PREP Prospectus Supplement, including the documents incorporated by reference therein and any amendment to the Canadian Prospectus, any amended or supplemental prospectus or any auxiliary material, information, evidence, return, report, application, statement or document that may be filed by or on behalf of the Company under the securities laws of the Province of Ontario ("Ontario Securities Laws") prior to the Closing Date (as hereinafter defined) or, where such document is deemed to be incorporated by reference into the Canadian Prospectus, prior to completion of distribution of the Shares.

The Company has also prepared and filed with the Commission an appointment of agent for service of process upon the Company on Form F-X in conjunction with the filing of the Registration Statement (the "Form F-X").

1. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, the Underwriters that:

(a) The Company meets the general eligibility requirements for the use of Form F-10 under the Act and is eligible to use the PREP Procedures; on the applicable date of filing with the Reviewing Authority, or the Commission, as applicable, on the Effective Date, on the date hereof and at all times subsequent hereto up to the Closing Date, (A) the Canadian Preliminary Prospectus complies and the Canadian Prospectus will comply in all material respects with the securities laws applicable in the Province of Ontario (including the PREP Procedures, if applicable) and the company shall have received a final MRRS decision document from the Reviewing Authority for the Final PREP Prospectus, (B) the Preliminary Prospectus conforms to the Canadian Preliminary Prospectus except for such deletions therefrom and additions thereto as are permitted or required by Form F-10 and the Rules and Regulations, (C) the Prospectus will conform to the Canadian Prospectus except for such deletions therefrom and additions thereto as are permitted or required by Form F-10 and the Rules and Regulations, (D) the Registration Statement and the Prospectus and any amendments and supplements thereto complied and will comply in all material respects with the applicable provisions of the Act and the Rules and Regulations; (E) the Registration Statement, the Prospectus and any amendment thereto do not and will not contain an untrue statement of a material fact and do not and will not omit to state any material fact required to be stated therein or necessary in order to make the

statements therein not misleading; (F) each of the Canadian Preliminary Prospectus, the Canadian Prospectus or any amendment or supplement thereto constitutes and will constitute full, true and plain disclosure of all material facts relating to the Shares, (G) the Canadian Preliminary Prospectus and the Preliminary Prospectus do not and the Canadian Prospectus and the Prospectus will not contain an untrue statement of a material fact and do not and will not omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, and (H) the French version of the Canadian Preliminary Prospectus is, and the French version of the Canadian Prospectus will be a reasonable translation, in all material respects, of the English version thereof. No representation and warranty is made in this subsection (a), however, with respect to any information contained in or omitted from the Registration Statement, the Canadian Prospectus or the Prospectus (collectively, the "Offering Documents") or any related preliminary prospectus or any amendment thereof or supplement thereto in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter through you as herein stated expressly for use in connection with the preparation thereof.

(b) Neither the Commission, the Reviewing Authority nor any of the Canadian Securities Regulatory Authorities has issued any order preventing or suspending the use of any Preliminary Prospectus, as applicable, and has not instituted or threatened to institute any proceedings with respect to such an order.

(c) Each of KPMG LLP and Ireland, San Filippo LLP, who have certified certain financial statements and supporting schedules of the Company and Klutz, respectively, included in the Registration Statement, are independent public accountants with respect to such companies as required by the Act and the Regulations.

(d) Subsequent to the respective dates as of which information is given in the Offering Documents, except as set forth in the Offering Documents, there has not been any material adverse change or any development which might result in a material adverse change in the business, prospects, properties, operations, condition (financial or other) or results of operations of the Company and its subsidiaries considered as one enterprise taken as a whole, whether or not arising from transactions in the ordinary course of business, and since the date of the latest balance sheet presented in the Offering Documents, neither the Company nor any of its subsidiaries has incurred or undertaken any liabilities or obligations, direct or contingent, which are material to the Company and its

subsidiaries taken as a whole, except for liabilities or obligations which are reflected in the Offering Documents.

(e) This Agreement and the transactions contemplated herein have been duly and validly authorized by the Company, and this Agreement has been duly and validly executed and delivered by the Company. The Acquisition Agreement has been duly authorized, executed and delivered by the Company and Klutz, and constitutes a valid and legally binding instrument, enforceable against the Company and Klutz, thereto in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditor's rights and to general equity principles.

(f) The execution, delivery and performance of this Agreement and the Acquisition Agreement and the consummation of the transactions contemplated hereby and thereby do not and will not (i) conflict with or result in a breach of any of the terms and provisions of, or constitute a default (or an event which with notice or lapse of time, or both, would constitute a default) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, any bond, debenture, note or other evidence of indebtedness or any contract, indenture, mortgage, deed of trust, loan or credit agreement, lease, joint venture or other agreement or instrument or any franchise, license or permit to which the Company or any of its subsidiaries is a party or by which any of such corporations or their respective properties or assets may be bound or (ii) violate or conflict with (A) any provision of the certificate of incorporation or by-laws of the Company or any of its subsidiaries or (B) any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of its subsidiaries or any of their respective properties or assets. No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of its subsidiaries or any of their respective properties or assets is required for the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby, including the issuance, sale and delivery of the Shares to be issued, sold and delivered by the Company hereunder, except the registration under the Act of the Shares, the filing of the Canadian Prospectus with the Reviewing Authority, and each of the Canadian Securities Regulatory Authorities and the issuance of the final MRRS decision document therefor and such consents, approvals, authorizations, orders, registrations, filings, qualifications, licenses and

permits as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters.

(g) All of the outstanding shares of the Company are duly and validly authorized and issued, fully paid and nonassessable, and none of such shares was issued in violation of or is now subject to any preemptive or similar rights. The Shares to be sold by the Company hereunder have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued, delivered and sold in accordance with this Agreement, will be duly and validly issued and outstanding, fully paid and nonassessable and will not have been issued in violation of or be subject to any preemptive or similar rights. The Company had, at December 31, 1999, an authorized and outstanding capitalization as set forth in the Offering Documents and as at the date hereof, 5,622,893 subordinate voting shares, 1,930,897 multiple voting shares and no other shares are issued and outstanding. The authorized capital of the Company, conforms to the description thereof contained in the Offering Documents. Except as disclosed in the Offering Documents, there are no outstanding options, warrants or other rights calling for the issuance of, and no commitments, obligations, plans or arrangements to issue, any shares of capital stock of the Company or any security convertible into or exchangeable for shares of capital stock of the Company. The outstanding stock options relating to the Company's Subordinate Voting Shares have been duly authorized and validly issued and conform to the descriptions thereof contained in the Offering Documents.

(h) Each of the Company and its subsidiaries has been duly organized and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation. Each of the Company and its subsidiaries is duly qualified and in good standing as a foreign corporation in each jurisdiction in which the character or location of its properties (owned, leased or licensed) or the nature or conduct of its business makes such qualification necessary, except for those failures to be so qualified or in good standing which will not in the aggregate have a material adverse effect on the Company and its subsidiaries taken as a whole. Each of the Company and its subsidiaries has all corporate power and authority, and all necessary consents, approvals, authorizations, orders, registrations, qualifications, licenses and permits (collectively, "Governmental Licenses") of and from all public, regulatory or governmental agencies and bodies, to own, lease and operate its properties and conduct its business as now being conducted and as described in the Offering Documents except where the absence of such Governmental Licences collectively would not have a material adverse effect on the Company and its subsidiaries taken as a whole. Each such Governmental License is valid

and in full force and effect, and no such Governmental License contains a materially burdensome restriction not adequately disclosed in the Offering Documents, and the Company has not received any notice of proceedings relating to the revocation of any such Governmental Licenses.

(i) Neither the Company nor any of its subsidiaries is (i) in violation of its charter or by-laws, as the case may be, or in breach of any of the terms or provisions of or in default (or would be in default with notice or lapse of time or both) in the performance or observance of any obligation, agreement, covenant or condition contained in any bond, debenture, note or other evidence of indebtedness or in any contract, indenture, mortgage, deed of trust, loan or credit agreement, lease, joint venture or other agreement or instrument or any franchise, licence, or permit to which it is a party or by which any of its properties may be bound, which breach, violation, default or defaults would have individually or in the aggregate a material adverse effect on the Company and its subsidiaries taken as a whole (ii) in violation of any law, order, rule, regulation, writ, injunction, judgment or decree of any court or governmental agency or body, the violation of which would have individually or in the aggregate a material adverse effect on the Company and its subsidiaries taken as a whole or (iii) in violation of any statutory requirements needed to qualify for those Ontario refundable tax credits, Canadian refundable film or video production tax credits, and other government incentives for which it is currently eligible as set forth in the Offering Documents.

(j) There is no litigation or governmental proceeding to which the Company or any subsidiary is a party or to which any property of the Company or any subsidiary is subject or which is pending or, to the knowledge of the Company, contemplated against the Company or any subsidiary which might result in any material adverse change or any development involving a material adverse change in the business, prospects, properties, operations, condition (financial or other) or results of operations of the Company and its subsidiaries taken as a whole or which is required to be disclosed in the Offering Documents.

(k) The Company has not taken and will not take any action designed to cause or result in, or which constitutes or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the Company's Subordinate Voting Shares to facilitate the sale or resale of the Shares.

(l) The financial statements included in the Offering Documents, including the notes thereto and supporting schedules, present fairly the consolidated financial position of the Company and its subsidiaries as of the dates indicated and the results of its operations for the periods specified; such financial statements and the related notes and schedules thereto have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis throughout the periods involved (except as otherwise noted therein); such financial statements have been reconciled as required under Item 18 of Form 20-F and Regulation S-X under the Act to United States generally accepted accounting principles consistently applied throughout the periods involved. Other than the financial statements of Klutz and the pro forma financial information contained under the caption "Pro Forma Financial Data", included in the Offering Documents, no other financial statements are required by Form F-10, applicable Canadian federal or provincial securities laws ("Canadian Securities Laws") or otherwise required to be included in the Offering Documents. The selected financial information and statistical data set forth under the captions "Summary Consolidated Financial Data" and "Selected Consolidated Financial and Other Data" in the Offering Documents have been prepared on a basis consistent with the financial statements of the Company and its subsidiaries.

(m) The Company and each of its subsidiaries has filed all necessary income, franchise and other tax returns that have been required to be filed and has paid all taxes shown thereon and all assessments received by it to the extent that such taxes have become due and are not being contested in good faith. Except as disclosed in the Offering Documents, there is no tax deficiency that has been or might reasonably be expected to be asserted or threatened against the Company which would have a material adverse effect on the Company.

(n) The Company and each of its subsidiaries has good and marketable title to all real and personal property owned by it, in each case free and clear of all liens, encumbrances and defects except such as are described or referred to in the Offering Documents or such as do not materially affect the value of such property and do not interfere with the use made or proposed to be made of such property by it. Any real property and buildings held under lease by the Company or any of its subsidiaries are held under valid, existing and enforceable leases with such exceptions as are not material and do not interfere with the use made or proposed to be made of such property and buildings by it.

(o) Except as described in Offering Documents, the Company owns or possesses valid and enforceable licenses or other rights to use all inventions, patents, patent applications, trademarks, service marks, trade names, copyrights, technology, software, databases, Internet domain names, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), proprietary techniques (including processes and substances) and other intellectual property rights necessary to conduct the business now conducted or presently contemplated to be conducted by the Company as described in the Offering Documents (collectively, "Intellectual Property"), free and clear of all liens, claims and encumbrances, except where the failure to own or possess such rights would not reasonably be expected to have a material adverse effect on the Company and its subsidiaries, taken as a whole. The Company has taken all reasonable steps to protect, maintain and safeguard the Intellectual Property owned and licensed by the Company for which improper or unauthorized disclosure would impair its value or validity and has executed appropriate nondisclosure and confidentiality agreements and made appropriate filings and registrations in connection with the foregoing. Other than as described in the Offering Documents: (i) to the Company's knowledge, there are no third parties who have any rights in the Intellectual Property that could preclude the Company from conducting its business as currently conducted or as presently contemplated to be conducted as described in the Offering Documents; (ii) there are no pending or, to the Company's knowledge, threatened action, suits, proceedings, investigations or claims by others challenging the rights of the Company or (if the Intellectual Property is licensed) the licensor thereof of any Intellectual Property owned or licensed to the Company; (iii) neither the Company nor (if the Intellectual Property is licensed), to the Company's knowledge, the licensor thereof has infringed, or, has received any notice of infringement of or conflict with, any rights of others with respect to the Intellectual Property; and (iv) there is, to the knowledge of the Company, no dispute between it and any licensor with respect to any Intellectual Property.

(p) No relationship, direct or indirect, exists between or among the Company or any of its affiliates, on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company, on the other hand, that is required by the Act or the laws, rules and policy statements of the Reviewing Authority or of The Toronto Stock Exchange (the "TSE") to be described in the Offering Documents that is not so described.

(q) The Shares have been approved for listing on the TSE and for quotation on the Nasdaq National Market, subject only to official notice of issuance.

(r) No holder of securities of the Company has any rights to the registration of securities of the Company because of the filing of the Registration Statement or otherwise in connection with the sale of the Shares contemplated hereby.

(s) The Company is not, and upon consummation of the transactions contemplated hereby will not be, subject to registration as an "investment company" or an entity "controlled" by an "investment company" under the Investment Company Act of 1940, as amended.

(t) There are no existing or, to the knowledge of the Company, threatened labor disputes with any employees of the Company or any of its subsidiaries that are likely in the aggregate to have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(u) The Company and each of its subsidiaries (i) is in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) has received all permits, licenses or other approvals required of it under applicable Environmental Laws to conduct its business and (iii) is in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance or failure to comply with the terms and conditions of, or failure to receive, such permits, licenses or approvals will not in the aggregate have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(v) The Company maintains a system of internal accounting controls that, taken as a whole, is sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with Canadian generally accepted accounting principles and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(w) The Company and each of its subsidiaries maintains insurance of the types and in the amounts generally deemed adequate for its business, including, without limitation, insurance coverage for real and personal property owned or leased by it against theft, damage, destruction, acts of vandalism and all other material risks customarily insured against, all of which insurance is in full force and effect. The Company has no reason to believe that it will not be able to renew existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business.

(x) The statistical and market-related data included in the Offering Documents are derived from sources which the Company reasonably and in good faith believes to be accurate, reasonable and reliable, and such data agree with the sources from which they were derived.

(y) There are no contracts or documents which are required to be described in the Offering Documents or to be filed as exhibits thereto which have not been so described and filed as required.

(z) No subsidiary of the Company is currently prohibited, directly or indirectly, from paying any dividends to the Company, or from making any other distribution.

(aa) Neither the Company nor any of its affiliates does business with the government of Cuba or with any person or affiliates located in Cuba within the meaning of Section 517.075, Florida statutes.

(bb) The Company is not a Passive Foreign Investment Company ("PFIC") within the meaning of Section 1296 of the United States Internal Revenue Code of 1986, as amended, and is not likely to become a PFIC.

(cc) No stamp or other issuance, goods and services or transfer taxes or duties and no withholding taxes are payable by or on behalf of the Underwriters to the Government of Canada or any political subdivision or taxing authority thereof or therein in connection with (A) the issuance, sale and delivery by the Company to or for the respective accounts of the Underwriters of the Shares, or (B) the sale and delivery outside Canada by the Underwriters of the Shares to the initial purchasers thereof.

(dd) The Company is a reporting issuer not in default under the securities laws of each province of Canada (save and except such province which does not have laws which provide for the designation of "reporting issuers").

(ee) The Company is and has been since December 31, 1998 in compliance with its timely disclosure obligations under applicable securities laws of each province of Canada.

(ff) Based on the financial statements of the Company as at December 31, 1999, none of the subsidiaries of the Company account individually for more than 20% of the total consolidated revenue or total consolidated assets of the Company (other than Nelvana Enterprises Inc., Nelvana Marketing Inc., Kids Can Press Inc., Nelvana Communications, Inc., Klutz Inc., Nelvana International Limited and Windlight Studios Inc.), and all of the issued and outstanding shares of the Company's subsidiaries are legally and beneficially owned by the Company.

2. Representation and Warranties of the Selling Shareholders. Each of the Selling Shareholders represents and warrants to, and agrees with, the Underwriters that:

(a) The Selling Shareholder has full legal right, power and authority to enter into this Agreement. This Agreement has been duly executed and delivered by the Selling Shareholder, and constitutes the valid and binding agreement of the Selling Shareholder.

(b) None of the execution, delivery or performance of this Agreement and the consummation of the transactions herein contemplated, will conflict with or result in a breach of, or default that has not been waived by the affected party under any indenture, mortgage, deed of trust, voting trust agreement, shareholders' agreement, note agreement, franchise, license, permit or other agreement or instrument to which the Selling Shareholder is a party or by which the Selling Shareholder is or may be bound or to which any of its property is or may be subject, or any judgment, decree, order, statute, rule or regulation of any court or any public governmental or regulatory agency or body, domestic or foreign, having jurisdiction over the Selling Shareholder or any of their respective properties or assets, or the charter or by-laws of the Selling Shareholder.

(c) At the date hereof the Selling Shareholder has, and, at the time of delivery of the Shares to be sold by the Selling Shareholder to the Underwriters under

this Agreement, the Selling Shareholder will have, full right, power and authority to sell, assign, transfer and deliver its Shares to be sold by the Selling Shareholder hereunder. At the date hereof the Selling Shareholder is, and, at the time of delivery of its Shares to be sold by the Selling Shareholder, the Selling Shareholder will be, the lawful owner of such Shares and has and will have good and marketable title to such Shares, free and clear of any liens, encumbrances, security interests, claims, restrictions on transfer or other defects in title or any other adverse claims. Upon delivery of and payment for the Shares to be sold by the Selling Shareholder hereunder, good and marketable title to such Shares will pass to the Underwriters, free and clear of any liens, encumbrances, security interests, claims, restrictions on transfer or other defects in title or any other adverse claims. There are no outstanding options, warrants, rights, or other agreements or arrangements that have not been waived by the affected parties, requiring the Selling Shareholder at any time to transfer any Shares to be sold hereunder by the Selling Shareholder.

(d) There is not pending or, to the Selling Shareholder's knowledge, threatened against the Selling Shareholder any action, suit or proceeding which (A) questions the validity of this Agreement or of any action taken or to be taken by the Selling Shareholder pursuant to or in connection with this Agreement or (B) is required to be disclosed in the Offering Documents which is not so disclosed.

(e) The Selling Shareholder is not prompted to sell the Shares to be sold by it by any information concerning the Company that is not set forth in the Offering Documents.

(f) The Selling Shareholder is a duly incorporated and validly existing corporation in good standing under the laws of its jurisdiction of incorporation, with full power and authority (corporate and other) to own or lease its properties and to conduct its business.

(g) No stamp or other issuance or transfer taxes or duties and no withholding taxes are payable by or on behalf of the Underwriters to the Government of Canada or any political subdivision or taxing authority thereof or therein in connection with (A) the sale and delivery by the Selling Shareholder to or for the respective accounts of the Underwriters of the Shares, or (B) the sale and delivery outside Canada by the Underwriters of the Shares to the initial purchasers thereof.

3. Purchase, Sale and Delivery of the Shares.

(a) On the basis of the representations, warranties, covenants and agreements herein contained, but subject to the terms and conditions herein set forth, (i) the Company agrees to sell to the Underwriters, and the Underwriters, severally and not jointly, agree to purchase from the Company the number of Firm Shares set forth opposite the respective names of the Underwriters in Column (1) of Schedule I hereto plus any additional number of Shares which such Underwriter may become obligated to purchase pursuant to the provisions of Section 11 hereof, at a purchase price per share of US$15.40 with respect to the U.S. Firm Shares and a purchase price per share of Cdn$23.00 with respect to the Canadian Firm Shares, and (ii) each of the Selling Shareholders agrees to sell to the Underwriters and the Underwriters, severally and not jointly, agree to purchase from the Selling Shareholders the number of Firm Shares set forth opposite the respective names of the Underwriters in Column (2) of Schedule I hereto plus any additional number of Shares which such Underwriter may become obligated to purchase pursuant to the provisions of Section 11 hereof, at a purchase price per share of US$15.40 with respect to the U.S. Firm Shares and a purchase price per share of Cdn$23.00 with respect to the Canadian Firm Shares.

As compensation to the Underwriters for their commitments hereunder, the Company and the Selling Shareholders, severally and not jointly, at the Closing Date will pay to you, for the accounts of the several Underwriters, an amount equal to US$0.924 per share for the Shares to be delivered by the Company or the Selling Shareholders, as the case maybe, hereunder at such Closing Date.

(b) Payment of the purchase price for, and delivery of certificates for, the Shares shall be made at the offices of Osler, Hoskin & Harcourt LLP, First Canadian Place, Suite 6600, Toronto, Ontario, M5X 1B8, or at such other place as shall be agreed upon by you and the Company, at 9:00 A.M. (New York time) on the third or fourth business day, as permitted under Rule 15c6-1 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), after the determination of the initial public offering price of the Shares, or such other time not later than ten business days after such date as shall be agreed upon by you and the Company (such time and date of payment and delivery being herein called the "Closing Date"). Payment shall be made to the Company and the Selling Shareholders by wire transfer in same day funds, in U.S. dollars with respect to the U.S. Shares and Canadian dollars with respect to the Canadian Shares,

against delivery to you at the offices of Osler, Hoskin & Harcourt LLP, First Canadian Place, Suite 6600, Toronto, Ontario, M5X 1B8, or such other location as may be mutually acceptable, for the respective accounts of the Underwriters of certificates for the Shares to be purchased by them. Certificates for the Shares shall be registered in such name or names and in such authorized denominations as you may request in writing at least two full business days prior to the Closing Date. The Company will permit you to examine and package such certificates for delivery at the offices of the transfer agent in Toronto at least one full business day prior to the Closing Date.

(c) In addition, the Company hereby grants to the Underwriters the option to purchase up to 375,000 Additional Shares, at the same U.S. dollar purchase price per share to be paid by the Underwriters to the Company for the U.S. Firm Shares and the same Canadian dollar purchase price per share to be paid by the Underwriters to the Company for the Canadian Firm Shares, as set forth in this Section 3, for the sole purpose of covering over-allotments in the sale of Firm Shares by the Underwriters. This option may be exercised at any time, or from time to time, in whole or in part, on or before the 30th day following the date of the Prospectus, by written notice by you to the Company. Such notice shall set forth the aggregate number of Additional Shares as to which the option is being exercised and the date and time, as reasonably determined by you, when the Additional Shares are to be delivered (such date and time being herein sometimes referred to as the "Additional Closing Date"); provided, however, that the Additional Closing Date shall not be earlier than the Closing Date or earlier than the second full Business Day after the date on which the option shall have been exercised nor later than the eighth full business day after the date on which the option shall have been exercised (unless such time and date are postponed in accordance with the provisions of Section 12 hereof). Certificates for the Additional Shares shall be registered in such name or names and in such authorized denominations as you may request in writing at least two full business days prior to the Additional Closing Date. The Company will permit you to examine and package such certificates for delivery at the offices of the transfer agent in Toronto at least one full business day prior to the Additional Closing Date.

The number of Additional Shares to be sold to each Underwriter shall be the number which bears the same ratio to the aggregate number of Additional Shares being purchased as the number of Firm Shares set forth opposite the name of such Underwriter in Columns (1) and (2) of Schedule I hereto (or such number increased as set forth in Section 11 hereof) bears to 2,500,000, subject, however, to such adjustments to eliminate

any fractional shares as you in your sole discretion shall make. All of the Additional Shares are to be purchased from the Company.

As compensation to the Underwriters for their commitments hereunder, the Company, at the Additional Closing Date will pay to you, for the accounts of the several Underwriters, an amount equal to US$0.924 per Additional Share for the Additional Shares to be delivered by the Company hereunder at such Additional Closing Date.

Payment of the purchase price for the Additional Shares shall be made to the Company by wire transfer in same day funds, in U.S. dollars with respect to the U.S. Shares and Canadian dollars with respect to the Canadian Shares, at the offices of Osler, Hoskin & Harcourt LLP, First Canadian Place, Suite 6600, Toronto, Ontario, M5X 1B8, or such other location as may be mutually acceptable, upon delivery of the certificates for the Additional Shares to you for the respective accounts of the Underwriters.

4. Offering. Upon your authorization of the release of the Firm Shares, the Underwriters propose to offer the Shares for sale to the public in the United States and Canada and such other jurisdictions as the Shares may be distributed without requiring the Company to incur any registration, continuous disclosure or other reporting requirement, upon the terms set forth in the Prospectus and as soon as the Underwriters deem advisable after a final MRRS decision document for the Canadian Prospectus is issued by the Reviewing Authority, the Registration Statement becomes effective in the United States and this Agreement has been executed and delivered.

5. Covenants of the Company. The Company covenants and agrees with the Underwriters that:

(a) The Company will comply with the requirements of the PREP Procedures and General Instruction II.L of Form F-10; the Company will notify the Underwriters promptly, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall have been filed with the Commission or shall have become effective and when any supplement to the Prospectus or the Canadian Prospectus or any amended Prospectus or Canadian Prospectus shall have been filed, (ii) of the receipt of any comments or other communications from the Reviewing Authority, or from the Commission, (iii) of any request by the Reviewing Authority to amend or supplement the Canadian Prospectus or for additional information or of any request by the Commission to amend the Registration Statement or to amend or supplement the Prospectus or for additional information, (iv) of the issuance by the Commission of any

stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto or of any order preventing or suspending the use of any Prospectus, or of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, or of the institution or, to the knowledge of the Company, threatening of any proceedings for any of such purposes and (v) of the issuance by the Reviewing Authority of any order having the effect of ceasing in or suspending the distribution of the Shares, or of the institution or, to the knowledge of the Company, threatening of any proceedings for any such purpose. The Company will use its best efforts to prevent the issuance of any such stop order or of any order preventing or suspending such use or such order ceasing or suspending the distribution of the Shares and, if any such order is issued, the Company will use its best efforts to obtain the lifting thereof at the earliest possible time.

(b) The Company will not at any time file or make any amendment to the Registration Statement, any amendment or supplement to the Canadian Prospectus or the Prospectus, or any amendment or supplement to any prospectus included in the Registration Statement at the time it became effective, the U.S. Prospectus Supplement or the PREP Prospectus Supplement, of which the Underwriters shall not have previously been advised and furnished a copy or to which the Underwriters shall have objected promptly after reasonable notice thereof; *provided* that this provision shall not prohibit the Company from complying in a timely manner with its disclosure obligations under applicable securities legislation and the requirements of any relevant stock exchange.

(c) The Company will comply with the Act, the 1934 Act, the Ontario Business Corporations Act (the "OBCA") and the securities laws of each Province of Canada (including all rules and policy statements) ("Canadian Securities Laws") so as to permit the completion of the distribution of the Shares as contemplated in this Agreement, the Registration Statement, the Prospectus and the Canadian Prospectus. If, at any time when a prospectus relating to the Shares is required to be delivered in connection with sales of the Shares, any event occurs or condition exists as a result of which it is necessary, in the opinion of counsel for the Underwriters or counsel for the Company, to amend the Registration Statement or amend or supplement the Prospectus or the Canadian Prospectus in order that any such document will not include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend the Prospectus to comply with the Act or the Rules and Regulations and Canadian Securities Laws, the Company will notify you promptly and prepare and file with the Commission, the Reviewing Authority and each of

the Canadian Securities Regulatory Authorities, subject to Section 5(a)(ii) hereof, such amendment or supplement as may be necessary to correct such untrue statement or omission or to make the Registration Statement, the Prospectus or the Canadian Prospectus comply with such requirements (each such amendment or supplement to be reasonably satisfactory to counsel for the Underwriters) and will use its best efforts to have any amendment to the Registration Statement declared effective as soon as possible, and in case any Underwriter is required to deliver a prospectus in connection with sales of any of the Shares at any time up to ninety (90) days after the effective date of the Registration Statement (or, if the Company has elected to rely upon the PREP Procedures, the date of this Agreement), upon such Underwriter's request, the Company will prepare and deliver to such Underwriter as many copies as you may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act.

(d) The Company will endeavor in good faith, in cooperation with you, at or prior to the time of effectiveness of the Registration Statement, to qualify the Shares for offering and sale under the securities laws relating to the offering or sale of the Shares of such jurisdictions in the United States as you may designate and to maintain such qualification in effect for so long as required for the distribution thereof; except that in no event shall the Company be obligated in connection therewith to qualify as a foreign corporation or to execute a general or unlimited consent to service of process in any such jurisdiction.

(e) The Company consents to the use of the Canadian Prospectus and the Prospectus (and any amendment or supplement thereto) by the Underwriters and all dealers to whom the Shares may be sold in connection with the offering or sale of the Shares and for such period of time thereafter as the Prospectus is required by law to be delivered in connection therewith.

(f) The Company will make generally available (within the meaning of Section 11(a) of the Act) to its security holders and to you as soon as practicable, but not later than six months after the end of its fiscal quarter in which the first anniversary date of the effective date of the Registration Statement occurs, an earning statement (in form complying with the provisions of Rule 158 of the Rules and Regulations) covering a period of at least twelve consecutive months beginning after the effective date of the Registration Statement.

(g) During a period of three years from the effective date of the Registration Statement, the Company will furnish to the Underwriters copies of (i) all reports to its shareholders; (ii) all reports, financial statements and proxy or information statements filed by the Company with the Commission or any national securities exchange or trading market; and (iii) any additional information of a public nature concerning the Company or its business which the Underwriters may reasonably request.

(h) The Company will take such steps as it deems necessary to ascertain promptly whether the form of Canadian Prospectus containing the PREP Information was received for filing by the Reviewing Authority and whether the form of prospectus transmitted for filing pursuant to General Instruction II.L of Form F-10 was received for filing by the Commission and, in the event that any such prospectuses were not received for filing, it will promptly file any such prospectus not then received for filing.

(i) The Company will promptly deliver to you, without charge, copies of each Preliminary Prospectus, the Registration Statement and any pre-effective or post-effective amendments thereto (two of which copies will be signed and all of which will include all financial statements and exhibits filed therewith or incorporated by reference therein, including the Form F-X), the Prospectus, and all amendments and supplements thereto, and copies of the Canadian Prospectus and all amendments and supplements thereto, in each case as soon as available and in such quantities as the Underwriters may reasonably request.

(j) During the period of 180 days from the date of the Prospectus, the Company will not, directly or indirectly, without the prior written consent of Bear, Stearns & Co. Inc., issue, sell, offer or agree to sell, grant any option for the sale of, pledge, make any short sale or maintain any short position, establish or maintain a "put equivalent position" (within the meaning of Rule 16-a-1(h) under the 1934 Act), enter into any swap, derivative transaction or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Subordinate Voting Shares (whether such transaction is to be settled by delivery of Subordinate Voting Shares, other securities, cash or other consideration) or otherwise dispose of, any Subordinate Voting Shares (or any securities convertible into, exercisable for or exchangeable for Subordinate Voting Shares) or interest therein of the Company or of any of its subsidiaries, other than pursuant to this Agreement and the Company's issuance of Subordinate Voting Shares upon the exercise of currently outstanding warrants and options, and the Company will obtain the undertaking of its directors and senior management and Michael Hirsh, Patrick

Loubert, Clive Smith and John Cassidy not to engage in any of the aforementioned transactions on their own behalf, or through entities controlled by them.

(k) The Company will cause the Shares to be duly listed on the TSE and quoted on the Nasdaq National Market prior to the Closing Date.

(l) Neither the Company nor any of its officers or directors, nor the affiliates of any of them (within the meaning of the Rules and Regulations) will take, directly or indirectly, any action designed to, or which might in the future reasonably be expected to cause or result in, stabilization or manipulation of the price of any securities of the Company.

(m) The Company will apply the net proceeds of the Offering received by it in the manner set forth under the caption "Use of Proceeds" in the Prospectus.

(n) The Company, during the period when the Prospectus is required to be delivered under the Act or the 1934 Act, will file all documents required to be filed with the Commission pursuant to Section 13, 14 or 15 of the 1934 Act within the time periods required by the 1934 Act and the rules and regulations thereunder and will file all documents required to be filed with the applicable Canadian securities authority pursuant to Canadian Securities Laws within the time periods required thereunder.

6. Covenants of the Selling Shareholders. Each of the Selling Shareholder covenants and agrees with the Underwriters that:

(a) During the period of 180 days from the date of the Prospectus, the Selling Shareholder will not, directly or indirectly, without the prior written consent of Bear, Stearns & Co. Inc., sell, offer or agree to sell, grant any option for the sale of, pledge, make any short sale or maintain any short position, establish or maintain a "put equivalent position" (within the meaning of Rule 16-a-1(h) under the 1934 Act), enter into any swap, derivative transaction or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Subordinate Voting Shares (whether such transaction is to be settled by delivery of Subordinate Voting Shares, other securities, cash or other consideration) or otherwise dispose of, any Subordinate Voting Shares (or any securities convertible into, exercisable for or exchangeable for Subordinate Voting Shares) or interest therein of the Company or of any of its subsidiaries, other than pursuant to this Agreement, and will not take directly or indi-

rectly, any action designed to, or which might in the foreseeable future reasonably be expected to cause or result in, stabilization or manipulation of the price of any securities of the Company.

(b) The Selling Shareholder consents to the use of the Offering Documents, the Preliminary Prospectus and the Canadian Preliminary Prospectus by the Underwriters and all dealers to whom the Shares may be sold, both in connection with the offering or sale of the Shares and for such period of time thereafter as the Prospectus is required by law to be delivered in connection therewith.

7. Payment of Expenses. Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Company and each of the Selling Shareholders hereby agrees to pay their pro rata share of all costs and expenses incident to the performance of the obligations of the Company and the Selling Shareholders hereunder, including those in connection with (i) preparing, printing, duplicating, filing and distributing the Registration Statement, as originally filed and all amendments thereof (including all exhibits thereto), any Preliminary Prospectus, the Prospectus and the Canadian Prospectus and any amendments or supplements thereto (including, without limitation, fees and expenses of accountants and counsel of the Company), the underwriting documents (including this Agreement) and all other documents related to the public offering of the Shares (including those supplied to the Underwriters in quantities as hereinabove stated), including the cost of all copies thereof, (ii) the issuance, transfer and delivery of the Shares to the Underwriters, including any transfer or other taxes payable thereon, (iii) the qualification of the Shares under provincial, state or foreign securities or Blue Sky laws, including the costs of printing and mailing a preliminary and final "Blue Sky Survey" and the reasonable fees of counsel for the Underwriters and such counsel's reasonable disbursements in relation thereto, (iv) filing fees of the Commission, the Reviewing Authority, each of the Canadian Securities Regulatory Authorities and the NASD relating to the Shares, (v) any fees and expenses in connection with the listing of the Shares on the Nasdaq National Market and the TSE (vi) costs and expenses incident to the preparation, issuance and delivery to the Underwriters of any certificates evidencing the Shares, including transfer agent's and registrar's fees and any applicable transfer taxes incurred in connection with the delivery to the Underwriters of the Shares to be sold by the Company and the Selling Shareholders pursuant to this Agreement and (vii) costs and expenses incident to any meetings with prospective investors in the Shares (other than those incurred by the Underwriters); and (viii) any fees, expenses or disbursements of Bear, Stearns & Co. Inc. in its capacity as "qualified independent underwriter".

8. Conditions of Underwriters' Obligations. The obligations of the Underwriters to purchase and pay for the Firm Shares and the Additional Shares, as provided herein, shall be subject to the accuracy of the representations and warranties of the Company and the Selling Shareholders herein contained, as of the date hereof and as of the Closing Date (for purposes of this Section 8 "Closing Date" shall refer to the Closing Date for the Firm Shares and any Additional Closing Date, if different, for the Additional Shares), to the absence from any certificates, or opinions furnished to you or to Lang Michener or to Skadden, Arps, Slate, Meagher & Flom LLP (collectively, "Underwriters' Counsel") pursuant to this Section 8 of any material misstatement or omission, to the performance by the Company and the Selling Shareholders of its obligations hereunder, and to the following additional conditions:

(a) The Canadian Prospectus shall have been filed with the Reviewing Authority and a final MRRS decision document obtained therefor, and the Registration Statement shall have become effective; at the Closing Date no stop order suspending the effectiveness of the Registration Statement shall have been issued under the Act or proceedings therefor initiated or, to the knowledge of the Company, threatened by the Commission; no order having the effect of ceasing or suspending the distribution of the Shares or any other securities of the Company shall have been issued by any securities commission, securities regulatory authority or stock exchange in Canada or the United States and no proceedings for that purpose shall have been instituted or shall be pending or, to the knowledge of the Company, shall be contemplated by any securities commission, securities regulatory authority or stock exchange in Canada or the United States; and any request on the part of the Reviewing Authority or the Commission for additional information shall have been complied with. A PREP Prospectus Supplement shall have been filed with the Reviewing Authority and a U.S. Prospectus Supplement shall have been filed with the Commission in accordance with General Instruction II.L of Form F-10.

(b) The Company shall have acquired all of the stock of Klutz on the terms described in the Prospectus.

(c) At the Closing Date you shall have received the opinion of Schulte Roth & Zabel LLP, United States counsel for the Company and the Selling

Shareholders, dated the Closing Date addressed to the Underwriters and in form and substance reasonably satisfactory to Underwriters' Counsel, to the effect that:

(i) One of the Company's U.S. subsidiaries, Nelvana Acquisition Corp. ("NAC") has been duly incorporated and is validly existing as a corporation in good standing under the laws of Delaware with full power and authority to own, lease or license properties and to conduct its business as now being conducted and as described in the Prospectus, to the extent described therein.

(ii) The issued shares of the capital stock of NAC have been duly authorized and validly issued, are fully paid and non-assessable, were not issued in violation of preemptive rights contained in its certificate of incorporation, by-laws or resolutions and are registered in the name of Roytor & Co. pursuant to a certain pledge agreement entered into by the Company.

(iii) Assuming the due authorization, execution and delivery of this Agreement under the laws of the Province of Ontario and the federal laws of Canada applicable thereto, this Agreement constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that the enforceability thereof may be limited by (i) applicable bankruptcy, insolvency, moratorium, fraudulent conveyance, reorganization or similar laws from time to time in effect affecting generally the enforcement of creditors' rights and remedies, (ii) general principles of equity, including, without limitation, principles of reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in equity or at law) and (iii) rights to indemnity resulting from federal or state securities laws or the public policy underlying such laws.

(iv) Assuming the due authorization, execution and delivery of this Agreement under the laws of the Province of Ontario and the federal laws of Canada applicable thereto, this Agreement constitutes a valid and binding obligation of each of the Selling Shareholders, enforceable against each of the Selling Shareholders in accordance with its terms, except to the extent that the enforceability thereof may be limited by

(i) applicable bankruptcy, insolvency, moratorium, fraudulent conveyance, reorganization or similar laws from time to time in effect affecting generally the enforcement of creditors' rights and remedies (ii) general principles of equity, including, without limitation, principles of reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in equity or at law) and (iii) rights to indemnity resulting from federal or state securities laws or the public policy underlying such laws.

(v) None of the Company's execution and delivery of this Agreement or the Acquisition Agreement, its performance hereof or thereof, or its consummation of the transactions contemplated herein or therein or its application of the net proceeds of the Offering in the manner set forth under the heading "Use of Proceeds" in the Offering Documents, (i) conflicts or will conflict with or results or will result in any breach or violation of any of the terms or provisions of, or constitutes or will constitute a default (or an event which with notice or lapse of time, or both, would constitute a default) under, any agreement or instrument set forth in an appendix to such counsel's opinion (assuming that the laws governing the agreements or instruments set forth on such appendix are the same as the laws of the State of New York) or (ii) violates or conflicts with (A) any provision of the certificate of incorporation or by-laws of NAC or (B) any judgment, decree, or order of any United States federal or New York State court or any United States federal or New York State public, governmental or regulatory agency or body having jurisdiction over NAC or any of their respective properties or assets in each case, that is known to such counsel, or (C) any provision or statute, rule or regulation which, in such counsels' experience, is normally applicable to transactions of the type contemplated by the Underwriting Agreement or the Acquisition Agreement.

(vi) To the knowledge of such counsel, no consent, authorization, approval or order of or from any United States federal or New York State governmental authority or any United States federal or New York State court having jurisdiction over the Company or any of its material properties or assets is required for the execution, delivery or performance of this Agreement by the Company (except such as has been obtained under the Act and the Rules and Regulations and

except such as may be required pursuant to the securities or Blue Sky laws of the various states, as to which such counsel need not express any opinion).

(vii) Upon the delivery of the certificates evidencing the Shares to be sold pursuant to this Agreement by the Selling Shareholders indorsed to Bear, Stearns & Co. Inc. as representative of the Underwriters or in blank by an effective indorsement and payment therefor in accordance with the terms of this Agreement and assuming that the Underwriters acquire such Shares without notice of any adverse claim (within the meaning of the Uniform Commercial Code as in effect in the State of New York), the Underwriters will acquire the Shares free of any adverse claim (within the meaning of the Uniform Commercial Code as in effect in the State of New York).

(viii) The Registration Statement originally filed and each amendment thereto and the Prospectus (other than the financial statements and schedules and related notes and other financial data included or incorporated by reference therein or omitted therefrom, as to which no opinion need be rendered) as of their respective filing or issue dates complied as to form in all material respects with the requirements of the Act and the Rules and Regulations. The Form F-X of the Company, which was filed with the Commission on April 28, 2000, as of its filing date complied as to form in all material respects with the Act and the Rules and Regulations. The Company meets the general requirements for the use of Form F-10 under the Act contained in Item I to the General Instructions of Form F-10.

(ix) The Registration Statement has become effective under the Act and, to such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Act; any required filing of the Prospectus has been made with the Commission in the manner and within the time period required by General Instruction II.L. of Form F-10.

(x) The Subordinate Voting Shares (including the Shares to be sold under this Agreement to the Underwriters) have been approved for listing on the Nasdaq National Market.

(xi) The statements included in the Offering Documents under "Certain Income Tax Considerations -- United States Federal Income Tax Considerations for United States Residents", insofar as such statements purport to constitute a summary of U.S. legal matters, constitute accurate summaries of the U.S. legal matters described therein in all material respects.

(xii) The Company is not, and immediately upon consummation of the transactions contemplated by this Agreement will not be, an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(xiii) Under the laws of the State of New York relating to personal jurisdiction, the Company and each of the Selling Shareholders has, pursuant to Section 14 of this Agreement, validly and irrevocably (A) submitted to the non-exclusive personal jurisdiction of any state or federal court located in the Borough of Manhattan, The City of New York, New York (each a "New York Court") in any action arising out of or relating to this Agreement or the transactions contemplated hereby, (B) waived any objection to the venue of a proceeding in any such court, and (C) appointed the Authorized Agent (as defined herein) as its authorized agent for the purpose described in Section 14 hereof; and service of process effected on such agent in the manner set forth in Section 14 hereof will be effective to confer valid personal jurisdiction over the Company and each of the Selling Shareholders in any such action.

In addition, such counsel shall state that such counsel has participated in conferences with officers and other representatives of the Company, representatives of the independent auditors of the Company and Klutz and the Underwriters and their counsel at which the contents of the Registration Statement, the Prospectus and related matters were discussed and, although such counsel is not passing upon and does not assume any responsibility for, the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus (other than to the extent set forth in paragraph

(xi) hereof), on the basis of the foregoing no facts have come to such counsel's attention which leads such counsel to believe that (A) the Registration Statement (except for the financial statements and related notes, financial statement schedules and other financial data included therein or omitted therefrom, as to which such counsel need not express any view), at the time the Registration Statement became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or (B) the Prospectus (except for the financial statements and related notes and other financial data included therein or omitted therefrom, as to which such counsel need not express any view), at the time the Prospectus was issued or at the Closing Date, included or includes an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws other than the laws of the United States, the State of New York and the General Corporation Law of the State of Delaware, to the extent such counsel deems proper and to the extent specified in such opinion, if at all, upon an opinion or opinions (in form and substance reasonably satisfactory to Underwriters' Counsel) of other counsel reasonably acceptable to Underwriters' Counsel, familiar with the applicable laws; and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and certificates or other written statements of officers of departments of various jurisdictions having custody of documents respecting the corporate existence or good standing of the Company and its subsidiaries, provided that copies of any such statements or certificates shall be delivered to Underwriters' Counsel.

References to any of the Offering Documents in this paragraph (c) shall include any amendment or supplement thereto at the date of such opinion.

(d) At the Closing Date you shall have received the opinions of Osler Hoskin & Harcourt LLP, Canadian counsel for the Company and the Selling Shareholders, and Heenan Blaikie, Canadian counsel to the Canadian Subsidiaries (as defined below), dated the Closing Date addressed to the Underwriters and in form and substance reasonably satisfactory to Underwriters' Counsel, to the effect that:

(i) Each of the Company and NELVANA Enterprises Inc., NELVANA Marketing Inc. and Kids Can Press Ltd.,

(collectively, the "Canadian Subsidiaries") has been duly incorporated and is validly existing as a corporation under the laws of its jurisdiction of incorporation with full power and authority (corporate and other) to own, lease or license its properties and to conduct its business as now being conducted and as described in the Prospectus;

(ii) The issued shares of the capital stock of each of the Canadian Subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable, were not issued in violation of preemptive rights contained in the articles of incorporation, by-laws and resolutions of such Canadian Subsidiary and in the laws of their respective jurisdictions of incorporation and are registered in the name of the Company;

(iii) The Company has an authorized and issued capital stock as set forth in the Offering Documents; the securities of the Company conform in all material respects to the description thereof contained in the Offering Documents; the Shares to be sold by Selling Shareholders pursuant to this Agreement have been duly authorized and validly issued by the Company, are fully paid and non-assessable and are, pursuant to the OBCA, the articles of incorporation, by-laws and resolutions of the Company or any statutory rights, free of any preemptive or other rights to subscribe for any of the Shares and any pre-emptive rights of any shareholder to which the Shares are subject have been waived; the Company has duly authorized the issuance and sale of the Shares to be sold by it pursuant to this Agreement; the Shares to be sold by the Company, when issued by the Company and paid for in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and will conform in all material respects to the description thereof contained in the Offering Documents, and will not be subject to any preemptive, subscription or other similar rights under the OBCA, the articles, by-laws or resolutions of the Company;

(iv) The form of certificates representing the Shares has been duly approved and adopted by the Company and conforms to the requirements of the OBCA and the by-laws of the Company and of the TSE;

(v) A final MRRS decision document has been obtained in respect of the Canadian Prospectus from the Reviewing Authority and all necessary documents have been filed, all necessary proceedings have been taken and all necessary authorizations, approvals, permits and consents have been obtained under the Canadian Securities Laws to permit the Shares to be offered, sold and delivered as contemplated by this Agreement. No other authorization, approval, permit, consent, license, registration, filing, order, qualification, exemption or other requirement of any government, governmental instrumentality or court of Canada or Ontario is required for (A) the valid authorization, issuance, sale and delivery of the Shares in the United States and (B) the valid execution and delivery of, and the performance by the Company of its obligations, under this Agreement;

(vi) The Canadian Prospectus (other than the financial statements and schedules and other financial data included or incorporated by reference therein, as to which no opinion need be rendered) complies as to form in all material respects to the requirements of the Ontario Securities Laws; provided that in giving this opinion such counsel need not comment as to the content, accuracy, completeness or adequacy of any information in the Canadian Prospectus;

(vii) The statements set forth under the headings "Risk Factors - We have placed constraints on the issue and transfer of our voting shares to maintain minimum levels of Canadian ownership.", "Risk Factors - The continued availability of government tax credits and industry funding assistance is uncertain", "Risk Factors - Our programs may fail to meet the Canadian content requirements established by the Canadian Radio-television and Telecommunications Commission.", "Risk Factors - U.S. investors may not be able to enforce their civil liabilities against us or our directors, controlling persons and officers.", "Business - Regulatory Considerations" , "Description of Share Capital" and "Certain Income Tax Considerations - Certain Canadian Federal Income Tax Considerations to United States Holders" in the Prospectus, insofar as such statements constitute statements of matters of law, fairly summarize, in all material respects such provisions as of the date of the Prospectus;

(viii) The Company has full corporate power and capacity to enter into this Agreement and the Acquisition Agreement and to consummate the transactions provided for herein and therein; this Agreement and the Acquisition Agreement have been duly authorized and, to the extent that execution and delivery are matters governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein, have been duly executed and delivered by the Company. None of the Company's execution of this Agreement or the Acquisition Agreement, its performance thereof, its consummation of the transactions contemplated herein or therein or its application of the net proceeds of the Offering in the manner set forth under the heading "Use of Proceeds" in the Offering Documents, (i) conflicts or will conflict with or results or will result in any breach or violation of any of the terms or provisions of, or constitutes or will constitute a default (or an event which with notice or lapse of time, or both, would constitute a default) under, or results or will result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Company or any of the Canadian Subsidiaries pursuant to any bond, debenture, note or other evidence of indebtedness or any contract, indenture, mortgage, deed of trust, loan or credit agreement, lease, joint venture or other agreement or instrument or any franchise, license or permit to which the Company or any of its Canadian Subsidiaries is a party or by which any of such corporations or their respective properties or assets may be bound and which are set forth in an appendix to such counsel's opinion or (ii) violates or conflicts with (A) any provision of the certificate of incorporation or by-laws of the Company or any of its Canadian Subsidiaries or (B) to such counsel's knowledge any judgment, decree, order, statute rules or regulation of any court or any public, governmental or regulatory agency or body in the Province of Ontario having jurisdiction over the Company or any of its Canadian Subsidiaries or any of their respective properties or assets. No further consents, approvals, authorizations or orders of any court, regulatory body or administrative agency or other governmental agency or body, in Ontario or federally, are required for the Company's execution, delivery or performance of this Agreement or the Acquisition Agreement or the consummation of the transactions contemplated hereby or thereby;

(ix) To such counsel's knowledge, no order having the effect of ceasing or suspending the distribution of the Shares has been issued by any securities commission or securities regulatory authority in Canada and no proceedings for that purpose have been instituted or are pending or contemplated;

(x0 No stamp tax or other issuance, goods and services or transfer taxes or duties and no capital gains, income, withholding or other taxes are payable by or on behalf of the Underwriters to any authority in Canada or Ontario in connection with (A) the issuance, sale and delivery of the Shares to the Underwriters in the manner contemplated in this Agreement, (B) the resale and delivery of such Shares by the Underwriters in the United States in the manner contemplated in the Offering Documents, or (C) the payment by the Company or the Selling Shareholders of any commission or fee to or for the account of the Underwriters in connection with their services with respect to clauses (A) and (B) above;

(xi0 Each of the Selling Shareholders is a corporation incorporated and existing in good standing under the laws of its jurisdiction of incorporation, with full power and authority (corporate and other) to own, lease or license its properties and to conduct its business;

(xii0 The Acquisition Agreement has been duly authorized, and to the extent that execution and delivery are governed by the laws of the province of Ontario and the federal laws of Canada applicable therein, executed and delivered by the Company.

(xiii0 Each of the Selling Shareholders has full corporate power and capacity to enter into this Agreement and to sell, assign, transfer and deliver in the manner provided herein the Shares sold by the Selling Shareholders; this Agreement has been duly authorized and, to the extent that execution and delivery are matters governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein, has been duly executed and delivered by each of the Selling Shareholders;

(xiv0 This Agreement is enforceable against the Company in the Province of Ontario without further action on the part of the Underwriters; and to ensure the legality, validity, enforceability or admissibility in evidence of this Agreement in the Province of Ontario it is not necessary that it be filed or recorded with any court or other authority in the Province of Ontario or that any stamp or similar tax be paid on or in respect of any such document or the Shares;

(xv0 Assuming the choice of the law of the State of New York provided for in this Agreement is effective under such law, the Company has the corporate power to submit to the jurisdiction of the courts of the State of New York or the courts of the United States of America having jurisdiction in the State of New York in respect of any legal actions or proceedings arising out of this Agreement;

(xvi0 A court of competent jurisdiction in the Province of Ontario (an "Ontario Court") would uphold the choice of the law of the State of New York ("New York law") as the proper law governing this Agreement provided that such choice of law is bona fide (in the sense that it was not made with view to avoiding the consequences of the law of any other jurisdiction) and is not contrary to public policy as that term is understood under the laws of the Province of Ontario and the laws of Canada applicable therein;

(xvii0 Subject to the qualifications contained herein and to the qualification that enforcement in the Province of Ontario of the indemnity and contribution provisions set forth in Sections 9 and 10 of this Agreement may be limited by the laws of the Province of Ontario, we have no reason to believe the enforcement of the choice of law provisions of this Agreement or the recognition of a judgement of a New York Court enforcing the performance of this Agreement by a judgement awarding a sum of money as compensatory damages would be contrary to public policy as that term is understood under the laws of the Province of Ontario and the laws of Canada applicable therein;

(xviii0 Should enforcement of this Agreement against the Company or the Selling Shareholders be sought in the Province of Ontario in accordance with the laws of the State of New York, an Ontario Court would, subject to paragraph (xvi), recognize the choice of New York law (other than for matters of procedure or laws in force in Ontario which are applicable by reason of their particular object, in respect of which the laws of the Province of Ontario will then be applied), and, upon adducing appropriate evidence to establish such law, the laws of the State of New York would be applied by an Ontario Court, provided that (A) none of the provisions of this Agreement, which would include the indemnification provisions of this Agreement, or of applicable New York law, are contrary to public policy as that term is understood under the laws of the Province of Ontario and laws of Canada applicable therein, (B) none of the provisions of applicable New York law are foreign, revenue, expropriatory or penal laws, (C) an Ontario Court will retain discretion to decline to hear such action if, (i) another action between the same parties, based on the same subject matter, is properly pending before a foreign authority or a decision thereon has already been rendered by a foreign authority, or (ii) it considers that another jurisdiction is the most appropriate forum and (D) there is compliance with the Limitations Act (Ontario);

(xix0 A civil judgment obtained in the State of New York of a court of the State of New York or a federal court sitting in the State of New York, arising out of or in relation to the obligations of the Company or the Selling Shareholder under this Agreement for a sum certain of money assessed as damages would be recognized by an Ontario Court and would be enforceable against the Company or the Selling Shareholders, as the case may be, in the Province of Ontario unless (i) the New York Court where the decision was rendered had no jurisdiction according to the laws of Ontario (however, submission by the Company and the Selling Shareholders under this Agreement to the jurisdiction of the New York Courts will confer jurisdiction); (ii) the decision was subject to ordinary remedy (appeal, judicial review and any other judicial proceeding which renders the decision not final, conclusive or enforceable under the laws of the applicable state) or not final, conclusive or enforceable under the laws of the applicable state; (iii) the decision was obtained by fraud or

in any manner contrary to natural justice rendered in contravention of fundamental principles of procedure (notice of fair hearing, *inter alia*, the right to be heard or the right to independent and impartial tribunal, ie. rules against bias); (iv) a dispute between the same parties, based on the same subject matter has given rise to a decision rendered in Ontario or has been decided in a third country and the decision meets the necessary conditions for recognition in Ontario; (v) the outcome of the decision of the New York Court was manifestly inconsistent with public policy as that term is understood under the laws of the Province of Ontario and the laws of Canada applicable therein; (vi) the decision enforces obligations arising from foreign revenue, expropriatory or penal laws; (vii) such judgment was obtained contrary to an order made by the Attorney General of Canada under the Foreign Extraterritorial Measures Act (Canada); or (viii) there has not been compliance with the Limitations Act (Ontario). If any such motion for recognition and enforcement is brought before an Ontario Court, such court may only consider whether the conditions set out above in this paragraph were met and may not consider the merits of the judgment. As well, a sum of money will be converted by the Ontario Court into Canadian currency in accordance with the Courts of Justice Act (Ontario);

(xx0 A holder of Shares, who has purchased same pursuant to the Prospectus or the Canadian Prospectus, has the right to sue as plaintiff in an Ontario Court for the enforcement of its rights as a purchaser of such Shares against the Company or the Selling Shareholders and such access to Ontario Courts is not subject to any conditions which are not applicable to residents of the Province of Ontario or to a company incorporated in Ontario except that individuals or corporations who are not resident in the Province of Ontario may be required to post security for the costs of litigation initiated by them;

(xxi0 A decision rendered by default by any Court in New York may not be recognized in Ontario against the Company or the Selling Shareholders unless it is established that the act of procedure initiating the proceedings was duly served on the defaulting party in accordance with the laws of the place where the decision was rendered, subject to the ability of the defaulting party to establish that it was unable to

learn of the act of procedure initiating the proceedings or that it was not given sufficient time to offer its defence;

(xxii0 Subject to the discretion of an Ontario Court to order otherwise, the determination of interest payable under a foreign decision (in relation to the laws of Ontario) is governed by the law of the authority that rendered the decision until its conversion;

(xxiii0 The Company meets the general requirements for the use of a short form prospectus under the Securities Act (Ontario) and National Policy No. 47;

(xxiv0 The Canadian Prospectus (including the documents incorporated therein by reference), as amended or supplemented, is the entire disclosure document that would be used in the Province of Ontario if the Canadian Prospectus was used to offer the Shares to the public in the Province of Ontario. The exhibits to the Registration Statement include (A) all reports or information that in accordance with the requirements of Ontario Securities Law is required to be made publicly available by the Reviewing Authority in connection with the offering of the Shares and (B) all publicly available documents filed, in connection with this Offering, with the Reviewing Authority;

(xxv0 There are no reports or other information that in accordance with the requirements of Ontario Securities Law are required to be made publicly available in connection with the offering of the Shares to the public in the Province of Ontario that have not been made publicly available as required; and there are no documents required to be filed with the Reviewing Authority in connection with the Offering or any other Ontario regulatory authority concurrently with the Canadian Prospectus that have not been filed as required; and

(xxvi0 The French language version of the Canadian Prospectus (except for the financial information provided by KPMG LLP and Ireland, San Phillipo LLP) is in all material respects a complete and accurate translation of the English language version thereof,

and such version is not susceptible of any materially different interpretation with respect to any material matter contained therein.

In addition, Osler Hoskin & Harcourt LLP shall provide a statement to the effect that they have participated in conferences with officers and other representatives of the Company, representatives of the independent auditors of the Company and Klutz and the Underwriters and their counsel at which the contents of the Registration Statement, the Canadian Prospectus and related matters were discussed and, although such counsel is not passing upon and does not assume any responsibility for, the accuracy, completeness or fairness of the statements contained in the Canadian Prospectus (other than to the extent set forth in paragraph (vii) hereof), on the basis of the foregoing no facts have come to such counsel's attention which leads such counsel to believe that the Canadian Prospectus (except for the financial statements and related notes and other financial data included therein or omitted therefrom, as to which such counsel need not express any view), at the time the Canadian Prospectus was issued or at the Closing Date, included or includes an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws other than the laws of the Canada and jurisdictions in which they are admitted, to the extent such counsel deems proper and to the extent specified in such opinion, if at all, upon an opinion or opinions (in form and substance reasonably satisfactory to Underwriters' Counsel) of other counsel reasonably acceptable to Underwriters' Counsel, familiar with the applicable laws; and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and certificates or other written statements of officers of departments of various jurisdictions having custody of documents respecting the corporate existence or good standing of the Company and its subsidiaries, provided that copies of any such statements or certificates shall be delivered to Underwriters' Counsel. The opinion of such counsel shall state that the opinion of any such other counsel is in form satisfactory to such counsel and, in their opinion, you and they are justified in relying thereon.

References to any of the Offering Documents in this paragraph (d) shall include any amendment or supplement thereto at the date of such opinion.

(e) At the Closing Date you shall have received the opinion of McCann Fitzgerald, Irish counsel for the Company, dated the Closing Date addressed to

the Underwriters and in form and substance reasonably satisfactory to Underwriters counsel, to the effect that:

(i0 The Company's Irish subsidiary, NELVANA International Limited (the "Irish Subsidiary") has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction with full power and authority, (corporate and other) to own, lease or license its properties and to conduct its business as presently being conducted and as described in the Prospectus two; and

(ii0 the issued shares of the capital stock of the Irish Subsidiary have been duly authorized and validly issued, are fully paid and non-assessable, were not issued in violation of preemptive rights contained in the articles of incorporation, by-laws and resolutions of such Irish Subsidiary and are registered in the name of the Company.

(f) At the Closing Date you shall have received the opinion of Mitchell Silberberg & Knupp LLP, California counsel for the Company dated the Closing Date addressed to the Underwriters and in form and substance reasonably satisfactory to the Underwriters counsel, to the effect that:

(i) One of the Company's California subsidiaries, Klutz, has been duly incorporated and is validly existing as a corporation in good standing under the laws of California with full corporate power and corporate authority to own, lease or license its properties and to conduct its business as now being conducted, all as described in the Prospectus.

(ii) The issued shares of the capital stock of Klutz have been duly authorized and validly issued, are fully paid and non-assessable, were not issued in violation of preemptive rights contained in the certification of incorporation, by-laws and resolutions of Klutz and are registered in the name of Roytor & Co..

(g) All proceedings taken in connection with the sale of the Firm Shares and the Additional Shares as herein contemplated shall be reasonably satisfactory in form and substance to you and to each of Underwriters' Counsel, and the Underwriters shall have received from each of said Underwriters' Counsel a favorable opinion, dated as of the Closing Date with respect to the issuance and sale of the Shares, the Offering

Documents and such other related matters as you may reasonably require, and the Company shall have furnished to each of Underwriters' Counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(h) At the Closing Date you shall have received a certificate executed on behalf of the Company by the principal executive officer and the principal financial or accounting officer of the Company, dated the Closing Date to the effect that each of such persons has carefully examined the Offering Documents and any amendments or supplements thereto and this Agreement, and that:

(i0 The condition set forth in subsections (a) (b) and (o) of this Section 8 has been satisfied;

(ii0 The representations and warranties of the Company in this Agreement are true and correct in all material respects, as if made on and as of the Closing Date, and the Company has complied in all material respects with all agreements and covenants and satisfied all conditions contained in this Agreement on its part to be performed or satisfied at or prior to the Closing Date;

(iii0 Subsequent to the respective dates as of which information is given in the Offering Documents up to and including the Closing Date, neither the Company nor any of its subsidiaries has sustained any material loss or interference with their respective businesses or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding, and there has not been any material adverse change, or any development involving a material adverse change, in the business, prospects, operations, condition (financial or otherwise), or results of operations of the Company and its subsidiaries taken as a whole, except in each case as described in or contemplated by the Offering Documents.

(i) At the Closing Date you shall have received a certificate from each of the Selling Shareholders, dated the Closing Date, to the effect that the Selling Shareholder has carefully examined the Registration Statement, the Prospectus and the Canadian Prospectus and any amendments or supplements thereto and this Agreement,

and that the representations and warranties of the Selling Shareholder in this Agreement are true and correct in all material respects, as if made on and as of the Closing Date, and the Selling Shareholder has complied in all material respects with all the agreements and satisfied all the conditions to be performed or satisfied by each of the Selling Shareholders at or prior to the Closing Date.

(j) At the Closing Date, (i) (A) the Registration Statement, the Form F-X and the Prospectus, as they may then be amended or supplemented, shall contain all statements that are required to be stated therein under the Act and the Rules and Regulations and in all material respects shall conform to the requirements of the Act and the Rules and Regulations, (B) the Prospectus shall conform to the Canadian Final Prospectus except for such deletions therefrom and additions thereto as are permitted or required by Form F-10 and the applicable rules and regulations of the Commission, (C) the Canadian Prospectus, as it may then be amended or supplemented, shall comply in all material respects with the Ontario Securities Laws (D) the Company shall have complied in all material respects with the PREP Procedures and (E) none of the Registration Statement, the Prospectus or the Canadian Prospectus as they may then be amended or supplemented, shall contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the case of the Registration Statement, not misleading, and in the case of the Prospectus or the Canadian Prospectus, in light of the circumstances under which they were made, not misleading; (ii) there shall not have been, since the date hereof or since the respective dates as of which information is given in the Registration Statement, the Prospectus and the Canadian Prospectus, any material adverse change or any development which might result in a material adverse change in the business, prospects, properties, operations, condition (financial or other) or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising in the ordinary course of business; and (iii) the Company shall have complied in all material respects with all agreements and satisfied all conditions to be performed or satisfied by it under this Agreement on or prior to the Closing Date.

(k) Prior to the Closing Date, the Company and each of the Selling Shareholders shall have furnished to you such further information, opinions, letters, certificates or documents as you or Underwriters' Counsel may reasonably request. All opinions, certificates, letters and documents to be furnished by the Company and the Selling Shareholders will comply with the provisions hereof only if they are reasonably satisfactory in all material respects to the Underwriters and to Underwriters' Counsel. The Company and each of the Selling Shareholders shall furnish the Underwriters with

conformed copies of such opinions, certificates, letters and documents in such quantities as the Underwriters may reasonably request. The certificates delivered under this Section 8 shall constitute representations, warranties and agreements of the Company and the Selling Shareholders as to all matters set forth therein as fully and effectively as if such matters had been set forth in Section 2 of this Agreement.

(l) At the time this Agreement is executed and at the Closing Date, you shall have received a letter, from KPMG LLP, independent auditors for the Company, dated, respectively, as of the date of this Agreement and as of the Closing Date addressed to the Underwriters and in form and substance satisfactory to you, to the effect that: (i) they are independent chartered accountants with respect to the Company within the meaning of the Act, the Rules and Regulations, the Ontario Securities Laws and the OBCA; (ii) stating that, in their opinion, the financial statements and schedules of the Company included or incorporated by reference in the Offering Documents and covered by their opinion therein comply as to form in all material respects with the applicable accounting requirements of the Act and the 1934 Act and the applicable published rules and regulations of the Commission thereunder and of the Ontario Securities Laws and the OBCA; (iii) on the basis of procedures consisting of a reading of the latest available unaudited interim consolidated financial statements of the Company, and its subsidiaries, a reading of the minutes of meetings and consents of the shareholders and boards of directors of the Company and its subsidiaries and the committees of such boards subsequent to December 31, 1999, inquiries of officers and other employees of the Company and its subsidiaries who have responsibility for financial and accounting matters of the Company and its subsidiaries with respect to transactions and events subsequent to December 31, 1999 and other specified procedures and inquiries to a date not more than five days prior to the date of such letter, nothing has come to their attention that would cause them to believe that: (A) the unaudited consolidated financial statements and schedules of the Company presented in the Offering Documents do not comply as to form in all material respects with the applicable accounting requirements of the Act, the Ontario Securities Laws and the OBCA, and, if applicable, the 1934 Act and the applicable published rules and regulations of the Commission thereunder or that such unaudited consolidated financial statements are not fairly presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included or incorporated by reference in the Offering Documents; (B) with respect to the period subsequent to December 31, 1999 there were, as of the date of the most recent available monthly consolidated financial statements of the Company and its subsidiaries, if any, and as of a specified date not more than five days prior to the date of such letter, any changes

in the capital stock or long-term indebtedness of the Company or any decrease in the net current assets or shareholders' equity of the Company, in each case as compared with the amounts shown in the most recent balance sheet presented in the Offering Documents, except for changes or decreases which the Offering Documents disclose have occurred or may occur or which are set forth in such letter or (C) that during the period from December 31, 1999 to the date of the most recent available monthly consolidated financial statements of the Company and its subsidiaries, if any, and to a specified date not more than five days prior to the date of such letter, there was any decrease, as compared with the corresponding period in the prior fiscal year, in total revenues, or total or per share net income, except for decreases which the Offering Documents disclose have occurred or may occur or which are set forth in such letter; and (iv) stating that they have compared specific dollar amounts, numbers of shares, percentages of revenues and earnings, and other financial information pertaining to the Company and its subsidiaries set forth in the Offering Documents, which have been specified by you prior to the date of this Agreement, to the extent that such amounts, numbers, percentages, and information may be derived from the general accounting and financial records of the Company and its subsidiaries or from schedules furnished by the Company, and excluding any questions requiring an interpretation by legal counsel, with the results obtained from the application of specified readings, inquiries, and other appropriate procedures specified by you set forth in such letter, and found them to be in agreement.

(m) At the time this Agreement is executed and at the Closing Date, you shall have received a letter, from Ireland, San Fillipo LLP, independent auditors for Klutz dated, respectively, as of the date of this Agreement and as of the Closing Date addressed to the Underwriters and in form and substance satisfactory to you, to the effect that: (i) they are independent chartered accountants with respect to the Klutz within the meaning of the Act, the Rules and Regulations, and the Ontario Securities Laws; (ii) stating that, in their opinion, the financial statements and schedules of Klutz included or incorporated by reference in the Offering Documents and covered by their opinion therein comply as to form in all material respects with the applicable accounting requirements of the Act and the 1934 Act and the applicable published rules and regulations of the Commission thereunder and of the Ontario Securities Laws; (iii) on the basis of procedures consisting of a reading of the latest available unaudited interim consolidated financial statements of Klutz and its subsidiaries, a reading of the minutes of meetings and consents of the shareholders and boards of directors of the Klutz and its subsidiaries and the committees of such boards subsequent to December 31, 1999, inquiries of officers and

other employees of Klutz and its subsidiaries who have responsibility for financial and accounting matters of Klutz and its subsidiaries with respect to transactions and events subsequent to December 31, 1999 and other specified procedures and inquiries to a date not more than five days prior to the date of such letter, nothing has come to their attention that would cause them to believe that: (A) the unaudited consolidated financial statements and schedules of Klutz presented in the Offering Documents do not comply as to form in all material respects with the applicable accounting requirements of the Act, the Ontario Securities Laws and, if applicable, the 1934 Act and the applicable published rules and regulations of the Commission thereunder or that such unaudited consolidated financial statements are not fairly presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included or incorporated by reference in the Offering Documents; (B) with respect to the period subsequent to December 31, 1999 there were, as of the date of the most recent available monthly consolidated financial statements of Klutz, Inc. and its subsidiaries, if any, and as of a specified date not more than five days prior to the date of such letter, any changes in the capital stock or long-term indebtedness of Klutz or any decrease in the net current assets or shareholders' equity of Klutz in each case as compared with the amounts shown in the most recent balance sheet presented in the Offering Documents, except for changes or decreases which the Offering Documents disclose have occurred or may occur or which are set forth in such letter or (C) that during the period from December 31, 1999 to the date of the most recent available monthly consolidated financial statements of Klutz and its subsidiaries, if any, and to a specified date not more than five days prior to the date of such letter, there was any decrease, as compared with the corresponding period in the prior fiscal year, in total revenues, or total or per share net income, except for decreases which the Offering Documents disclose have occurred or may occur or which are set forth in such letter; and (iv) stating that they have compared specific dollar amounts, numbers of shares, percentages of revenues and earnings, and other financial information pertaining to Klutz and its subsidiaries set forth in the Offering Documents, which have been specified by you prior to the date of this Agreement, to the extent that such amounts, numbers, percentages, and information may be derived from the general accounting and financial records of Klutz and its subsidiaries or from schedules furnished by Klutz and excluding any questions requiring an interpretation by legal counsel, with the results obtained from the application of specified readings, inquiries, and other appropriate procedures specified by you set forth in such letter, and found them to be in agreement.

(n) You shall have received from each of the Company's directors and senior management and Michael Hirsh, Patrick Loubert, Clive Smith and John Cassidy, an agreement to the effect that such person will not, directly or indirectly, without the prior written consent of Bear, Stearns & Co. Inc., sell, offer or agree to sell, grant any option for the sale of, pledge, make any short sale or maintain any short position, establish or maintain a "put equivalent position" (within the meaning of Rule 16-a-1(h) under the 1934 Act), enter into any swap, derivative transaction or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Subordinate Voting Shares (whether such transaction is to be settled by delivery of Subordinate Voting Shares, other securities, cash or other consideration) or otherwise dispose of, any Subordinate Voting Shares (or any securities convertible into, exercisable for or exchangeable for Subordinate Voting Shares) or interest therein of the Company or of any of its subsidiaries for a period of 180 days after the date of the Prospectus.

(o) The Shares shall have been approved for listing on the TSE and for quotation on the Nasdaq National Market, subject to notice of issuance.

(p) Waivers from each of the parties to the Voting Trust Agreement shall have been obtained in respect of their rights of first refusal exercisable upon the sale of the Shares contemplated by the Selling Shareholders herein.

(q) The consent of the Royal Bank of Canada to the transactions contemplated by this Agreement shall have been obtained as required under the Company's existing credit facility with such bank.

If any of the conditions specified in this Section 8 shall not have been fulfilled when and as required by this Agreement, or if any of the certificates, opinions, written statements or letters furnished to you or to Underwriters' Counsel pursuant to this Section 8 shall not be in all material respects reasonably satisfactory in form and substance to you and to Underwriters' Counsel, all obligations of the Underwriters hereunder may be cancelled by you at, or at any time prior to, the Closing Date and the obligations of the Underwriters to purchase the Additional Shares may be cancelled by you at, or at any time prior to, the Additional Closing Date. Notice of such cancellation shall be given to the Company in writing, or by telephone, telex or telegraph, confirmed in writing.

9. Indemnification.

(a) The Company and the Selling Shareholders, jointly and severally, agree to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the 1934 Act, against any and all losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to reasonable attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Act, Ontario Securities Laws, the 1934 Act or other United States or Canadian federal state or provincial statutory law or regulation, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, as originally filed or any amendment thereof, including the PREP Information, or any Preliminary Prospectus, the Canadian Preliminary Prospectus, the Canadian Prospectus or the Prospectus, or in any supplement thereto or amendment thereof, or arise out of or are based upon the omission or alleged omission to state in the Registration Statement, Preliminary Prospectus or the Prospectus, or in any supplement or amendment thereto, a material fact required to be stated therein or necessary to make the statements therein not misleading, or arise out of or are based upon the omission or alleged omission to state in the Prep Information, Canadian Preliminary Prospectus or Canadian Prospectus, or in any supplement or amendment thereto, a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made; provided, however, that notwithstanding the provisions of this paragraph (a), the indemnification obligations of the Selling Shareholders shall not exceed the total net proceeds (before deducting expenses) to the Selling Shareholders from the sale of Shares by the Selling Shareholders; and provided, further that the Company and the Selling Shareholders will not be liable in any such case to the extent but only to the extent that any such loss, liability, claim, damage or expense arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through you expressly for use therein. This indemnity agreement will be in addition to any liability which the Company or the Selling Shareholders may otherwise have including under this Agreement.

The Company also agrees to indemnify and hold harmless Bear, Stearns & Co. Inc. and each person, if any, who controls Bear, Stearns & Co. Inc. within

the meaning of either Section 15 of the Act, or Section 20 of the 1934 Act, from and against any and all losses, claims, damages, liabilities and judgments incurred as a result of Bear, Stearns & Co. Inc.'s participation as a "qualified independent underwriter" within the meaning of Rule 2720 of the NASD's Conduct Rules in connection with the offering of the Shares, except to the extent any such losses, claims, damages, liabilities and judgements are found in a final judgement by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily and directly from the gross negligence or willful misconduct of Bear, Stearns & Co. Inc.

(b) Each Underwriter severally, and not jointly, agrees to indemnify and hold harmless the Company, each of the directors of the Company, each of the officers of the Company who shall have signed the Registration Statement or the Canadian Prospectus, and each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the 1934 Act and the Selling Shareholders, against any losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Act, Canadian Securities Laws, the 1934 Act or other United States or Canadian federal, state or provincial statutory law or regulation, at common or civil law or otherwise, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement for the registration of the Shares, as originally filed or any amendment thereof, including the PREP information, or any Preliminary Prospectus, the Canadian Preliminary Prospectus, the Canadian Prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that any such loss, liability, claim, damage or expense arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through you expressly for use therein; provided, however, that in no case shall any Underwriter be liable or responsible for any amount in excess of the underwriting commission applicable to the Shares purchased by such Underwriter hereunder. This indemnity will be in addition to any liability which any Underwriter may otherwise have

including under this Agreement. The Company and the Selling Shareholders acknowledge that the statements set forth in the fifth, ninth and tenth paragraph under the caption "Underwriting" in the Prospectus and the Canadian Prospectus constitute the only information furnished in writing by or on behalf of any Underwriter expressly for use in the Offering Documents relating to the Shares as originally filed or in any amendment thereof.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify in writing each party against whom indemnification is to be sought of the commencement thereof (but the failure so to notify an indemnifying party shall not relieve it from any liability which it may have under this Section 9 to the extent it is not prejudiced as a result of such failure). In case any such action is brought against any indemnified party, and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein, and to the extent it may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party. Notwithstanding the foregoing, the indemnified party or parties shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless (i) the employment of such counsel shall have been authorized in writing by the indemnifying party in connection with the defense of such action, (ii) the indemnifying parties shall not have employed counsel to have charge of the defense of such action within a reasonable time after receipt of notice of commencement of the action, or (iii) such indemnified party or parties shall have been advised by counsel that there may be defenses available to it or them which are different from or additional to those available to one or all of the indemnifying parties (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party or parties with respect to such different or additional defenses), in any of which events such fees and expenses shall be borne by the indemnifying parties. Anything in this subsection to the contrary notwithstanding, an indemnifying party shall not be liable for any settlement of any claim or action effected without its written consent; provided, however, that such consent was not unreasonably withheld.

Notwithstanding anything contained herein to the contrary, if indemnity may be sought pursuant to Section 9 (a) hereof in respect of such action or proceeding, then in addition to such separate counsel for the indemnified parties, the

indemnifying party shall be liable for the reasonable fees and expenses of not more than one separate counsel (in addition to any local counsel) for Bear, Stearns & Co. Inc., in its capacity as a "qualified independent underwriter" and all persons, if any, who control Bear, Stearns & Co. Inc. within the meaning of either Section 15 of the Act or Section 20 of the 1934 Act.

10. Contribution. In order to provide for contribution in circumstances in which the indemnification provided for in Section 9 hereof is for any reason held to be unavailable from any indemnifying party or is insufficient to hold harmless a party indemnified thereunder, the Company and the Selling Shareholders, on the one hand, and the Underwriters, on the other, shall contribute to the aggregate losses, claims, damages, liabilities and expenses of the nature contemplated by such indemnification provision (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting in the case of losses, claims, damages, liabilities and expenses suffered by the Company and/or the Selling Shareholders any contribution received by the Company and/or the Selling Shareholders from persons, other than the Underwriters, who may also be liable for contribution, including persons who control the Company or the Selling Shareholders within the meaning of Section 15 of the Act or Section 20(a) of the 1934 Act, officers of the Company who signed the Registration Statement and directors of the Company) as incurred to which the Company and the Selling Shareholders, on the one hand, and one or more of the Underwriters, on the other, may be subject, in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Shareholders, on the one hand, and the Underwriters, on the other, from the offering of the Shares or, if such allocation is not permitted by applicable law or indemnification is not available as a result of the indemnifying party not having received notice as provided in Section 9 hereof, in such proportion as is appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company and the Selling Shareholders, on the one hand, and the Underwriters, on the other, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Shareholders, on the one hand, and the Underwriters, on the other, shall be deemed to be in the same proportion as (x) the total proceeds from the offering (net of underwriting discounts, fees and commissions but before deducting expenses) received by the Company and the Selling Shareholders and (y) the underwriting discounts, fees and commissions received by the

Underwriters, respectively, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company and the Selling Shareholders, on the one hand, and of the Underwriters, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Selling Shareholders, on the one hand, or the Underwriters, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, the Selling Shareholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 10 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this Section 10, (i) in no case shall any Underwriter be liable or responsible for any amount in excess of the underwriting commission applicable to the Shares purchased by such Underwriter hereunder, and (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Notwithstanding the provisions of this Section 10 and the preceding sentence, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. For purposes of this Section 10, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the 1934 Act shall have the same rights to contribution as such Underwriter, and each person, if any, who controls the Company or the Selling Shareholders within the meaning of Section 15 of the Act or Section 20(a) of the 1934 Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, subject in each case to clauses (i) and (ii) of this Section 10. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties, notify each party or parties from whom contribution may be sought, but the omission to so notify such party or parties shall not relieve the party or parties from whom contribution may be sought from any obligation it or they may have under this Section 10 or otherwise to the extent it is not prejudiced as a result of such failure. No party shall be liable for contribution with respect to any action or claim settled without its consent; provided, however, that such consent was not

unreasonably withheld. The liability of the Selling Shareholders under the contribution agreement contained in this Section 10 shall not exceed the total net proceeds (before deducting expenses) to the Selling Shareholders from the sale of Shares by the Selling Shareholders. This contribution agreement will be in addition to any liability which the Company, the Selling Shareholders or the Underwriters may otherwise have including under this Agreement.

11. Default by an Underwriter.

(a) If any Underwriter or Underwriters shall default in its or their obligation to purchase Firm Shares or Additional Shares hereunder, and if the Firm Shares or Additional Shares with respect to which such default relates do not (after giving effect to arrangements, if any, made by you pursuant to subsection (b) below) exceed in the aggregate 10% of the number of Firm Shares or Additional Shares, the Firm Shares or Additional Shares to which the default relates shall be purchased by the non-defaulting Underwriters in proportion to the respective proportions which the numbers of Firm Shares set forth opposite their respective names in Schedule I hereto bear to the aggregate number of Firm Shares set forth opposite the names of the non-defaulting Underwriters.

(b) In the event that such default relates to more than 10% of the Firm Shares or Additional Shares, as the case may be, you may in your discretion arrange for yourself or for another party or parties (including any non-defaulting Underwriter or Underwriters who so agree) to purchase such Firm Shares or Additional Shares, as the case may be, to which such default relates on the terms contained herein. In the event that within five calendar days after such a default you do not arrange for the purchase of the Firm Shares or Additional Shares, as the case may be, to which such default relates as provided in this Section 11, this Agreement or, in the case of a default with respect to the Additional Shares, the obligations of the Underwriters to purchase and of the Company and the Selling Shareholders to sell the Additional Shares shall thereupon terminate, without liability on the part of the Company with respect thereto (except in each case as provided in Sections 7, 9(a) and 10 hereof) or the non-defaulting Underwriters, but nothing in this Agreement shall relieve a defaulting Underwriter or Underwriters of its or their liability, if any, to the other Underwriters, the Company and the Selling Shareholders for damages occasioned by its or their default hereunder.

(c) In the event that the Firm Shares or Additional Shares to which the default relates are to be purchased by the non-defaulting Underwriters, or are to

be purchased by another party or parties as aforesaid, you or the Company shall have the right to postpone the Closing Date or Additional Closing Date, as the case may be for a period, not exceeding five business days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus or in any other documents and arrangements, and the Company agrees to file promptly any amendment or supplement to the Registration Statement or the Prospectus which, in the opinion of Underwriters' Counsel, may thereby be made necessary or advisable. The term "Underwriter" as used in this Agreement shall include any party substituted under this Section 11 with like effect as if it had originally been a party to this Agreement with respect to such Firm Shares and Additional Shares.

12. Survival of Representations and Agreements. All representations and warranties, covenants and agreements of the Underwriters, the Company and the Selling Shareholders contained in this Agreement, including the agreements contained in Section 7, the indemnity agreements contained in Section 9 and the contribution agreements contained in Section 10, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any controlling person thereof, by or on behalf of the Company, any of its officers and directors or any controlling person thereof or by or on behalf of the Selling Shareholders, any of its officers and directors or any controlling person thereof, and shall survive delivery of and payment for the Shares to and by the Underwriters. The representations contained in Section 1 and the agreements contained in Sections 7, 9, 10 and 13(d) hereof shall survive the termination of this Agreement, including termination pursuant to Section 11 or 13 hereof.

13. Effective Date of Agreement; Termination.

(a) This Agreement shall become effective, upon the latest of when (i) you and the Company shall have received notification of the effectiveness of the Registration Statement, (ii) you and the Company shall have received a final MRRS decision document from the Reviewing Authority or (iii) the execution of this Agreement. If either the public offering price or the purchase price per Share has not been agreed upon prior to 5:00 P.M., New York time, on the fifth full business day after the Registration Statement shall have become effective, this Agreement shall thereupon terminate without liability to the Company, the Selling Shareholders or the Underwriters except as herein expressly provided. Until this Agreement becomes effective as aforesaid, it may be terminated by the Company by notifying you or by you notifying the Company.

Notwithstanding the foregoing, the provisions of this Section 13 and of Sections 1, 2, 7, 9 and 10 hereof shall at all times be in full force and effect.

(b) You shall have the right to terminate this Agreement at any time prior to the Closing Date or the obligations of the Underwriters to purchase the Additional Shares at any time prior to the Additional Closing Date, as the case may be, if (A) any domestic or international event or act or occurrence has materially disrupted, or in your opinion will in the immediate future materially disrupt, the market for the Company's securities or securities in general; or (B) if trading in the Subordinate Voting Shares shall have been suspended by the Commission, the Nasdaq National Market, or The Toronto Stock Exchange, or trading in securities generally on the Nasdaq National Market, the New York Stock Exchange, the American Stock Exchange, or The Toronto Stock Exchange shall have been suspended, or minimum or maximum prices for trading shall have been fixed, or maximum ranges for prices for securities shall have been required, on any such exchange or market system or by order of the Commission or any other governmental authority having jurisdiction; or (C) if a banking moratorium has been declared by New York, United States or Canadian authorities or if any new restriction materially adversely affecting the distribution of the Firm Shares or the Additional Shares, as the case may be, shall have become effective; or (D)(i) if the United States or Canada becomes engaged in hostilities or there is an escalation of hostilities involving the United States or Canada or there is a declaration of a national emergency or war by the United States or Canada or (ii) if there shall have been such change in political, financial or economic conditions, if the effect of any such event in (i) or (ii) in your judgment makes it impracticable or inadvisable to proceed with the offering, sale and delivery of the Firm Shares or the Additional Shares, as the case may be, on the terms contemplated by the Prospectus.

(c) Any notice of termination pursuant to this Section 13 shall be by telephone, telex, or telegraph, confirmed in writing by letter.

(d) If this Agreement shall be terminated pursuant to any of the provisions hereof (otherwise than pursuant to (i) notification by you as provided in Section 13(a) hereof or (ii) Section 11(b) hereof), or if the sale of the Shares provided for herein is not consummated because any condition to the obligations of the Underwriters set forth herein is not satisfied or because of any refusal, inability or failure on the part of the Company or the Selling Shareholders to perform any agreement herein or comply with any provision hereof, the Company will, subject to demand by you, reimburse the Underwriters

for all reasonable out-of-pocket expenses (including the reasonable fees and expenses of their counsel), incurred by the Underwriters in connection herewith.

14. Jurisdiction. The Company, the Selling Shareholders and the Underwriters agree that any legal suit, action, or proceeding against the Company or the Selling Shareholders brought by the Underwriters, or by each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the 1934 Act, arising out of or based upon this Agreement or the transactions contemplated hereby may be instituted in any New York Court (as defined in Section 8(c)(xiii) hereof), and each of the Company and the Selling Shareholders waives any objection which it may now or hereafter have to the laying of venue of any such proceeding in, and irrevocably submits to the non-exclusive personal jurisdiction of, such specified courts in any such suit, action, or proceeding. The Company and the Selling Shareholders have appointed, or prior to the Closing Date will appoint, CT Corporation System of New York, New York as their authorized agent (the "Authorized Agent") upon whom process may be served in any legal suit, action, or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby which may be instituted in any New York Court by the Underwriters or any controlling person of the Underwriters and expressly accept the non-exclusive jurisdiction of any such New York Court in respect of any such action. Such appointment shall be irrevocable. If for any reason CT Corporation System (or successor agent for this purpose) shall cease to act as agent for service of process as provided above, the Company and/or the Selling Shareholders, as the case may be, will promptly appoint a successor agent for this purpose reasonably acceptable to the Underwriters. The Company and the Selling Shareholders represent and warrant that the Authorized Agent has agreed to act as said agent for service of process, and the Company and the Selling Shareholders agree to take any and all action, including the filing of any and all documents and instruments, that may be necessary to continue such appointment in full force and effect as aforesaid. Service of process upon the Authorized Agent and written notice of such service to the Company and/or the Selling Shareholders, as the case may be, shall be deemed, in every respect, effective service of process upon the Company and/or the Selling Shareholders, as the case may be. Nothing contained herein shall limit the right of the Underwriters or any controlling person of the Underwriters to serve process in any other manner permitted by law or bring an action based on this Agreement in any competent court in Canada. A final non-appealable judgment in any suit or proceeding based on this Agreement shall be conclusive and, to the extent permitted under applicable laws, may be enforced in other jurisdictions by suit on the judgment or in any other lawful manner. If either of the Company or the Selling Shareholders have or may hereafter acquire immunity from jurisdiction or legal process with respect to itself or its property, it hereby irrevocably waives to the fullest extent permitted under applicable law such immunity in respect of its obligations hereunder in any action which may be instituted in any

New York Court or in any competent court in Canada by the Underwriters or any controlling person of the Underwriters.

In respect of any judgment or order given or made for any amount due hereunder that is expressed and paid in a currency (the "judgment currency") other than United States dollars, the Company will indemnify each Underwriter against any loss incurred by such Underwriter as a result of any variation as between (i) the rate of exchange at which the United States dollar amount is converted into the judgment currency for the purpose of such judgment or order and (ii) the rate of exchange at which an Underwriter is able to purchase United States dollars with the amount of judgment currency actually received by such Underwriter. The foregoing indemnity shall constitute a separate and independent obligation of the Company and shall continue in full force and effect notwithstanding any such judgment or order as aforesaid. The term "rate of exchange" shall include any premiums and costs of exchange payable in connection with the purchase of or conversion into United States dollars.

15. Notices. All communications hereunder, except as may be otherwise specifically provided herein, shall be in writing and , if sent to any Underwriter, shall be mailed, delivered, sent by facsimile and confirmed in writing, to such Underwriter c/o Bear, Stearns & Co. Inc., 245 Park Avenue, New York, N.Y. 10167, Attention: Stephen Parish; if sent to the Company, shall be mailed, delivered, sent by facsimile and confirmed in writing to the Company, 32 Atlantic Avenue, Toronto, Ontario M6K 1X8, Attention: President, Facsimile Number: (416) 588-5735; or, if sent to the Selling Shareholders, shall be mailed, delivered, sent by facsimile and confirmed in writing to 1078959 Ontario Inc., 32 Atlantic Avenue, Toronto, Ontario M6K 1X8 c/o Michael Hirsh, Facsimile Number: (416) 588-5735 and Ho Ho Holdings Inc., 32 Atlantic Avenue, Toronto, Ontario M6K 1X8 c/o Patrick Loubert, Facsimile Number: (416) 588-5735.

In all dealings hereunder, you shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by you jointly or by Bear Stearns & Co. Inc. on behalf of you as the representatives.

16. Parties. This Agreement shall enure solely to the benefit of, and shall be binding upon, the Underwriters, the Selling Shareholders and the Company and the controlling persons, directors, officers, employees and agents referred to in Sections 9 and 10, and their respective successors and assigns, and no other person shall have or be construed to have any legal or equitable right, remedy or claim under or in respect of or by virtue of this Agreement or any provision herein contained. The term "successors and

assigns" shall not include a purchaser, in its capacity as such, of Shares from any of the Underwriters.

17. **Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, but without regard to principles of conflicts of law.**

If the foregoing correctly sets forth the understanding among you, the Company and the Selling Shareholders, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among us.

Very truly yours,

NELVANA LIMITED

By: /s/ Michael Hirsh

By: /s/ Harriet Reisman

1078959 ONTARIO INC.

By: /s/ Michael Hirsh

HO HO HOLDINGS INC.

By: /s/ Clive Smith

Accepted as of the date first above written

BEAR, STEARNS & CO. INC.
SG COWEN SECURITIES CORPORATION
RBC DOMINION SECURITIES CORPORATION
By: BEAR, STEARNS & CO. INC.

By: /s/ Lisbeth Barron
On behalf of themselves and the other
Underwriters named in Schedule I hereto.

SCHEDULE I

Name of Underwriter	Number of Firm Shares to be Purchased from the Company	Number of Firm Shares to be Purchased From 1078959 Ontario Inc.	Number of Firm Shares to be Purchased from Ho Ho Holdings Inc.	Aggregate Number of Firm Shares Purchased
Bear, Stearns & Co. Inc.	1,217,016	15,000	17,984	1,250,000
SG Cowen Securities Corporation	608,508	7,500	8,992	625,000
RBC Dominion Securities Corporation	608,508	7,500	8,992	625,000
Total	2,434,032	30,000	35,968	2,500,000