MATERIAL CHANGE REPORT

S.75(2) OF THE SECURITIES ACT (ONTARIO)
S.118(1)(b) OF THE SECURITIES ACT (ALBERTA)
S.85 OF THE SECURITIES ACT (BRITISH COLUMBIA)
S.73 OF THE SECURITIES ACT (QUEBEC)
S.84(1)(b) OF THE SECURITIES ACT, 1988 (SASKATCHEWAN)
S.81 (2) OF THE SECURITIES ACT (NOVA SCOTIA)
S.112 OF THE SECURITIES ACT (MANITOBA)
S.76(2) OF THE SECURITIES ACT (NEWFOUNDLAND)

1. Reporting Issuer

Livent Inc.
165 Avenue Road
Suite 600
Toronto, Ontario M5R 3S4

2. Date of Material Change

The effective date of the material change is November 18, 1998.

3. Press Release

A press release was issued by Livent Inc. at Toronto, Ontario and New York, New York on November 18, 1998. A copy of this press release is attached hereto as Schedule "A".

4. Summary of the Material Change

On November 18, 1998, Livent Inc and its U.S. subsidiaries filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. The board of directors of Livent Inc. voted on November 18, 1998 to terminate Garth Drabinsky, Livent Inc. Vice Chairman and Chief Creative Director, and Myron Gottlieb, Livent Inc. Executive Vice President, Canadian Administration, effective immediately and also authorized the filing of a civil damage action against Messrs. Drabinsky and Gottlieb. On November 18, 1998 Livent Inc. also issued restated financial statements for 1996, 1997 and the quarter ended March 31, 1998 and its interim financial statements for the quarter ended June 30, 1998, as well as management's discussion and analysis of the financial position and results of analysis, copies of which are appended hereto as schedules "B", "C" and "D", respectively.

5. Full Description of Material Change

Please refer to Schedules "A", "B", "C" and "D".

6. Reliance on Confidentiality Provisions of Securities Legislation

Not Applicable.

7. Omitted Information

Not Applicable.

8. Senior Officer

Robert B. Webster, Executive Vice-President, is knowledgeable about the material change and the report and can be reached at (416) 324-5800.

9. Statement of Senior Officer

The foregoing accurately discloses the material change referred to herein.

DATED at Toronto, Ontario this 19th day of November, 1998.

LIVENT INC.

"David R. Maisel"

David R. Maisel
President

IT IS AN OFFENCE FOR A PERSON TO MAKE A STATEMENT IN A DOCUMENT REQUIRED TO BE FILED OR FURNISHED UNDER THE ACT OR THIS REGULATION THAT, AT THE TIME AND IN THE LIGHT OF THE CIRCUMSTANCES UNDER WHICH IT IS MADE, IS A MISREPRESENTATION.

SCHEDULE "A"

LIVENT FILES FOR REORGANIZATION UNDER CHAPTER 11

LIVENT TERMINATES DRABINSKY, GOTTLIEB; SUES TO RECOVER $225 MILLION IN DAMAGES FROM ALLEGED FRAUD, ACCOUNTING IRREGULARITIES

LIVENT RELEASES RESTATED FINANCIALS, REDUCING NET INCOME BY CDN$ $85.1 MILLION FOR 1996, 1997 AND 1Q 1998

Company Reports 2Q Loss of CDN$45.8 MILLION

TORONTO, ONTARIO and NEW YORK, NY, November 18, 1998 -- Livent Inc. and its U.S. subsidiaries today filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. The filing was made in the U.S. Bankruptcy Court for the Southern District of New York. In addition, the company is considering appropriate protective action in Canada

The Company is in the process of arranging a short term Debtor-in-Possession (DIP) financing that is intended to address the Company's short-term liquidity needs. In addition to the short term DIP financing, management believes additional financing is required in the near term for a successful reorganization.

The purpose of the filing is to permit Livent to pursue a comprehensive financial restructuring which has become necessary as a result of the negative impact of the serious accounting irregularities and inappropriate business practices which have been uncovered at the Company since August.

Also today, Livent's Board of Directors voted to terminate Garth Drabinsky, Livent Vice Chairman and Chief Creative Director and Myron Gottlieb, Executive Vice President, Canadian Administration effective immediately. The Board also authorized today the filing in Ontario Court (General Division) of a $225 million civil damage action against Messrs. Drabinsky and Gottlieb and a company controlled by Mr. Gottlieb alleging fraud, conversion and unjust enrichment.

In addition, the Company issued restated financial statements for 1996, 1997 and the first quarter ended March 31, 1998. The restated results reduce net income for these periods in an aggregate amount of $85.1 million (US$61.7). For the second quarter ended June 30, 1998, Livent reported a net loss of $45.8 million (US$31.7 million), including a writedown of assets and other charges of $26.1 million (US$18.0 million).

Roy Furman, Chairman and Chief Executive Officer of Livent, said, "The massive scale of the accounting irregularities and inappropriate business practices uncovered at Livent has left us no choice but to file for protection under Chapter 11. Livent's employees are justifiably outraged that the actions of a few have forced us into this position, even as our employees have worked tirelessly in an attempt to reshape and solidify the business in the face of these pervasive irregularities. We are determined to make every effort to find a solution that is in the best interest of our company, employees and all of Livent's constituents."

Drabinsky, Gottlieb Terminated; $225 Million Suit Filed by Livent

Livent today filed a statement of claim in Ontario Court (General Division) against Mr. Drabinsky, a co-founder and former Chairman and CEO of Livent; Mr. Gottlieb, a co-founder and former President of Livent; and King Commodity Services Limited ("KCS"), a company owned or controlled by Mr. Gottlieb.

The suit seeks $225 million in damages for breach of contract, breach of fiduciary duty, fraud, fraudulent misrepresentation, conversion, unjust enrichment and conspiracy to defraud Livent.

Messrs. Drabinsky and Gottlieb were suspended on August 10, 1998 pending the outcome of an investigation into accounting irregularities at the company. The Board today terminated their employment with the company. The Board also requested their resignations from the Board, which were not tendered.

Management Uncovers Pervasive, Systemic Accounting Irregularities

The company announced on August 10, 1998 that it had discovered serious accounting irregularities and has conducted an intensive investigation of such irregularities since then. The company's investigation revealed massive, systemic accounting irregularities that permeated the company. These accounting irregularities included:

- **Transactions Improperly Recorded as Revenue –** Certain side agreements or other material terms between Livent and third parties were discovered as part of the company's investigation that were never disclosed to the Board of Directors or the Board's Audit Committee. These undisclosed side agreements materially altered the terms of transactions for which the company had recognized revenues. The discovery of these previously undisclosed side agreements required the reversal or modification of revenue recognition for the transactions.

  In the company's restated financials, net income was reduced by $19.4 million (US$14.2 million) in 1996 and $23.3 million ($US17.0 million) in 1997 to correct for these irregularities.

- **Operating Costs Improperly Capitalized to Fixed Assets –** Millions of dollars of running costs for current productions (e.g. cast salaries, advertising, etc.), as well as

G&A expenses, were inappropriately capitalized to fixed assets instead of being expensed as incurred. In the restated financials, net income was reduced by $3.1 million (US$2.3 million) in 1996 and $10.7 million (US$7.8 million) in 1997 to correct for these irregularities.

- **Improper Recording of Costs –** Millions of dollars of expenses were improperly shifted from one quarter to the next and were carried forward in an "expense roll." Effectively, the former senior management of the company directed that certain expenses and accounts payable be backed out, reversed in or withheld from the general ledger system in the quarter in which they should have been expensed. They were therefore not properly reflected in the company's financial statements for that period. In the restated financials, net income was reduced by $3.9 million (US$2.9 million) in 1996 and $0.5 million (US$0.3 million) in 1997 to correct for these irregularities.

- **Improper Recording of Preproduction Costs --** In some cases, preproduction costs for current shows were capitalized to preproduction accounts for shows that were not scheduled to be presented until a future period, thereby deferring recognition of these costs until such future periods. In other cases, preproduction costs were improperly capitalized to fixed assets and preproduction costs were not recorded in the proper year. To correct for these irregularities, in the restated financials net income was reduced by $11.1 million (US$8.2) in 1996 and increased by $1.6 million (US$1.2) in 1997.

- **Improperly Accelerated Recognition of Revenue –** The timing of recognition of revenue was improperly accelerated for certain transactions. For example, in some cases, the entire amount of sponsorship revenue was recorded at the time the sponsorship agreement was signed (or in some cases before the agreement was even executed) instead of properly amortizing the revenue over the relevant period of the agreement.

Widespread Irregularities Lead to Restated Results for 1996, 1997 and the First Quarter of 1998

The restatement of the results for 1996, 1997 and the first quarter of 1998 reflect significant adjustments in the recording of expenses and revenues to correct the effect of the accounting irregularities and inappropriate business practices in the previously issued consolidated financial statements.

For 1996, Livent's restated net loss was $18 million (US$13.2 million), as compared to previously reported net income of $11.1 million (US$8.1 million) for this period. For 1997, Livent's restated net loss was $98.7 million (US$71.3 million), as compared to a previously reported net loss of $44.1 million (US$31.9 million). And, for first quarter 1998, the restatement shows a net loss of $31.3 million (US$21.7 million), as compared to a previously reported net loss of $29.9 million (US$20.9 million).

Livent's retained earnings at January 1, 1996 were also reduced in the restatement by $13.1 million (US$9.6 million), net of $8.0 million (US$5.9 million) of income taxes, which represents the cumulative effect of the accounting irregularities in the years through December 31, 1995.

Company Issues Results for 1998 Second Quarter

For the 1998 second quarter, revenue increased by 6.2% to $89.3 million (US$61.7 million) from $84.1 million (US$60.7 million) for the 1997 second quarter. EBITDA for the 1998 second quarter decreased by 57.8% to $3.1 million (US$2.1 million) from $7.3 million (US$5.3 million) for the comparable period in 1997. Amortization of preproduction costs for the period decreased by 12.9% to $16.9 million (US$11.7 million) from $19.5 million (US$14.1 million) for the comparable period in 1997.

The Company reported a loss for the 1998 second quarter of $45.8 million (US$31.7 million) or $2.44 (US$1.69) per common share, compared to a net loss of $15.0 million (US$10.8 million) or $0.88 (US$0.64) per common share for the comparable period in 1997. The results for the 1998 second quarter included a $26.1 million (US$18.0 million) writedown of assets and other charges, which primarily reflects the impact of certain key strategic decisions made by Livent management, such as realigning future schedules and retrofitting production of current shows. Excluding this amount, the net loss would have been $19.6 million (US$13.55 million) or $1.05 (US$0.73) per common share. The weighted average number of shares outstanding increased to 18.7 million from 17.0 million a year earlier.

Results for the Six Months Ended June 30, 1998

For the six months ended June 30, 1998 revenue increased by 7.3% to $166.7 million (US$115.9 million) from $155.4 million (US$113.2 million) for the six months ended June 30, 1997. Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the period decreased by 43.3% to $9.7 million (US$6.74 million) from $17.1 million (US$12.46 million) for the comparable period in 1997. Amortization of preproduction costs for the period decreased by 6.5% to $26.1 million (US$18.1 million) from $27.9 (US$20.3 million) for the comparable period in 1997.

The Company reported a loss for the six months ended June 30, 1998 of $77.1 million (US$53.6 million) or $4.19 (US$2.91) per common share compared to a net loss of $16.0 million (US$11.5 million) or $0.98 (US$0.71) per common share for the comparable period in 1997. The results for the six months ended June 30, 1998 included a $48.7 million (US$33.9 million) writedown of assets and other charges. Excluding this amount, the net loss would have been $28.4 million (US$19.7 million) or $1.54 (US$1.07) per common share. The weighted average number of shares outstanding increased to 18.4 million from 16.3 million a year earlier.

<u>Financial Results Audited by Deloitte & Touche</u>

The financial results released today were issued after an intensive investigation overseen by Livent's Audit Committee and a re-audit by Livent's independent auditors, Deloitte & Touche, who have issued new audit opinions on the 1996 and 1997 results released today. Earlier audit opinions on the 1996 and 1997 results have been withdrawn.

Deloitte & Touche have also withdrawn their earlier audit report on Livent's financial statements for the year ended December 31, 1995. Although Livent has restated its annual results for 1996, it has not restated its quarterly results for the 1996 financial year, nor the results for the 1995 financial year, although, as noted, an adjustment has been made to retained earnings at January 1, 1996. The Management Discussion and Analysis issued today discusses the changes in 1997 in comparison to 1996 but not those for 1996 in comparison to 1995, due to the fact that the results for 1995 have not been restated. While Livent believes that its current financial statements reflect a fair and accurate representation of its financial position, individual items in the results for the 1995 financial year and prior years and quarterly reports for the 1996 financial year cannot be relied upon.

Livent Inc. is a leading producer of theatrical entertainment internationally, whose Broadway productions have collectively won 18 Tony Awards. Livent's newest musicals include *Parade*, a co-production with Lincoln Center Theater, which is in previews at the Vivian Beaumont Theater in New York and *Fosse*, now at the Ahmanson Theater in Los Angeles. Livent's critically acclaimed productions have included *Kiss of the Spider Woman* (1993), *Show Boat* (1995), *Barrymore* (1997), *Candide* (1997), and *Ragtime* (1998). In Toronto, Livent's production of Andrew Lloyd Webber's *The Phantom of the Opera* is in its tenth year at the Pantages Theater.

This release contains forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to various known and unknown risks and uncertainties including, but not limited to the ability of the company to successfully reorganize; the possible insufficiency of the Company's short term financing; the possible inability of the Company to obtain further short term and/or longer term financing; the profitability of the Company's present and planned productions and other projects; competition in the Company's existing and potential future lines of business; the Company's ability to address its financing requirements; the Company's ability to attract and retain key executive and creative personnel; and other factors. These and other factors and assumptions not identified above could cause actual results to differ materially from those projected. The Company assumes no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in the factors affecting such forward-looking statements.

CONTACT:

Don Nathan or Jim Badenhausen 212/484-7782

LIVENT INC.
CONSOLIDATED BALANCE SHEETS
As at June 30, 1998 and December 31, 1997
(In *thousands of* Canadian Dollars)
(as restated)

	June 30, 1998	December 31, 1997
		Restated
	(Unaudited)	(Audited)
ASSETS		
Cash and cash equivalents	$ 551	$ 10,038
Cash on deposit for theatre construction	9,194	16,483
Accounts receivable	20,322	19,477
Income taxes recoverable	862	928
Sundry assets and prepaid expenses	9,154	13,461
Inventory	1,567	1,731
Preproduction costs	54,142	59,956
Fixed	189,637	176,895
Investments	287	978
Long-term receivables	11,579	14,067
Deferred costs	11,989	11,077
	$ 309,284	$ 325,091
LIABILITIES		
Accounts payable and accruals	$ 54,023	$ 48,754
Deferred revenue	46,548	44,548
Other liabilities	16,746	12,134
Other long-term debt	16,094	16,423
Senior debentures	173,440	173,306
Subordinated debt	27,476	26,800
	334,327	321,965
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital	173,566	125,330
Deficit	(201,389)	-124,291
Cumulative translation adjustment	2,780	2,087
	(25,043)	3,126
	$ 309,284	$ 325,091

LIVENT INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the Three Months Ended June 30, 1998 and 1997
(In *thousands of* Canadian Dollars)

	1998	1997	
		Previously reported	Restated
	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	$ 89,327	$ 84,641	$ 84,079
Direct operating expenses	81,073	64,996	73,372
Gross contribution	8,254	19,645	10,707
General and administrative expenses	5,164	3,061	3,385
Interest, bank fees and charges	4,091	1,543	1,634
Amortization of preproduction costs	16,942	12,989	19,453
Depreciation and amortization	1,535	958	931
Writedown of assets and other charges	26,139	-	-
Income (loss) before income taxes	(45,617)	1,094	(14,696)
Income taxes	157	76	293
Net income (loss)	$ (45,774)	$ 1,018	$ (14,989)
Earnings (loss) per common share	$ (2.44)	$ 0.06	$ (0.88)
Weighted average number of common shares outstanding	18,743,284	16,963,333	16,963,333
Fully diluted earnings (loss) per common share	$ (2.44)	$ 0.06	$ (0.88)
Fully diluted number of common shares outstanding	21,371,506	19,217,721	19,217,721

LIVENT INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Six Months Ended June 30, 1998 and 1997
(In *thousands of* Canadian Dollars)
(as restated)

	1998	1997	
	(Unaudited)	Previously reported (Unaudited)	Restated (Unaudited)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:			
OPERATING			
Net income (loss) for the period	$ (77,099)	$ 5,353	$ (16,021)
Items not affecting cash			
Writedown of assets and other charges	48,707	-	-
Amortization of preproduction costs	26,127	19,098	27,874
Depreciation of fixed assets	2,410	1,618	1,592
Amortization of deferred costs	763	490	478
Share of income from equity-accounted investments	-	(264)	(264)
Gain on sale of assets and rights, net	-	-	(9,499)
Deferred income taxes	-	1,826	-
	908	28,121	4,160
Changes in other non-cash balances related to operations	(551)	(6,286)	17,331
Cash provided from operating activities	357	21,835	21,491
FINANCING			
Net proceeds from issue of common shares	48,236	27,385	28,426
Decrease in other long-term debt	(329)	(4,659)	(4,659)
Increase in long-term portion of term bank debt	-	27,703	31,302
Effect of foreign exchange on debt	809	-	-
Deferred financing costs	-	(164)	(164)
Cash provided from financing activities	48,716	50,265	54,905
INVESTING			
Preproduction costs	(45,250)	(38,270)	(51,883)
Investments, net of additions	(494)	2,713	4,510
Long-term receivables	(902)	2,217	6,339
Fixed assets, net of proceeds on sale	(17,507)	(28,185)	(25,121)
Cash withdrawn (deposited) for theatre construction	7,290	(11,397)	(11,397)
Deferred costs	(1,697)	(988)	(654)
Cash used in investing activities	(58,560)	(73,910)	(78,206)
DECREASE IN CASH AND CASH EQUIVALENTS	(9,487)	(1,810)	(1,810)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,038	1,810	1,810
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 551	$ -	$ -

LIVENT INC.
CONSOLIDATED BALANCE SHEETS
As at March 31, 1998 and December 31, 1997
(In *thousands of* Canadian Dollars)
(as restated)

	March 31, 1998		December 31, 1997
	Previously reported (Unaudited)	Restated (Unaudited)	Restated (Audited)
ASSETS			
Cash and cash equivalents	$ 262	$ 262	$ 10,038
Cash on deposit for theatre construction	13,664	13,664	16,483
Accounts receivable	33,966	22,816	19,477
Income taxes recoverable	777	777	928
Sundry assets and prepaid expenses	12,453	10,224	13,461
Inventory	1,652	1,652	1,731
Preproduction costs	62,233	51,640	59,956
Fixed	214,459	180,816	176,895
Investments	1,524	1,524	978
Long-term receivables	24,809	13,183	14,067
Deferred costs	15,473	11,391	11,077
	$ 381,272	$ 307,949	$ 325,091
LIABILITIES			
Accounts payable and accruals	$ 40,700	$ 46,898	$ 48,754
Deferred revenue	40,689	48,082	44,548
Other liabilities	-	12,081	12,134
Term bank debt	12,957	12,957	-
Other long-term debt	16,209	16,209	16,423
Senior debentures	173,306	173,306	173,306
Subordinated debt	26,800	26,800	26,800
	310,661	336,333	321,965
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	125,958	125,936	125,330
Deficit	(57,463)	(155,615)	(124,291)
Cumulative translation adjustment	2,116	1,295	2,087
	70,611	(28,384)	3,126
	$ 381,272	$ 307,949	$ 325,091

LIVENT INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the Three Months Ended March 31, 1998 and 1997
(In *thousands of* Canadian Dollars)
(as restated)

	1998		1997	
	Previously reported (Unaudited)	Restated (Unaudited)	Previously reported (Unaudited)	Restated (Unaudited)
Revenue	$ 80,045	$ 77,325	$ 72,084	$ 71,302
Direct operating expenses	65,166	66,766	54,827	58,875
Income from equity-accounted investments	-	-	264	264
Gross contribution	14,879	10,559	17,521	12,691
General and administrative expenses	3,769	3,924	3,082	2,903
Interest, bank fees and charges	3,875	4,641	1,048	1,344
Amortization of preproduction costs	11,724	9,185	6,109	8,422
Depreciation and amortization	1,734	1,410	872	845
Writedown of preproduction and other assets	23,632	22,568	-	-
Income (loss) before income taxes	(29,855)	(31,169)	6,410	(823)
Income taxes	-	156	2,076	209
Net income (loss)	$ (29,855)	$ (31,325)	$ 4,334	$ (1,032)
Earnings (loss) per common share	$ (1.66)	$ (1.74)	$ 0.28	$ (0.07)
Weighted average number of common shares outstanding	18,037,652	18,037,652	15,725,610	15,725,610
Fully diluted earnings (loss) per common share	$ (1.66)	$ (1.74)	$ 0.25	$ (0.07)
Fully diluted number of common shares outstanding	20,179,610	20,179,610	18,009,985	18,009,985

LIVENT INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Three Months Ended March 31, 1998 and 1997
(In *thousands of* Canadian Dollars)
(as restated)

	1998		1997	
	Previously reported (Unaudited)	Restated (Unaudited)	Previously reported (Unaudited)	Restated (Unaudited)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net income (loss) for the period	$ (29,855)	$ (31,325)	$ 4,334	$ (1,032)
Items not affecting cash				
Writedown of preproduction and other assets	23,632	22,568	-	-
Amortization of preproduction costs	11,725	9,185	6,109	8,422
Depreciation of fixed assets	1,293	1,198	766	739
Amortization of deferred costs	676	447	245	238
Share of loss (income) from equity-accounted investments	37	37	(264)	(264)
Gains on sale of assets and rights, net	(1,241)	-	(4,865)	(9,499)
Deferred income taxes	-	-	2,061	-
	6,267	2,110	8,386	(1,396)
Changes in other non-cash balances related to operations	6,332	(3,316)	(7,795)	3,328
Cash provided (used) from operating activities	12,599	(1,206)	591	1,932
FINANCING				
Net proceeds from issue of common shares	606	606	-	-
Decrease in other long-term debt	(214)	(214)	(47)	(47)
Increase in long-term portion of term bank debt	12,957	12,957	24,316	28,552
Deferred financing costs	-	-	(160)	(160)
Cash provided from financing activities	13,349	13,349	24,109	28,345
INVESTING				
Preproduction costs	(24,228)	(19,160)	(13,508)	(22,662)
Investments, net of additions	(582)	(583)	2,713	4,510
Long-term receivables	2,175	884	(1,897)	(356)
Fixed assets, net of proceeds on sale	(14,957)	(5,119)	(12,963)	(12,892)
Cash withdrawn (deposited) for theatre construction	2,820	2,820	(214)	(214)
Deferred costs	(952)	(761)	(641)	(473)
Cash used in investing activities	(35,724)	(21,919)	(26,510)	(32,087)
DECREASE IN CASH AND CASH EQUIVALENTS	(9,776)	(9,776)	(1,810)	(1,810)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,038	10,038	1,810	1,810
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 262	$ 262	$ -	$ -

LIVENT INC.
Consolidated Balance Sheets
(In *thousands of* Canadian dollars)
(as restated, see Note 1)

	December 31, 1997 Previously reported	December 31, 1997 Restated	December 31, 1996 Previously reported	December 31, 1996 Restated
ASSETS				
Cash and cash equivalents	$ 10,038	$ 10,038	$ 1,810	$ 1,810
Cash on deposit for theatre construction (Note 4)	16,483	16,483	21,244	21,244
Accounts receivable	32,701	19,477	30,734	22,130
Income taxes recoverable	928	928	1,510	1,510
Sundry assets and prepaid expenses	14,643	13,461	7,759	6,953
Inventory	1,731	1,731	1,547	1,547
Preproduction costs	67,309	59,956	75,588	57,875
Fixed (Note 4)	200,796	176,895	133,201	127,037
Investments	978	978	2,944	2,944
Long-term receivables (Note 5)	25,743	14,067	23,119	13,986
Deferred costs (Note 6)	15,197	11,077	6,592	5,408
	$ 386,547	$ 325,091	$ 306,048	$ 262,444
LIABILITIES				
Accounts payable and accruals	$ 29,334	$ 48,754	$ 26,620	$ 35,967
Deferred revenue	40,023	44,548	26,238	29,217
Other liabilities	–	12,134	–	4,440
Senior debt (Note 9)	173,306	173,306	72,500	72,500
Subordinated convertible debt (Note 10)	26,800	26,800	26,645	26,645
Other long-term debt (Note 8)	16,423	16,423	21,590	21,590
Deferred income taxes	–	–	18,206	–
	285,886	321,965	191,799	190,359
Contingencies and commitments (Notes 2, 4, 15 and 20)				
SHAREHOLDERS' EQUITY				
Share capital (Note 11)	125,352	125,330	96,897	96,897
Retained earnings (deficit)	(27,608)	(124,291)	16,523	(25,619)
Cumulative translation adjustment	2,917	2,087	829	807
	100,661	3,126	114,249	72,085
	$ 386,547	$ 325,091	$ 306,048	$ 262,444

Approved by the Board

Roy L. Furman
Director

H. Garfield Emerson
Director

LIVENT INC.
Consolidated Statements of Income (Loss)
(In *thousands of* Canadian dollars, *except per share data*)
(as restated, see Note 1)

	Year ended December 31, 1997		Year ended December 31, 1996	
	Previously reported	Restated	Previously reported	Restated
Revenue (Note 5(a)(iv))	$ 320,828	$ 294,721	$ 331,733	$ 310,974
Direct operating expenses	250,821	261,570	251,042	258,356
Share of income from equity-accounted investments	264	264	1,160	1,160
Gross contribution	70,271	33,415	81,851	53,778
General and administrative expenses	13,274	13,695	13,046	12,606
Interest, bank fees and charges	6,288	7,265	4,778	5,018
Amortization of preproduction costs	69,396	68,341	45,783	56,867
Depreciation and amortization	3,768	3,663	4,028	4,228
Valuation, refinancing and other charges (Note 12)	39,688	38,306	–	–
Income (loss) before income taxes	(62,143)	(97,855)	14,216	(24,941)
Income taxes (Note 14)	(18,012)	817	3,162	(6,905)
Net income (loss)	$ (44,131)	$ (98,672)	$ 11,054	$ (18,036)
Earnings (loss) per common share	$ (2.57)	$ (5.75)	$ 0.75	$ (1.22)
Weighted average number of common shares outstanding	17,170,330	17,170,330	14,780,136	14,780,136
Fully diluted earnings (loss) per common share	$ (2.57)	$ (5.75)	$ 0.71	$ (1.22)
Fully diluted number of common shares outstanding	19,373,985	19,373,985	16,562,646	16,562,646

LIVENT INC.
Consolidated Statements of Changes in Financial Position
(In *thousands of* Canadian dollars)
(as restated, Note 1)

	Year ended December 31, 1997 Previously reported	Year ended December 31, 1997 Restated	Year ended December 31, 1996 Previously reported	Year ended December 31, 1996 Restated
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net income (loss)	$ (44,131)	$ (98,672)	$ 11,054	$ (18,036)
Items not affecting cash				
Valuation adjustment to preproduction costs	27,500	27,500	–	–
Amortization of preproduction costs	69,396	68,341	45,783	56,867
Depreciation of fixed assets	3,346	3,241	2,935	3,136
Amortization of deferred costs	1,850	1,832	1,689	1,687
Share of income from equity accounted investments	(264)	(264)	(1,160)	(1,160)
Gains on sale of assets and rights, net	(21,057)	(4,437)	(24,533)	(10,551)
Deferred income taxes	(17,134)	–	2,597	(7,597)
	19,506	(2,459)	38,365	24,346
Changes in other non-cash balances related to operations (Note 19)	7,179	31,489	(29,080)	(10,409)
Cash provided from operating activities	26,685	29,030	9,285	13,937
FINANCING				
Proceeds from issue of subordinated convertible debt	–	–	11,645	11,645
Net proceeds from issue of common shares	27,382	28,432	38,666	38,666
Proceeds from issue of senior debt	173,307	173,307	72,500	72,500
Redemption of senior debt	(80,306)	(80,306)	–	–
Decrease in other long-term debt	(5,167)	(5,167)	(7,330)	(7,330)
Decrease in term bank debt	–	–	(16,969)	(16,969)
Sale of receivables	15,937	15,937	–	–
Deferred financing costs	(3,894)	(3,894)	(1,112)	(934)
Cash provided from financing activities	127,259	128,309	97,400	97,578
INVESTING				
Preproduction costs	(86,375)	(96,488)	(61,387)	(62,821)
Investments, net of additions	3,981	3,981	64	64
Long-term receivables	2,930	(5,572)	7,946	3,098
Fixed assets, net of proceeds on sale	(65,365)	(53,099)	(23,585)	(23,142)
Assets, net of cash, acquired in connection with acquisition (Note 13)	–	–	(5,181)	(5,181)
Cash withdrawn (deposited) for theatre construction	4,761	4,761	(21,244)	(21,244)
Deferred costs	(5,648)	(2,694)	(1,488)	(479)
Cash used in investing activities	(145,716)	(149,111)	(104,875)	(109,705)
INCREASE IN CASH AND CASH EQUIVALENTS	8,228	8,228	1,810	1,810
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,810	1,810	–	–
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 10,038	$ 10,038	$ 1,810	$ 1,810

SCHEDULE "B"

Consolidated Financial Statements of

LIVENT INC.

December 31, 1997 and 1996

As restated, see Note 1

INDEX TO FINANCIAL STATEMENTS

<u>Livent Inc.</u>

Independent Auditors’ Report

To the Shareholders of
Livent Inc.

We have audited the restated consolidated balance sheets of Livent Inc. as at December 31, 1997 and 1996 and the restated consolidated statements of income (loss), retained earnings (deficit) and changes in financial position for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these restated consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles in Canada.

As discussed in Note 1 to the financial statements, these financial statements have been restated. Our report, dated March 27, 1998, on the previously issued financial statements for the three years ended December 31, 1997 has been withdrawn.

Deloitte & Touche LLP - Chartered Accountants

Toronto, Ontario
March 27, 1998**,** except for Notes 1, 2, 9(b),
and 20, which are as of November 18, 1998

Management's Responsibility for Financial Reporting

The accompanying restated consolidated financial statements have been prepared by and are the responsibility of management, and have been approved by the Board of Directors of the Company. The restated consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, and reflect management's best estimates and judgments based on currently available information.

The restated consolidated financial statements have been audited by Deloitte & Touche, Chartered Accountants. Their report outlines the scope of their examination and their opinion on the restated consolidated financial statements.

Roy L. Furman
Chairman and Chief Executive Officer

Robert B. Webster
Executive Vice President

November 18, 1998

LIVENT INC.
Consolidated Balance Sheets
(In *thousands of* Canadian dollars)
(as restated, see Note 1)

	December 31, 1997		December 31, 1996	
	Previously reported	Restated	Previously reported	Restated
ASSETS				
Cash and cash equivalents	$ 10,038	$ 10,038	$ 1,810	$ 1,810
Cash on deposit for theatre construction (Note 4)	16,483	16,483	21,244	21,244
Accounts receivable	32,701	19,477	30,734	22,130
Income taxes recoverable	928	928	1,510	1,510
Sundry assets and prepaid expenses	14,643	13,461	7,759	6,953
Inventory	1,731	1,731	1,547	1,547
Preproduction costs	67,309	59,956	75,588	57,875
Fixed (Note 4)	200,796	176,895	133,201	127,037
Investments	978	978	2,944	2,944
Long-term receivables (Note 5)	25,743	14,067	23,119	13,986
Deferred costs (Note 6)	15,197	11,077	6,592	5,408
	$ 386,547	$ 325,091	$ 306,048	$ 262,444
LIABILITIES				
Accounts payable and accruals	$ 29,334	$ 48,754	$ 26,620	$ 35,967
Deferred revenue	40,023	44,548	26,238	29,217
Other liabilities	–	12,134	–	4,440
Senior debt (Note 9)	173,306	173,306	72,500	72,500
Subordinated convertible debt (Note 10)	26,800	26,800	26,645	26,645
Other long-term debt (Note 8)	16,423	16,423	21,590	21,590
Deferred income taxes	–	–	18,206	–
	285,886	321,965	191,799	190,359
Contingencies and commitments (Notes 2, 4, 15 and 20)				
SHAREHOLDERS' EQUITY				
Share capital (Note 11)	125,352	125,330	96,897	96,897
Retained earnings (deficit)	(27,608)	(124,291)	16,523	(25,619)
Cumulative translation adjustment	2,917	2,087	829	807
	100,661	3,126	114,249	72,085
	$ 386,547	$ 325,091	$ 306,048	$ 262,444

Approved by the Board

Roy L. Furman
Director

H. Garfield Emerson
Director

LIVENT INC.
Consolidated Statements of Income (Loss)
(In *thousands of* Canadian dollars, *except per share data*)
(as restated, see Note 1)

	Year ended December 31, 1997		Year ended December 31, 1996	
	Previously reported	Restated	Previously reported	Restated
Revenue (Note 5(a)(iv))	$ 320,828	$ 294,721	$ 331,733	$ 310,974
Direct operating expenses	250,821	261,570	251,042	258,356
Share of income from equity-accounted investments	264	264	1,160	1,160
Gross contribution	70,271	33,415	81,851	53,778
General and administrative expenses	13,274	13,695	13,046	12,606
Interest, bank fees and charges	6,288	7,265	4,778	5,018
Amortization of preproduction costs	69,396	68,341	45,783	56,867
Depreciation and amortization	3,768	3,663	4,028	4,228
Valuation, refinancing and other charges (Note 12)	39,688	38,306	–	–
Income (loss) before income taxes	(62,143)	(97,855)	14,216	(24,941)
Income taxes (Note 14)	(18,012)	817	3,162	(6,905)
Net income (loss)	$ (44,131)	$ (98,672)	$ 11,054	$ (18,036)
Earnings (loss) per common share	$ (2.57)	$ (5.75)	$ 0.75	$ (1.22)
Weighted average number of common shares outstanding	17,170,330	17,170,330	14,780,136	14,780,136
Fully diluted earnings (loss) per common share	$ (2.57)	$ (5.75)	$ 0.71	$ (1.22)
Fully diluted number of common shares outstanding	19,373,985	19,373,985	16,562,646	16,562,646

LIVENT INC.
Consolidated Statements of Retained Earnings (Deficit)
(In *thousands of* Canadian dollars
(as restated, see Note 1)

	Year ended December 31, 1997		Year ended December 31, 1996	
	Previously reported	Restated	Previously reported	Restated
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	$ 16,523	$ (25,619)	$ 5,469	$ 5,469
Cumulative effect of adjustments related to years prior to 1996 (Note 1)	–	–	–	(13,052)
NET INCOME (LOSS)	(44,131)	(98,672)	11,054	(18,036)
RETAINED EARNINGS (DEFICIT), END OF YEAR	$ (27,608)	$ (124,291)	$ 16,523	$ (25,619)

LIVENT INC.
Consolidated Statements of Changes in Financial Position
(In *thousands of* Canadian dollars)
(as restated, Note 1)

	Year ended December 31, 1997		Year ended December 31, 1996	
	Previously reported	Restated	Previously reported	Restated
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net income (loss)	$ (44,131)	$ (98,672)	$ 11,054	$ (18,036)
Items not affecting cash				
Valuation adjustment to preproduction costs	27,500	27,500	–	–
Amortization of preproduction costs	69,396	68,341	45,783	56,867
Depreciation of fixed assets	3,346	3,241	2,935	3,136
Amortization of deferred costs	1,850	1,832	1,689	1,687
Share of income from equity accounted investments	(264)	(264)	(1,160)	(1,160)
Gains on sale of assets and rights, net	(21,057)	(4,437)	(24,533)	(10,551)
Deferred income taxes	(17,134)	–	2,597	(7,597)
	19,506	(2,459)	38,365	24,346
Changes in other non-cash balances related to operations (Note 19)	7,179	31,489	(29,080)	(10,409)
Cash provided from operating activities	26,685	29,030	9,285	13,937
FINANCING				
Proceeds from issue of subordinated convertible debt	–	–	11,645	11,645
Net proceeds from issue of common shares	27,382	28,432	38,666	38,666
Proceeds from issue of senior debt	173,307	173,307	72,500	72,500
Redemption of senior debt	(80,306)	(80,306)	–	–
Decrease in other long-term debt	(5,167)	(5,167)	(7,330)	(7,330)
Decrease in term bank debt	–	–	(16,969)	(16,969)
Sale of receivables	15,937	15,937	–	–
Deferred financing costs	(3,894)	(3,894)	(1,112)	(934)
Cash provided from financing activities	127,259	128,309	97,400	97,578
INVESTING				
Preproduction costs	(86,375)	(96,488)	(61,387)	(62,821)
Investments, net of additions	3,981	3,981	64	64
Long-term receivables	2,930	(5,572)	7,946	3,098
Fixed assets, net of proceeds on sale	(65,365)	(53,099)	(23,585)	(23,142)
Assets, net of cash, acquired in connection with acquisition (Note 13)	–	–	(5,181)	(5,181)
Cash withdrawn (deposited) for theatre construction	4,761	4,761	(21,244)	(21,244)
Deferred costs	(5,648)	(2,694)	(1,488)	(479)
Cash used in investing activities	(145,716)	(149,111)	(104,875)	(109,705)
INCREASE IN CASH AND CASH EQUIVALENTS	8,228	8,228	1,810	1,810
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,810	1,810	–	–
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 10,038	$ 10,038	$ 1,810	$ 1,810

1. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

On August 10, 1998, the Company publicly announced that an internal investigation had revealed serious accounting irregularities in the Company's financial records. Concurrently, the Company under the supervision of the Audit Committee of the Board of Directors initiated an extensive investigation into these matters. As a result of this investigation, the Company has determined that there were the following accounting irregularities in the previously issued consolidated financial statements:

- Certain transactions had been improperly recorded as revenue;
- The timing of recognition of revenue for certain transactions had been improperly accelerated;
- Operating expenses had been improperly capitalized to preproduction costs and fixed assets;
- Certain operating costs, preproduction costs and fixed assets had not been properly recorded in the correct year;
- Certain preproduction costs had not been properly recorded to the appropriate production; and
- Certain preproduction costs had been improperly capitalized to fixed assets and deferred costs.

The Company's consolidated financial statements for the years ended December 31, 1997 and 1996 and deficit as at January 1, 1996 have been restated from the amounts previously reported to give effect to the correction of the accounting irregularities referred to above.

Summarized below are the accounts to which significant adjustments were made in the Restated 1997 and 1996 Consolidated Financial Statements:

(a) Accounts receivable and long-term receivables

Accounts receivable were decreased by $13.2 million and $8.6 million at December 31, 1997 and 1996, respectively, and long-term receivables were decreased by $11.7 million and $9.1 million at December 31, 1997 and 1996, respectively, as a result of certain transactions being improperly recognized as revenue or revenue recognition being improperly accelerated. To the extent cash was received with respect to these transactions, it is included in the restated consolidated financial statements as either deferred revenue or advances which are included in other liabilities.

(b) Preproduction costs

Preproduction costs were decreased by $7.4 million and $17.7 million at December 31, 1997 and 1996, respectively, as a result of the net effect of adjustments to correct the following accounting irregularities: operating expenses were improperly capitalized to preproduction costs, preproduction costs were not properly charged to the appropriate production, preproduction costs were improperly recorded to fixed asset and deferred cost accounts, and preproduction costs were not properly recorded in the proper year. There was also a consequential adjustment to accumulated amortization.

(Tabular amounts in thousands of Canadian dollars)

1. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(c) Fixed assets

The cost of fixed assets was decreased by $23.9 million and $6.2 million at December 31, 1997 and 1996, respectively, primarily as a result of correctly recording amounts that had been improperly capitalized which should have either been charged to preproduction costs or expensed as incurred.

(d) Deferred costs

Deferred costs were decreased by $4.1 million and $1.2 million at December 31, 1997 and 1996, respectively, primarily as a result of correctly recording amounts that had been improperly included in deferred costs which should have been charged to preproduction costs.

(e) Accounts payable and accruals

Accounts payable and accruals were increased by $19.4 million and $9.3 million at December 31, 1997 and 1996, respectively, primarily as a result of correctly recording expenses, preproduction costs and fixed assets that had not been properly recorded in the correct year.

(f) Other liabilities

Other liabilities of $12.1 million and $4.4 million were recorded at December 31, 1997 and 1996, respectively, consisting primarily of correctly recording advances received from third parties on certain transactions which had been improperly recognized as revenue.

(g) Net income (loss)

The following reconciles the net income (loss) as previously reported for the years ended 1997 and 1996 with the restated net loss.

	Year ended December 31, 1997	1996
Net income (loss) as previously reported	$ (44,131)	$ 11,054
Reduction of performance and merchandising revenue improperly recorded	(2,398)	(1,526)
Reduction of other revenues improperly recorded	(23,262)	(19,355)
Improper recording of operating costs	(68)	(4,303)
Improper recording of general and administrative expenses	(421)	440
Operating costs improperly capitalized to preproduction costs	(6,076)	(3,129)
Operating costs improperly capitalized to fixed assets	(4,648)	–
Change in amortization of preproduction costs resulting from the proper recording of preproduction costs	1,056	(11,084)
Change in depreciation resulting from the proper recording of fixed assets	105	(200)
Consequential adjustment of income taxes	(18,829)	10,067
Net loss as restated	$ (98,672)	$ (18,036)

1. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(h) Retained earnings (deficit) at January 1, 1996

Retained earnings at January 1, 1996 has been reduced by $13.1 million, net of $8.0 million of income taxes, which represents the cumulative effect of the accounting irregularities in the years up to December 31, 1995. This reduction primarily relates to the recording of $9.5 million of expenses which had been improperly capitalized as fixed assets or preproduction costs, a $4.7 million increase in accumulated amortization related to the proper recording of preproduction costs, a $1.9 million reduction of improperly recorded sponsorship and other revenues and $3.5 million of accounts payable which had not been properly recorded at December 31, 1995.

2. GOING CONCERN

The consolidated financial statements have been prepared on the going-concern basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The following paragraphs indicate that there is significant uncertainty concerning the Company's ability to do so.

These consolidated financial statements show that the Company had net losses for 1997 and 1996 of $98.7 million and $18.0 million, respectively, and a deficit of $124.3 million at December 31, 1997. The Company was in breach of certain covenants under its bank term loan and other debt agreements (see Notes 7, 9(b) and 10) which may cause the debt to become immediately due and payable and may cause the bank to terminate the term credit facility of which $50.7 million was drawn down at November 17, 1998. In addition, the Company has been served with a number of class action lawsuits (see Note 20(c)).

For the six months ended June 30, 1998, the Company's unaudited consolidated financial statements disclose a net loss of $77.1 million, a deficit of $201.4 million and negative shareholders' equity of $25.0 million as at June 30, 1998.

On November 18, 1998, the Company sought protection from its creditors under Chapter 11 of the United States Bankruptcy Code and is proceeding to do so under the Companies' Creditors Arrangement Act in Canada with a view to presenting a plan of arrangement and compromise to the Company's creditors.

There can be no assurance regarding the continuation of the Company as a going concern as this is dependent on the ability of the Company to obtain court protection from the Company's creditors, to formulate and implement a plan of arrangement and compromise with the Company's creditors, to operate profitably in the future and to generate adequate cash flow to finance its ongoing operations.

These consolidated financial statements do not give effect to adjustments that would be necessary as a result of implementing a plan of arrangement and compromise with the Company's creditors or if the Company is unable to continue as a going concern. These adjustments would affect the carrying values of assets and liabilities and the amount of the restated net loss and deficit

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The Company's significant accounting policies are as follows:

Principles of consolidation

The accompanying financial statements include the accounts of the Company, its wholly-owned subsidiaries, and the Company's proportionate interests in the Canadian joint venture and U.S. limited partnership relating to *Joseph and the Amazing Technicolor Dreamcoat*.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results may differ from those estimates. The assets which require management to make estimates and assumptions in determining their carry values are primarily preproduction costs as described under the heading Preproduction costs, below.

Revenue recognition

The Company earns revenue from the production, presentation and commercial exploitation of live theatrical productions and the ownership and operation of theatre facilities. Revenue consists of performance revenue, the sale of merchandise, corporate sponsorships, gains on sale of naming and exclusivity arrangements, royalties, concession income and other related fees.

Advance ticket sales sold by the Company are recorded as deferred revenue and are recognized as revenue on the date of the performance.

Gains on sale of naming and exclusivity arrangements are recognized upon the fulfillment of all significant obligations under the terms of a binding agreement.

Sponsorship revenue related to productions is generally recorded over the period of the sponsorship arrangement.

Preproduction costs

Preproduction costs associated with the creation of each separate production are deferred to the opening of the production. Such preproduction costs include expenses for pre-opening advertising, publicity and promotions, set construction, props, costumes and salaries and fees paid to the cast, crew, musicians and creative constituents during rehearsals.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Preproduction costs are amortized based on the estimated revenues and profitability of each production. The period of amortization is limited to a maximum of five production years. The Company reviews the carrying value of the unamortized preproduction costs for each separate production on a quarterly basis and, where conditions warrant for a particular production, the Company revises the amortization period based on actual and estimated revenues and profitability for that production and its experience with other similar productions.

When appropriate, the Company writes down preproduction costs to an amount not in excess of their estimated net recoverable amount.

Subsequent preproduction costs incurred in connection with the moving of a particular production from one venue to another, including pre-opening advertising, are deferred to the opening of the production at that venue and the costs are fully amortized during the presentation of the production at that venue.

Fixed assets and related depreciation

Fixed assets are recorded at cost, net of grants received, and are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives are as follows:

Buildings	40 years
Leasehold improvements	Term of lease plus one renewal period
Furniture, fixtures and equipment	Up to 15 years
Computer hardware and software	5 years

Project costs of theatre developments

Direct construction and indirect carrying costs**,** such as interest and other related financing costs**,** are capitalized until completion of the project at which time depreciation will commence.

Inventory

Inventory is valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

Investments

The Company accounts for investments in which it has significant influence using the equity method of accounting. Other investments are recorded at cost.

Deferred costs

Costs relating to pre-opening expenditures for new theatres are deferred and amortized over three years from the date of the theatre opening.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Costs associated with the purchase of marketing rights to sell corporate sponsorships of activities presented at the Ford Centre in Toronto have been deferred and are being amortized over 15 years.

Advance royalty payments to authors, incurred to acquire production rights, are deferred and expensed over the period of presentation of the related production.

Financing costs relating to long-term debt are deferred and amortized over the term of the related indebtedness.

Foreign currency translation

The assets and liabilities of the Company's foreign subsidiaries (all of which are considered self-sustaining) denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Revenue and expenses are translated at the average rate of exchange for the year. Exchange gains or losses on translation of the financial statements of foreign subsidiaries are included in a separate component of shareholders' equity.

Other monetary assets and liabilities are translated at the exchange rates prevailing at the balance sheet date and revenues and expenses at rates of exchange on the transaction dates. Translation gains and losses are included in income except for unrealized gains and losses arising from the translation of long-term monetary items which are deferred and amortized on the straight-line basis over the remaining life of the related items.

Cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of three months or less.

Earnings per share

Earnings per share ("EPS") is calculated using the weighted average number of common shares outstanding during the year. The fully diluted EPS gives effect to the exercise of all common stock equivalents outstanding during the year. Common stock equivalents are excluded from the computation of fully diluted EPS in periods in which they have an anti-dilutive effect.

Balance sheet classification

The balance sheets are prepared on a non-classified basis in conformity with accepted entertainment industry practice.

(Tabular amounts in thousands of Canadian dollars)

4. FIXED ASSETS

	December 31, 1997		
	Cost	Accumulated Depreciation (Restated - Note 1)	Net Book Value
Land	$ 25,016	$ –	$ 25,016
Buildings	135,881	8,452	127,429
Project costs of theatre developments	15,656	–	15,656
Leasehold improvements	3,364	934	2,430
Furniture, fixtures and equipment	7,714	2,614	5,100
Computer hardware and software	2,215	951	1,264
	$ 189,846	$ 12,951	$ 176,895

	December 31, 1996		
	Cost	Accumulated Depreciation (Restated - Note 1)	Net Book Value
Land	$ 27,117	$ –	$ 27,117
Buildings	74,942	6,563	68,379
Project costs of theatre developments	23,056	–	23,056
Leasehold improvements	4,122	1,431	2,691
Furniture, fixtures and equipment	7,052	2,204	4,848
Computer hardware and software	1,686	740	946
	$ 137,975	$ 10,938	$ 127,037

(a) *Pantages Place Project* - Toronto

The Company originally entered into an agreement with the City of Toronto ("the City") permitting the Company to expand the stage depth of its Pantages Theatre and to construct a mixed use development on lands adjoining the Pantages Theatre. As at December 31, 1997, the Company had invested approximately $15.8 million ($16.7 million as at December 31, 1996) in land and costs associated with the development (which amounts are included in land and project costs of theater developments). In March 1994, the Company received an initial payment of $3.6 million from the City to be used to repay a second mortgage of $1.8 million and the remainder to cover construction and demolition costs. Under the terms of the original agreement with the City, if the Company proceeded with the development, it would have been obligated to repay the $3.6 million to the City, together with interest thereon. Under the amended agreement with the City described below, the Company paid the City $2 million in cash in 1997 and ceased to be obligated to repay the $4.5 million ($3.6 million together with interest accrued thereon) which together reduced land and costs associated with the development by $2.5 million in 1997.

4. FIXED ASSETS (continued)

On April 2, 1996, Toronto City Council approved modifications to the original agreement. The Company received city approvals in 1997. The Company intended to use the relevant lands to construct an underground parking facility at a cost of approximately $6.0 million, to extend the backstage of the Pantages Theatre and to construct a new 1,400 seat theatre adjoining the Pantages Theatre.

During 1997 the Company sold the excess density rights associated with this project to a real estate developer for a hotel/condominium tower to be built next to the new theatre, receiving an 18% interest in the project. The gain of $5.6 million on this transaction has been deferred against the cost of the project and will be recorded when it is realized. Also in 1997, the Company sold the naming rights to the existing Pantages Theatre and the proposed new theatre (see Notes 5(a)(iii) and (iv)). Revenue was recorded on the sale of the naming rights to the extent it related to the existing Pantages Theatre.

Note 20(b) describes the Company's subsequent decision with respect to this project.

(b) Lyric/Apollo Theatres - New York

The Company entered into a long-term lease with The New 42nd Street, Inc., **(**a non-profit organization authorized by the State of New York to oversee the redevelopment of a majority of theatres on 42nd Street in the City of New York**)** to build a new Broadway theatre on the site of the Lyric and Apollo Theatres, incorporating certain historical and architectural elements of the old theatres in the new structure. The new theatre opened in December 1997. It has 1,821 seats and is accessible from both 42nd and 43rd Streets. The term of the lease is 40 years with extension options at the Company's discretion for up to 35 additional years. The Company sold the naming rights to this theatre in 1996 (see Notes 5(a)(ii) and (iv)).

At December 31, 1997, the Company had $0.4 million (U.S. $0.3 million) on deposit in an interest-bearing escrow account to be used for funding final construction costs for this project.

(c) Oriental Theatre - Chicago

The Company owns, is restoring and will operate the Oriental Theatre in Chicago as a state-of-the-art facility with approximately 2,180 seats and a rehearsal hall. Construction on the Oriental Theatre is scheduled to be completed by the fall of 1998.

The Chicago City Council approved a grant for a portion of the estimated total U.S. $35 million costs of acquisition and construction. The City of Chicago has contributed the property including associated retail space at an estimated amount of U.S. $7.3 million and will contribute an additional U.S. $9.7 million by way of a grant towards the cost of construction. The estimated U.S. $18.0 million balance of the construction costs is being funded by the Company substantially on a pro rata basis with the cash grant.

4. FIXED ASSETS (continued)

At December 31, 1997, the Company had a deposit in an interest-bearing escrow account of $16.1 million (U.S. $11.3 million) to be used solely for funding the Company's portion of the construction costs. The Company sold the naming rights to this theatre in 1996. Upon acquiring title to the property in 1997, the Company recorded in revenue a gain on sale (see Notes 5(a)(ii) and (iv)).

The City of Chicago's contribution of land and grant are secured by a mortgage on the property repayable if the Company does not complete renovation/construction in a timely manner or thereafter does not comply with certain operating covenants during the 10 year term of the mortgage.

5. LONG -TERM RECEIVABLES

The amounts receivable under the agreements referred to in (a) below have been recorded in revenue in the year indicated at their net present value. The current portion of the amounts receivable at December 31, 1997 is included in accounts receivable with the non-current portion included in long-term receivables.

(a) Naming and Exclusivity Arrangements:

(i) During 1994, the Company and Georgia Strait entered into an agreement to sell the marketing rights to name the Ford Centres - Toronto and Vancouver in perpetuity. Pursuant to the terms of the agreement, the Company and Georgia Strait would receive annual payments over 12 years commencing in 1995. During 1997, the Company sold these receivables for cash of $4.8 million.

(ii) In 1996, the Company entered into an Exclusivity and Naming Agreement (the "Agreement") with Ford Motor Company ("Ford") whereby Ford acquired (i) the naming rights to two of the Company's theatres and (ii) the right of first negotiation with respect to the naming rights for any future theatres owned or otherwise controlled by the Company. The payments to be made to the Company under this agreement commenced on the signing of the Agreement and are made annually through 2006. The amounts receivable from June 28, 1997 through to the year 2002, inclusive, were sold in 1997 for cash of $11.2 million.

(iii) During 1997, the Company entered into a naming agreement with AT&T Canada Enterprises Inc. ("AT&T") whereby AT&T acquired the right to name in perpetuity the existing Pantages Theatre together with a new theatre to be constructed adjacent to the existing theatre (see Note 4(a)). The payments to be made to the Company under this agreement commenced on the signing of the agreement and are made annually through to 2007 (see Note 20(b)).

(iv) Included in revenue are gains on sale with respect to these naming and exclusivity arrangements representing 4.0% and 4.3% of revenue in 1997 and 1996, respectively.

(Tabular amounts in thousands of Canadian dollars)

5. LONG -TERM RECEIVABLES (continued)

(v) The naming agreements discussed in (i) and (ii) above include attendance and advertising expenditure thresholds which, if not met by the Company, could result in a reduction of the receivables related to these transactions. In addition, the acquiror of the receivables under these agreements has the right of recourse against the Company in the event that the Company is in default under the naming agreements.

(b) Other:

(i) Included in long-term receivables at December 31, 1997 are debentures in the amount of $2.3 million bearing interest at the rate of 8% per annum. Such debentures are receivable from a company in which Livent has a minority interest.

(ii) Also included in long-term receivables are loans to certain officers of the Company of $0.5 million at December 31, 1997 and 1996. The loans bear interest at various interest rates and have specific repayment terms or are repayable from management bonuses, if declared.

6. DEFERRED COSTS

	December 31, 1997	December 31, 1996
	(Restated - Note 1)	
Pre-opening theatre expenditures	$ 1,784	$ 478
Marketing rights	1,878	2,048
Advance royalty payments to authors	2,801	1,030
Deferred financing costs	4,497	1,852
Other	117	–
	$ 11,077	$ 5,408

7. TERM BANK DEBT

At December 31, 1997, the Company had available a $50 million revolving term credit facility from its bank. The maturity date of the facility is November 30, 2000 with any amounts outstanding due on that date. At December 31, 1997 and 1996, the Company had not drawn on this facility.

Loans drawn on the facility bear interest at the rate of prime plus 1.5% per annum. The Company incurred $1.5 million and $1.3 million in 1997 and 1996, respectively, in interest on its term bank debt. The term credit facility is secured by a first mortgage on the Pantages Theatre and a general security interest in all other property.

As the Company is in breach of a number of financial and other covenants under the credit agreement, the bank may: (i) declare, by written notice, any outstanding loans under this agreement to be immediately due and payable together with accrued interest, (ii) cancel, by written notice, the term commitment and (iii) realize on its security. The bank has issued a compliance waiver to the Company with respect to the financial covenants but not with respect to the other covenants.

(Tabular amounts in thousands of Canadian dollars)

8. OTHER LONG-TERM DEBT

	December 31, 1997	December 31, 1996
Two term loans, secured by a first and second charge on the Ford Centre - Vancouver theatre, due August 1, 2003, bearing interest at 10.05% with aggregate monthly blended payments of principal and interest of $0.1 million.	$ 10,033	$ 10,369
First mortgage on the Company's head office due December 1, 2001 bearing interest at 7.35%, with monthly blended payments of principal and interest of $0.02 million.	2,320	2,380
Long-term obligation associated with the acquisition of certain marketing rights, unsecured and non-interest bearing, payable in annual instalments of $0.5 million. This obligation has been recorded at its net present value.	3,280	3,533
Loan from City of Toronto (see Note 4(a))	–	4,462
Other	790	846
	$ 16,423	$ 21,590

Principal repayments are due as follows:

1998	$ 1,247
1999	1,350
2000	944
2001	3,011
2002	907
Thereafter	8,964
Total	$ 16,423

The Company incurred $1.5 million in 1997 and 1996 in interest on other long-term debt of which $0.1 million and $0.4 million in 1997 and 1996, respectively, have been capitalized to project costs associated with theatre developments (see Note 4(a)).

(Tabular amounts in thousands of Canadian dollars)

9. SENIOR DEBT

(a) Senior secured debentures

On December 10, 1996, the Company issued 8.07% Series A Senior Secured Debentures (the "Senior Debentures") due December 1, 2003 in the aggregate principal amount of $72.5 million. Commencing March 1, 1997 interest was compounded and payable quarterly on the $72.5 million principal outstanding. The Company incurred $4.9 million and $0.4 million in interest on the Senior Debentures in 1997 and 1996, respectively, of which $3.6 million and $0.2 million in 1997 and 1996, respectively, have been capitalized to theatre developments (see Notes 4(b) and (c)).

In October 1997, the Senior Debentures were redeemed at the option of the Company, in whole, by paying all accrued and unpaid interest on the Senior Debentures together with an amount equal to the price of the Senior Debentures, calculated on the business day next following the date on which the Company gave notice of redemption, to provide a yield to maturity on the Senior Debentures equal to the Government of Canada yield on such date plus 0.5%. The premium of $7.8 million paid on redemption, being the excess over the principal amount outstanding of $72.5 million, was charged to income in 1997 and included in the line item "valuation refinancing and other charges" together with the amortization of the remaining deferred finance fees relating thereto in the amount of $0.8 million (see Note 12).

(b) Senior unsecured notes

On October 16, 1997, the Company issued 9-3/8% Senior Notes (the "Senior Notes") due October 15, 2004 in the aggregate principal amount of U.S. $125 million pursuant to a trust indenture (the "Indenture"). Interest is payable semi-annually in arrears on each October 15 and April 15, commencing April 15, 1998. The Company incurred $3.5 million interest on the Senior Notes in 1997 of which $1.2 million has been capitalized to theatre developments (see Notes 4(b) and (c)).

The Senior Notes are redeemable at the option of the Company, in whole or in part, at any time on or after October 15, 2001, at the following redemption prices (expressed as a percentage of the principal amount), together with accrued interest:

Year Ended	Percentage
10/15/01	104.688%
10/15/02	102.344%
10/15/03	100.000%

9. SENIOR DEBT (continued)

Notwithstanding the foregoing, the Company, at its option, may redeem in the aggregate up to 35% of the original principal amount of the Senior Notes at any time prior to October 15, 2000 at a redemption price equal to 109.375% of the aggregate principal amount so redeemed, plus accrued interest, if any, out of the net proceeds of one or more public equity offerings, provided that any such redemption occurs within 90 days following the closing of any such public equity offering.

The Senior Notes are general senior unsecured obligations of the Company ranking pari passu in right of payment with all other existing and future unsecured senior indebtedness of the Company and senior in right of payment to any subordinated indebtedness of the Company (see Note 10). The Senior Notes will be effectively subordinated in right of payment to all secured indebtedness of the Company, including indebtedness under the Company's bank term credit facility (see Note 7).

The Senior Notes of $173.3 million as at December 31, 1997 are shown net of an unrealized foreign exchange loss of $5.5 million.

As the Company is in breach of a number of covenants under the Indenture, the trustee under the trust indenture or the holders of not less than 25% of the aggregate principal amount of the Senior Notes may, upon notice, declare an event of default, after thirty days written notice thereof, which would cause the principal to be immediately due and payable together with accrued interest.

In the event of a change in control, as defined, the holders of the Senior Notes will have the right to require the Company to repurchase their notes at 101% of the aggregate principal amount plus accrued interest to the repurchase date, which can be no later than 65 days after the occurrence of a change in control. Notwithstanding this right, the holders of the Senior Notes may not be able to compel the Company to purchase the Senior Notes unless the Company is able at the time to refinance all of its obligations, or obtain requisite consents, in respect of the revolving term credit facility (see Note 7).

A change of control would be deemed to have occurred if neither Mr. Garth Drabinsky nor Mr. Myron Gottlieb is employed in an executive capacity, and involved in the strategic planning, with the Company. Both Mr. Drabinsky and Mr. Gottlieb were suspended by the Company on August 10, 1998 and that suspension continues to date.

10. SUBORDINATED CONVERTIBLE DEBT

(a) On July 29, 1996, the Company issued 10% Subordinated Convertible Debentures (the "Debentures") due July 28, 2003 in the aggregate principal amount of U.S. $8.5 million. A financial institution, controlled by a director of the Company, purchased U.S. $2.65 million of Debentures on the same terms and conditions as negotiated with the five other unrelated institutions purchasing Debentures. The interest rate increases to 13% per annum in the event the Company either becomes controlled in the future by a person or group other than a group including Messrs. Drabinsky and Gottlieb or in the event of default in the payment of principal or interest on the Debentures. Furthermore, the interest rate increases to 17% per annum in the event that such change in control is followed by such a payment default. All interest is payable quarterly. The Company incurred $1.2 million and $0.4 million in interest on the Debentures in 1997 and 1996, respectively, which has been capitalized to project costs associated with theatre developments (see Note 4).

The Debentures are subordinated to the bank's and senior debtholders' security (see Notes 7 and 9). The principal amount of the Debentures, in whole or in part, may be converted by the holder thereof into common shares of the Company at a conversion price of U.S. $12.00 per common share prior to July 28, 1999; U.S. $13.00 per common share during the period July 29, 1999 to July 28, 2001; and U.S. $14.00 per common share during the period July 29, 2001 to July 28, 2003.

The Debentures are redeemable at the option of the Company on or after May 29, 1999 if the Company's common shares trade on NASDAQ for 20 consecutive trading days, in a period ending not more than five trading days preceding notice of redemption, at a price that is at least 150% of the conversion price in effect at that time.

As the Company is in breach of a number of covenants in the debenture agreement, subject to the subordination terms, the holders of not less than 66 2/3% of the Debentures currently outstanding may declare the Debentures to be immediately due and payable together with accrued interest.

(b) On February 3, 1995, the Company issued 8.95% Subordinated Convertible Notes (the "Notes") due February 29, 2000, in the aggregate principal amount of $15 million to two U.S. limited partnerships managed by Thomas H. Lee Company ("LeeCo"). Thomas H. Lee, LeeCo President, is a director of the Company. The interest rate increases to 13% per annum in the event the Company either becomes controlled by a person or group other than a group including more than one of Messrs. Drabinsky and Gottlieb and entities affiliated with LeeCo or in the event of default in the payment of principal or interest on the Notes. Furthermore, the interest rate increases to 17% per annum in the event that such change in control is followed by such a payment default. All interest is payable quarterly. The Company incurred $1.3 million in interest on the Notes in each of 1997 and 1996.

The Notes are subordinated to the bank's and senior debtholders' security (see Notes 7 and 9).

(Tabular amounts in thousands of Canadian dollars)

10. SUBORDINATED CONVERTIBLE DEBT (continued)

The Notes are redeemable at the option of the Company on or after February 28, 1999, if the Company's common shares have traded for 20 days during a period of 30 consecutive trading days ending not more than 5 trading days preceding notice of redemption, at a price equal to or more than $18.48 per common share.

The holders of the Notes have the right at any time up to February 28, 2000, to convert to common shares at $13.20 per common share.

If indebtedness of the Company held by banks or other bona fide financial institutions becomes due and payable prior to its stated maturity, the holders of the Notes may declare the Notes to be immediately due and payable together with accrued interest (see Notes 7 and 9(b)).

11. SHARE CAPITAL

Authorized
Unlimited number of common shares
Unlimited number of First Preferred Shares, issuable in series

Issued common shares

	Number of Shares	Amount (Restated - Note 1)
Balance at December 31, 1995	11,962,110	$ 56,446
Issued:		
On exercise of stock options	13,500	122
For cash	3,750,000	42,565
Share issue costs, net of deferred income taxes	–	(2,236)
Balance at December 31, 1996	15,725,610	96,897
Issued:		
On exercise of stock options	253,750	2,292
For cash	2,000,000	27,500
Share issue costs	–	(1,359)
Balance at December 31, 1997	17,979,360	$ 125,330

(Tabular amounts in thousands of Canadian dollars)

11. SHARE CAPITAL (continued)

Stock option plan

Under the Company's employee stock option plan, the following number of options were granted, cancelled and exercised for the years indicated.

	1997	1996
Balance at beginning of year	2,284,375	1,672,250
Stock options granted	209,500	639,250
Stock options cancelled	(39,875)	(13,625)
Stock options exercised	(253,750)	(13,500)
Balance at end of year	2,200,250	2,284,375

The options entitle the holder to acquire common shares of the Company at prices ranging from $9.00 to $17.00 per share and expire on various dates through June 2004. These options vest as follows: 25% on the second anniversary of the date of grant and 25% on each of the three subsequent anniversary dates. The options expire six years from the date of grant of the option.

12. VALUATION, REFINANCING AND OTHER CHARGES

Valuation, refinancing and other charges consist of:

Valuation adjustment to preproduction costs	$ 27,500
Refinancing and other charges	10,806
	$ 38,306

In addition to the amortization expense for each separate production, the Company wrote down preproduction costs by $27.5 million to reduce the overall carrying value of its preproduction costs to their estimated net recoverable amount. After giving effect to the preproduction cost adjustments arising from the accounting irregularities, the Company re-evaluated the restated net book value of its preproduction costs and determined that the $27.5 million write-down was still appropriate at December 31, 1997 to reduce the overall carrying value of the preproduction costs to their estimated net recoverable amount.

The $10.8 million refinancing and other charges represent primarily the costs associated with the refinancing of the Company’s debt, including the premium paid on the early redemption of the Company’s $72.5 million Senior Secured Debentures and the remaining unamortized finance fees associated therewith (see Note 9(a)) and the finance fees associated with the sale of certain long-term receivables.

13. ACQUISITION

In October 1994, the Company acquired its initial 49% interest in Georgia Strait, a company formed to build and operate a theatre in Vancouver. In 1996, the Company acquired all of the outstanding shares which it did not already own in Georgia Strait.

The 1996 acquisition has been accounted for using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets purchased and liabilities assumed based upon their fair values at the acquisition date. Assets acquired, consisting primarily of fixed assets, totaled $35.6 million (of which $0.8 million was cash) and liabilities assumed were $23.1 million. Consideration for the net purchase price of $12.5 million consisted of the $6.6 million carrying value of the Company's investment in Georgia Strait prior to the acquisition and $5.9 million in cash. The operating results of Georgia Strait have been included in the consolidated statements of income effective January 1, 1996.

As part of the acquisition agreement, certain of Georgia Strait's long-term debt of $9 million was repaid in December 1996.

14. INCOME TAXES

The provision for income taxes differs from the Company's combined federal and provincial statutory income tax rates due to the following:

	Year ended December 31,	
	1997	1996
	(Restated - Note 1)	
	%	%
Combined basic federal and provincial statutory rates	(44.0)	(44.0)
Losses not tax-effected	46.3	16.6
Capital gains	(2.3)	(2.6)
Large corporations and other taxes	0.9	2.4
Effective tax rate	0.9	(27.6)

The Company has non-capital losses of approximately $140 million, the benefit of which has not been reflected in these consolidated financial statements and which will be recorded when, and if, it is realized. These losses (dollars in millions) expire as follows:

Year	Losses
2002	$25.0
2003	14.0
2004	26.0
2011	43.0
2012	32.0

(Tabular amounts in thousands of Canadian dollars)

15. CONTINGENCIES AND COMMITMENTS

Contingencies and commitments not otherwise disclosed in these consolidated financial statements are as follows:

Letters of credit

The Company is contingently liable for outstanding letters of credit of approximately $3.8 million at December 31, 1997.

Operating leases

Minimum annual lease payments under operating leases are approximately as follows:

1998	$	16,246
1999		12,281
2000		10,326
2001		9,461
2002		6,165
Thereafter		48,206
Total	$	102,685

Long-term commitment

The Company is the exclusive manager of the Ford Centre, Toronto. The initial term of the contract is for 10 years through 2003 with option rights exercisable by the Company to extend its tenure to up to 40 years on specified terms for the first 20 years and thereafter on terms to be negotiated. Under its agreement, the Company has certain minimum booking obligations and is responsible to pay a fixed annual fee and to bear all costs incurred in operating the Centre other than those relating to repair and maintenance of the building.

16. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise disclosed in these consolidated financial statements are as follows:

Included in direct operating expenses or preproduction costs in 1997 and 1996 are lease payments for light and sound equipment and production related sets and props totalling $5.5 million and $11.6 million, respectively, made to partnerships in which the Company was a general partner, until March 31, 1997 and a set construction company in which the Company has an equity interest.

Included in direct operating expenses or preproduction costs are consulting fees of $0.7 million and $0.6 million in 1997 and 1996, respectively, which were paid to an entity controlled by a Director of the Company.

(Tabular amounts in thousands of Canadian dollars)

16. RELATED PARTY TRANSACTIONS (continued)

Included in deferred revenue is $2.25 million and $0.8 million at December 31, 1997 and 1996, respectively, of payments received from an entity controlled by a former Director of the Company with respect to the sale of certain foreign production rights.

17. SEGMENTED INFORMATION

The Company considers that its operations fall principally into one class in that it is a vertically integrated producer of live theatrical entertainment, which includes its operation of theaters.

Operations by geographic segment:

The following table sets forth information by geographic area:

	Year ended December 31, 1997	Year ended December 31, 1996
	(Restated - Note 1)	
Total revenue		
Canada	$ 142,526	$ 122,238
United States and other	152,195	188,736
	$ 294,721	$ 310,974
Operating loss		
Canada	$ (28,516)	$ (16,134)
United States and other	(62,074)	(3,789)
	(90,590)	(19,923)
Interest, bank fees and charges	7,265	5,018
Loss before income taxes	$ (97,855)	$ (24,941)

	As at December 31 1997	As at December 31 1996
	(Restated - Note 1)	
Identifiable assets		
Canada	$ 149,430	$ 155,670
United States and other	175,661	106,774
	$ 325,091	$ 262,444

(Tabular amounts in thousands of Canadian dollars)

18. FINANCIAL INSTRUMENTS

The fair values of cash, accounts receivable, accounts payable and accruals and other liabilities are equivalent to their carrying value because of the short-term maturity of those instruments.

The fair values of long-term receivables, as described in Note 5, approximate their carrying values.

The estimated fair values of the Company's long-term debt are considered to be equivalent to their carrying value based upon consideration of borrowings with similar credit ratings and maturities.

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of long-term receivables (including the current portion thereof). The Company believes that this concentration of credit risk with respect to these items is limited given the creditworthiness of the counter-parties.

The Company is not party to any derivative instruments.

19. CHANGES IN OTHER NON-CASH BALANCES RELATED TO OPERATIONS

The changes in other non-cash balances related to operations are as follows:

	1997	1996
	(Restated - Note 1)	
Accounts receivable	$ 2,653	$ 489
Income taxes recoverable	582	1,716
Sundry and prepaid assets	(7,370)	(1,052)
Inventory	(188)	566
Accounts payable and accruals	12,787	(5,138)
Deferred revenue	15,331	(8,730)
Other liabilities	7,694	1,740
	$ 31,489	$ (10,409)

20. SUBSEQUENT EVENTS

a) In June 1998, the Company issued, in two separate private placements, a total of 4,476,000 common shares at US$8 per share for aggregate net proceeds to the Company of $47.2 million.

b) The Company has decided not to continue with the new 1,400-seat theatre referred to in Note 4(a) and is negotiating the sale of its interest in the hotel/condominium tower and parking facility.

c) Since the Company's announcement of the discovery of accounting irregularities on August 10, 1998, the undernoted lawsuits have been filed against the Company and certain officers and directors. While the resolution of this litigation may have a material effect on the future operations and cash flows of the Company, management is unable to estimate the effect at this time.

20. SUBSEQUENT EVENTS (continued)

(i) Fifteen class action lawsuits have been brought against the Company in the United States District Court for the Southern District of New York on behalf of persons or entities who purchased Livent common stock naming as defendants Livent Inc., Garth Drabinsky and Myron Gottlieb. The complaints principally allege violations of Sections 10(b) and 20(a) of the Securities Act of 1934. The plaintiffs allege that the defendants made false and misleading statements concerning Livent's revenues, assets and earnings for the 1996 and 1997 fiscal years and the first quarter of 1998, as a result of which the market price of Livent's common stock was artificially inflated. The plaintiffs have moved to consolidate the shareholder actions and for the appointment of lead plaintiffs and counsel. Upon such consolidation and appointment, the Company will respond to the complaints.

(ii) On October 9, 1998, a class action lawsuit was filed against the Company in the United States District Court for the Southern District of New York on behalf of all persons or entities who purchased Livent's 9-3/8% Senior Notes due 2004 ("Noteholder Action"). The defendants include Livent, Inc., and its subsidiaries, Garth Drabinsky and Myron Gottlieb. The complaint alleges violations of Sections 11, 12(2) and 15(a) of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The plaintiffs allege that the defendants made false and misleading statements concerning Livent's revenues, assets and earnings for the 1996 and 1997 fiscal years and the first quarter of 1998, as a result of which the market price of Livent's 9-3/8% Senior Notes was artificially inflated. The Noteholder Action also asserts that the Registration Statement and Prospectus dated December 18, 1997, pursuant to which the notes were offered to the public, were false and misleading, and that, as a result of the suspension of Messrs. Drabinksy and Gottlieb on August 10, 1998, the noteholders are entitled to be paid 101% of the principal amount of the notes plus accrued and unpaid interest pursuant to a "change of control" provision in the indenture governing the notes. The Noteholder Action seeks monetary damages in unspecified amounts together with an award of costs and attorney fees. In addition, the Noteholder Action seeks declaratory and injunctive relief compelling the Company to offer to redeem the notes at 101% of face value. The plaintiffs have moved for appointment of lead plaintiffs and lead counsel. Upon such appointment, the Company will respond to the complaints.

d) On November 18, 1998, the Company sought protection from its creditors under under Chapter 11 of the United States Bankruptcy Code and is proceeding to do so under the Companies' Creditors Arrangement Act in Canada with a view to presenting a plan of arrangement and compromise to the Company's creditors.

e) On November 18, 1998, the Company terminated the employment of Messrs. Drabinsky and Gottlieb and filed suit against them for $225 million in damages for fraud, conversion and other causes.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of
Livent Inc.

Under the date of March 27, 1998, except for Notes 1, 2, 9(b) and 20, which are as of November 18, 1998, we reported on the restated consolidated balance sheets of Livent Inc. as at December 31, 1997 and 1996, and the consolidated statements of income (loss), retained earnings (deficit) and changes in financial position for each of the years then ended. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related supplemental note entitled "Reconciliation with United States generally accepted accounting principles." This supplemental note is the responsibility of the Company's management. Our responsibility is to express an opinion on this supplemental note based on our audits.

In our opinion, such supplemental note, when considered in relation to the restated basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

DELOITTE & TOUCHE LLP
Toronto, Canada
November 18, 1998 Chartered Accountants

COMMENTS BY AUDITOR FOR U.S. READERS ON CANADA-U.S. REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 2 to the financial statements. Our report to the shareholders dated March 27, 1998, except for Notes 1, 2, 9(b), and 20 which are as of November 18, 1998, is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when they are adequately disclosed in the financial statements.

DELOITTE & TOUCHE LLP
Toronto, Canada
November 18, 1998 Chartered Accountants

RECONCILIATION WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(Tabular amounts in thousands of Canadian dollars, except per share data)

Reconciliation of net loss under Canadian and U.S. GAAP:

	Years ended December 31, 1997	1996
Net loss as shown in the restated consolidated statements of income (loss) in accordance with Canadian GAAP	$ (98,672)	$ (18,036)
Adjustment relating to pre-opening theatre expenditures, net of income taxes of $508,000 and $302,000 in 1997 and 1996, respectively		
- to direct operating expenses	(761)	-
- to depreciation and amortization expense (a)	-	371
Unrealized exchange loss on translation of long-term debt, net of income taxes of $2,581,000 (b)	(3,285)	-
Adjustment to direct operating expenses with respect to third party participation in losses, net of income taxes of $959,000 (c)	(1,438)	-
Premium and write-off on early redemption of long-term debt, net of income tax recovery of $3,780,000 (d)	4,811	-
Impact on income tax valuation adjustment of the above adjustments	(268)	302
Loss before extraordinary items in accordance with U.S. GAAP	(99,613)	(17,363)
Extraordinary items:		
Premium and write-off on early redemption of long-term debt, net of income tax recovery of $3,780,000 (d)	(4,811)	-
Extinguishment of debt at a discount, net of income taxes of $1,106,000 (e)	1,407	-
Impact on income tax valuation adjustment of the above extraordinary item adjustments	(2,674)	-
Net loss in accordance with U.S. GAAP	$ (105,691)	$ (17,363)
Basic loss per common share - U.S. GAAP		
- Before extraordinary items	$ (5.80)	$ (1.17)
- Extraordinary items	(0.35)	-
- Net loss (f)	$ (6.15)	$ (1.17)
Fully diluted loss per common share - U.S. GAAP		
- Before extraordinary items	$ (5.80)	$ (1.17)
- Extraordinary items	(0.35)	-
- Net loss (f)	$ (6.15)	$ (1.17)

RECONCILIATION WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(a) *Accounting for Pre-opening Theatre Expenditures*

Under U.S. GAAP pre-opening theatre expenditures are expensed upon the opening of the theatre whereas for Canadian GAAP purposes these amounts are deferred and amortized over three years from the date of opening.

(b) *Unrealized Exchange Loss on Translation of Long-term Debt*

Under Canadian GAAP, unrealized exchange gains and losses arising on the translation of long-term monetary items are deferred and amortized over the life of such items whereas, under U.S. GAAP, such gains and losses would be included in earnings as they occur.

(c) *Third Party Participation in Production Losses*

The Company is entitled to recover losses on certain productions from profits of subsequent presentations which would otherwise be payable to third party participants. Under Canadian GAAP, these amounts are recognized in earnings when there is reasonable assurance of recovery. Under U.S. GAAP, the recovery is recognized at the time that the profits on subsequent presentations are earned.

(d) *Premium and Write-off on Early Redemption of Long-term Debt*

Under Canadian GAAP, losses realized on the early redemption of long-term debt are included in earnings before extraordinary items. Under U.S. GAAP, these items are specifically classified as extraordinary items.

(e) *Extinguishment of Debt at a Discount*

The specific transaction to be reconciled to U.S. GAAP is described in Note 4(a) to the financial statements and relates to the obligation payable to the City of Toronto in connection with the Pantages Place Project. Under Canadian GAAP, the $2.5 million has been recorded as a reduction of the land and other costs associated with the project. Under U.S. GAAP, this item is included in income and classified as an extraordinary item.

(f) *Earnings Per Share*

For purposes of reporting under U.S. GAAP, FASB's Statement No. 128, "Earnings Per Share," requires companies to replace the presentation of primary earnings per share ("EPS") reported in previous years with a presentation of basic EPS. This is consistent with Canadian GAAP. The statement also requires dual presentation of basic and fully diluted EPS (which includes the impact of convertible debentures and stock options) for all entities with complex structures.

Reconciliation of balance sheet amounts under Canadian and U.S. GAAP:

Shareholders' equity determined under U.S. GAAP as at December 31, 1997 would decrease by $7,019,000 compared to the amount determined under Canadian GAAP. As at December 31, 1997, under U.S. GAAP, the corresponding decrease in net assets would result from an increase in fixed assets of $2,513,000, a decrease in deferred costs of $1,269,000, a decrease in sundry assets and prepaid expenses of $2,397,000, and an increase in long-term debt of $5,866,000.

As at December 31, 1996, there was no difference in shareholders' equity under U.S. GAAP as compared to Canadian GAAP.

RECONCILIATION WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Statements of Changes in Financial Position

The following table reflects the total operating, financing and investing activities under U.S. GAAP. Differences between Canadian and U.S. GAAP determination of operating, financing and investing activities in 1997 reflect the adjustments resulting from different treatment under U.S. GAAP for the transactions discussed under (a), (b) and (e) above under "Reconciliation of net income under Canadian and U.S. GAAP."

There were no differences from amounts under Canadian GAAP in 1996.

	Years ended December 31,	
	1997	1996
Operating activities determined using U.S. GAAP	$ 21,896	$ 13,937
Financing activities determined using U.S. GAAP	$ 136,687	$ 97,578
Investing activities determined using U.S. GAAP	$ (150,355)	$ (109,705)
Supplemental disclosure of cash flow information		
Interest paid	$ 9,473	$ 5,649
Income taxes paid	$ 407	$ 897

Supplemental disclosure of non-cash activities

In addition, under U.S. GAAP, the following non-cash transactions would be eliminated from individual line item amounts within the financing and investing category:

Increases in other long-term debt of $301,000 and $6,447,000 would be shown separately in 1997 and 1996, respectively and the amount of the decrease in other long-term debt presently shown would be increased in 1997 and 1996, respectively, by an equivalent amount.

RECONCILIATION WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Other Information

Rental Expense under Operating Leases

Rental expense under operating leases for the years ended December 31, 1997 and 1996 are $13,235,000, and $14,116,000, respectively.

Income Taxes

	Years ended December 31,	
	1997	1996
Loss before income taxes		
Canada	$ (35,781)	$ (21,152)
United States and other	(62,074)	(3,789)
	$ (97,855)	$ (24,941)
Current tax provision		
Canada	$ 595	$ 422
United States and other	222	243
	817	665
Deferred tax recovery		
Canada	-	(6,055)
United States and other	-	(1,515)
	-	(7,570)
Provision for (recovery of) income taxes	$ 817	$ (6,905)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts applicable for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31 are as follows:

RECONCILIATION WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

	1997	1996
Preproduction costs	$ 17,747	$ 18,805
Fixed assets	5,934	5,753
Deferred costs	1,605	1,117
Share issue costs	(1,231)	(2,052)
Net operating loss carryforwards	(83,500)	(34,750)
	(59,445)	(11,127)
Valuation allowance	59,445	11,127
Net deferred income tax liability	$ -	$ -

Stock-based compensation

The Company does not recognize compensation expense for its stock-based compensation plans. Had compensation cost for the stock option plans been determined based upon fair value at the grant date for awards under these plans consistent with the methodology prescribed under FASB's Statement No. 123, "Accounting for Stock-Based Compensation", the Company's net loss and loss per share would have been increased by approximately $1,368,000 and $1,128,000, or $0.08 and $0.08 per share in the years 1997 and 1996, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997 and 1996, respectively: expected volatility of 34% and 36%, and risk-free interest rate of 5.5% and 6.5%. The fair values for each of 1997 and 1996 are based on a dividend yield of 0% and expected option lives of an average of 5 years.

LIVENT INC.
CONSOLIDATED BALANCE SHEETS
As at September 30, 1997 and December 31, 1996
(In *thousands of* Canadian Dollars)
(as restated)

	September 30, 1997		December 31, 1996
	Previously reported (Unaudited)	Restated (Unaudited)	Restated (Audited)
ASSETS			
Cash and cash equivalents	$ -	$ -	$ 1,810
Cash on deposit for theatre construction	24,248	24,248	21,244
Accounts receivable	32,429	15,197	22,130
Income taxes recoverable	731	731	1,510
Sundry assets and prepaid expenses	12,589	10,430	6,953
Inventory	1,640	1,640	1,547
Preproduction costs	98,315	79,022	57,875
Fixed	173,746	157,672	127,037
Investments	495	495	2,944
Long-term receivables	22,292	11,613	13,986
Deferred costs	8,831	7,163	5,408
	$ 375,316	$ 308,211	$ 262,444
LIABILITIES			
Accounts payable and accruals	$ 26,692	$ 42,129	$ 35,967
Deferred revenue	15,319	30,878	29,217
Other liabilities	-	10,451	4,440
Term bank debt	44,333	48,569	-
Other long-term debt	16,330	16,330	21,590
Senior debentures	72,500	72,500	72,500
Subordinated debt	26,722	26,722	26,645
Deferred income taxes	20,507	-	-
	222,403	247,579	190,359
SHAREHOLDERS' EQUITY			
Share capital	125,352	125,330	96,897
Retained earnings (deficit)	26,181	(65,456)	(25,619)
Cumulative translation adjustment	1,380	758	807
	152,913	60,632	72,085
	$ 375,316	$ 308,211	$ 262,444

LIVENT INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Nine Months Ended September 30, 1997
(In *thousands of* Canadian Dollars)
(as restated)

	Three months ended		Nine months ended	
	Previously reported (Unaudited)	Restated (Unaudited)	Previously reported (Unaudited)	Restated (Unaudited)
Revenue	$ 100,031	$ 77,884	$ 256,756	$ 233,266
Direct operating expenses	70,320	73,454	190,143	205,702
Income from equity-accounted investments	-	-	264	264
Gross contribution	29,711	4,430	66,877	27,828
General and administrative expenses	3,217	3,394	9,360	9,682
Interest, bank fees and charges	1,712	2,274	4,303	5,252
Amortization of preproduction costs	17,939	21,582	37,038	49,457
Depreciation and amortization	933	907	2,762	2,683
Income (loss) before income taxes	5,910	(23,727)	13,414	(39,246)
Income taxes	1,605	89	3,756	591
Net income (loss)	$ 4,305	$ (23,816)	$ 9,658	$ (39,837)
Earnings (loss) per common share	$ 0.24	$ (1.32)	$ 0.57	$ (2.36)
Weighted average number of common shares outstanding	17,979,360	17,979,360	16,897,690	16,897,690
Fully diluted earnings (loss) per common share	$ 0.23	$ (1.32)	$ 0.54	$ (2.36)
Fully diluted number of common shares outstanding	20,083,497	20,083,497	19,111,330	19,111,330

LIVENT INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Nine Months Ended September 30, 1997
(In *thousands of* Canadian Dollars)
(as restated)

	1997 Previously reported (Unaudited)	1997 Restated (Unaudited)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income (loss) for the period	$ 9,658	$ (39,837)
Items not affecting cash		
Amortization of preproduction costs	37,038	49,457
Depreciation and amortization of fixed assets	2,445	2,367
Amortization of deferred costs	835	817
Gain on sale of assets and rights, net	(4,800)	(4,437)
Share of income from equity-accounted investments	(264)	(264)
Deferred income taxes	3,372	-
	48,284	8,103
Changes in other non-cash balances related to operations	(18,924)	17,977
Cash provided from operating activities	29,360	26,080
FINANCING		
Net proceeds from issue of common shares	27,383	28,423
Decrease in other long-term debt	(5,259)	(5,260)
Increase in long-term portion of term bank debt	44,333	48,569
Deferred financing costs	(1,473)	(1,455)
Cash provided from financing activities	64,984	70,277
INVESTING		
Preproduction costs	(56,900)	(70,566)
Investments, net of additions	2,713	4,510
Long-term receivables	827	5,012
Fixed assets, net of proceeds on sale	(38,190)	(33,003)
Cash deposited for theatre construction	(3,003)	(3,003)
Deferred costs	(1,601)	(1,117)
Cash used in investing activities	(96,154)	(98,167)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,810)	(1,810)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,810	1,810
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ -	$ -

LIVENT INC.
CONSOLIDATED BALANCE SHEETS
As at March 31, 1998 and December 31, 1997
(In *thousands of* Canadian Dollars)
(as restated)

	March 31, 1998		December 31, 1997
	Previously reported (Unaudited)	Restated (Unaudited)	Restated (Audited)
ASSETS			
Cash and cash equivalents	$ 262	$ 262	$ 10,038
Cash on deposit for theatre construction	13,664	13,664	16,483
Accounts receivable	33,966	22,816	19,477
Income taxes recoverable	777	777	928
Sundry assets and prepaid expenses	12,453	10,224	13,461
Inventory	1,652	1,652	1,731
Preproduction costs	62,233	51,640	59,956
Fixed	214,459	180,816	176,895
Investments	1,524	1,524	978
Long-term receivables	24,809	13,183	14,067
Deferred costs	15,473	11,391	11,077
	$ 381,272	$ 307,949	$ 325,091
LIABILITIES			
Accounts payable and accruals	$ 40,700	$ 46,898	$ 48,754
Deferred revenue	40,689	48,082	44,548
Other liabilities	-	12,081	12,134
Term bank debt	12,957	12,957	-
Other long-term debt	16,209	16,209	16,423
Senior debentures	173,306	173,306	173,306
Subordinated debt	26,800	26,800	26,800
	310,661	336,333	321,965
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	125,958	125,936	125,330
Deficit	(57,463)	(155,615)	(124,291)
Cumulative translation adjustment	2,116	1,295	2,087
	70,611	(28,384)	3,126
	$ 381,272	$ 307,949	$ 325,091

LIVENT INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the Three Months Ended March 31, 1998 and 1997
(In *thousands of* Canadian Dollars)
(as restated)

	1998		1997	
	Previously reported (Unaudited)	Restated (Unaudited)	Previously reported (Unaudited)	Restated (Unaudited)
Revenue	$ 80,045	$ 77,325	$ 72,084	$ 71,302
Direct operating expenses	65,166	66,766	54,827	58,875
Income from equity-accounted investments	-	-	264	264
Gross contribution	14,879	10,559	17,521	12,691
General and administrative expenses	3,769	3,924	3,082	2,903
Interest, bank fees and charges	3,875	4,641	1,048	1,344
Amortization of preproduction costs	11,724	9,185	6,109	8,422
Depreciation and amortization	1,734	1,410	872	845
Writedown of preproduction and other assets	23,632	22,568	-	-
Income (loss) before income taxes	(29,855)	(31,169)	6,410	(823)
Income taxes	-	156	2,076	209
Net income (loss)	$ (29,855)	$ (31,325)	$ 4,334	$ (1,032)
Earnings (loss) per common share	$ (1.66)	$ (1.74)	$ 0.28	$ (0.07)
Weighted average number of common shares outstanding	18,037,652	18,037,652	15,725,610	15,725,610
Fully diluted earnings (loss) per common share	$ (1.66)	$ (1.74)	$ 0.25	$ (0.07)
Fully diluted number of common shares outstanding	20,179,610	20,179,610	18,009,985	18,009,985

LIVENT INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Three Months Ended March 31, 1998 and 1997
(In *thousands of* Canadian Dollars)
(as restated)

	1998		1997	
	Previously reported (Unaudited)	Restated (Unaudited)	Previously reported (Unaudited)	Restated (Unaudited)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net income (loss) for the period	$ (29,855)	$ (31,325)	$ 4,334	$ (1,032)
Items not affecting cash				
Writedown of preproduction and other assets	23,632	22,568	-	-
Amortization of preproduction costs	11,725	9,185	6,109	8,422
Depreciation of fixed assets	1,293	1,198	766	739
Amortization of deferred costs	676	447	245	238
Share of loss (income) from equity-accounted investments	37	37	(264)	(264)
Gains on sale of assets and rights, net	(1,241)	-	(4,865)	(9,499)
Deferred income taxes	-	-	2,061	-
	6,267	2,110	8,386	(1,396)
Changes in other non-cash balances related to operations	6,332	(3,316)	(7,795)	3,328
Cash provided (used) from operating activities	12,599	(1,206)	591	1,932
FINANCING				
Net proceeds from issue of common shares	606	606	-	-
Decrease in other long-term debt	(214)	(214)	(47)	(47)
Increase in long-term portion of term bank debt	12,957	12,957	24,316	28,552
Deferred financing costs	-	-	(160)	(160)
Cash provided from financing activities	13,349	13,349	24,109	28,345
INVESTING				
Preproduction costs	(24,228)	(19,160)	(13,508)	(22,662)
Investments, net of additions	(582)	(583)	2,713	4,510
Long-term receivables	2,175	884	(1,897)	(356)
Fixed assets, net of proceeds on sale	(14,957)	(5,119)	(12,963)	(12,892)
Cash withdrawn (deposited) for theatre construction	2,820	2,820	(214)	(214)
Deferred costs	(952)	(761)	(641)	(473)
Cash used in investing activities	(35,724)	(21,919)	(26,510)	(32,087)
DECREASE IN CASH AND CASH EQUIVALENTS	(9,776)	(9,776)	(1,810)	(1,810)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,038	10,038	1,810	1,810
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 262	$ 262	$ -	$ -

SCHEDULE "C"

LIVENT INC.
CONSOLIDATED BALANCE SHEETS
As at June 30, 1998 and December 31, 1997
(In *thousands of* Canadian Dollars)
(as restated)

	June 30, 1998	December 31, 1997
		Restated
	(Unaudited)	(Audited)
ASSETS		
Cash and cash equivalents	$ 551	$ 10,038
Cash on deposit for theatre construction	9,194	16,483
Accounts receivable	20,322	19,477
Income taxes recoverable	862	928
Sundry assets and prepaid expenses	9,154	13,461
Inventory	1,567	1,731
Preproduction costs	54,142	59,956
Fixed	189,637	176,895
Investments	287	978
Long-term receivables	11,579	14,067
Deferred costs	11,989	11,077
	$ 309,284	$ 325,091
LIABILITIES		
Accounts payable and accruals	$ 54,023	$ 48,754
Deferred revenue	46,548	44,548
Other liabilities	16,746	12,134
Other long-term debt	16,094	16,423
Senior debentures	173,440	173,306
Subordinated debt	27,476	26,800
	334,327	321,965
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital	173,566	125,330
Deficit	(201,389)	-124,291
Cumulative translation adjustment	2,780	2,087
	(25,043)	3,126
	$ 309,284	$ 325,091

LIVENT INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the Three Months Ended June 30, 1998 and 1997
(In *thousands of* Canadian Dollars)

	1998	1997	
	(Unaudited)	Previously reported (Unaudited)	Restated (Unaudited)
Revenue	$ 89,327	$ 84,641	$ 84,079
Direct operating expenses	81,073	64,996	73,372
Gross contribution	8,254	19,645	10,707
General and administrative expenses	5,164	3,061	3,385
Interest, bank fees and charges	4,091	1,543	1,634
Amortization of preproduction costs	16,942	12,989	19,453
Depreciation and amortization	1,535	958	931
Writedown of assets and other charges	26,139	-	-
Income (loss) before income taxes	(45,617)	1,094	(14,696)
Income taxes	157	76	293
Net income (loss)	$ (45,774)	$ 1,018	$ (14,989)
Earnings (loss) per common share	$ (2.44)	$ 0.06	$ (0.88)
Weighted average number of common shares outstanding	18,743,284	16,963,333	16,963,333
Fully diluted earnings (loss) per common share	$ (2.44)	$ 0.06	$ (0.88)
Fully diluted number of common shares outstanding	21,371,506	19,217,721	19,217,721

LIVENT INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the Six Months Ended June 30, 1998 and 1997
***(In thousands of* Canadian Dollars)**

	1998	1997	
	(Unaudited)	Previously reported (Unaudited)	Restated (Unaudited)
Revenue	$ 166,652	$ 156,725	$ 155,382
Direct operating expenses	147,839	119,824	132,247
Income from equity-accounted investments	-	264	264
Gross contribution	18,813	37,165	23,399
General and administrative expenses	9,088	6,142	6,289
Interest, bank fees and charges	8,732	2,591	2,977
Amortization of preproduction costs	26,127	19,098	27,874
Depreciation and amortization	2,944	1,829	1,777
Writedown of assets and other charges	48,707	-	-
Income (loss) before income taxes	(76,785)	7,505	(15,518)
Income taxes	314	2,152	503
Net income (loss)	$ (77,099)	$ 5,353	$ (16,021)
Earnings (loss) per common share	$ (4.19)	$ 0.33	$ (0.98)
Weighted average number of common shares outstanding	18,392,417	16,347,890	16,347,890
Fully diluted earnings (loss) per common share	$ (4.19)	$ 0.31	$ (0.98)
Fully diluted number of common shares outstanding	20,778,850	18,617,189	18,617,189

LIVENT INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Six Months Ended June 30, 1998 and 1997
(In *thousands of* Canadian Dollars)
(as restated)

	1998	1997	
		Previously reported	Restated
	(Unaudited)	(Unaudited)	(Unaudited)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:			
OPERATING			
Net income (loss) for the period	$ (77,099)	$ 5,353	$ (16,021)
Items not affecting cash			
Writedown of assets and other charges	48,707	-	-
Amortization of preproduction costs	26,127	19,098	27,874
Depreciation of fixed assets	2,410	1,618	1,592
Amortization of deferred costs	763	490	478
Share of income from equity-accounted investments	-	(264)	(264)
Gain on sale of assets and rights, net	-	-	(9,499)
Deferred income taxes	-	1,826	-
	908	28,121	4,160
Changes in other non-cash balances related to operations	(551)	(6,286)	17,331
Cash provided from operating activities	357	21,835	21,491
FINANCING			
Net proceeds from issue of common shares	48,236	27,385	28,426
Decrease in other long-term debt	(329)	(4,659)	(4,659)
Increase in long-term portion of term bank debt	-	27,703	31,302
Effect of foreign exchange on debt	809	-	-
Deferred financing costs	-	(164)	(164)
Cash provided from financing activities	48,716	50,265	54,905
INVESTING			
Preproduction costs	(45,250)	(38,270)	(51,883)
Investments, net of additions	(494)	2,713	4,510
Long-term receivables	(902)	2,217	6,339
Fixed assets, net of proceeds on sale	(17,507)	(28,185)	(25,121)
Cash withdrawn (deposited) for theatre construction	7,290	(11,397)	(11,397)
Deferred costs	(1,697)	(988)	(654)
Cash used in investing activities	(58,560)	(73,910)	(78,206)
DECREASE IN CASH AND CASH EQUIVALENTS	(9,487)	(1,810)	(1,810)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,038	1,810	1,810
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 551	$ -	$ -

SCHEDULE "D"

Management Discussion and Analysis of Financial Position and Results of Operations

General

On August 10, 1998, the Company publicly announced that an internal investigation had revealed serious accounting irregularities in the Company's financial records. Concurrently, the Audit Committee of the Board of Directors initiated an extensive investigation into these matters. As a result of the findings of the investigation, the Company's consolidated financial statements for the years ended December 31, 1997 and 1996 and deficit as at January 1, 1996 have been restated from amounts previously reported.

The restated net loss is $98.7 million and $18.0 million ($(5.75) and $(1.22) per share) for the years ended December 31, 1997 and 1996, respectively. The Company originally reported net income (loss) for these same periods of $(44.1) million and $11.1 million ($(2.57) and $0.71 per share), respectively.

Restated shareholders' equity is $3.1 million and $72.1 million at December 31, 1997 and 1996, respectively. The Company originally reported shareholders' equity at these same dates of $100.7 million and $114.3 million, respectively.

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles.

Revenue

Revenue consists of performance revenue, the sale of merchandise, corporate sponsorships, gains on sale of naming and exclusivity arrangements, royalties, concession income and other related fees. Livent is able to derive these latter ancillary revenues as a direct result of its production and theatrical activities.

Sponsorship revenue is primarily derived from corporate sponsorship of the Company's various productions and, to a lesser extent, its presentation series. Sponsorship revenue is generally amortized over the related term of the agreement.

Preproduction Costs

Preproduction costs associated with the creation of each separate production are deferred to the opening of the production and such capitalized costs are thereafter amortized based on estimated revenues and profitability of each production. The period of amortization is limited to five production years. The Company reviews the carrying value of the unamortized preproduction costs for each separate production on a quarterly basis and, where conditions warrant for a particular production, the Company revises the amortization period based on actual and estimated revenues and profitability for that production and its experience with other similar productions. When appropriate, the Company writes down preproduction costs to an amount not in excess of their estimated net recoverable amount.

Subsequent preproduction costs incurred in connection with the moving of a particular production from one venue to another, including pre-opening advertising, are deferred to the opening of the production at that venue and the costs are fully amortized during the presentation of the production at that venue. In the last two years, the movement of productions from one venue to another has progressively increased and these preproduction costs have been at least 50% of the total preproduction costs incurred by the Company during each of these periods.

Deferred Revenue
Deferred revenue consists primarily of deferred performance revenue and also includes deferred sponsorship revenue. Deferred performance revenue represents advance ticket sales that are recognized as revenue when the relevant performances occur. The risk that any deferred revenue will not ultimately be realized is substantially a matter of whether the Company will continue to present the performances in respect of which the advances apply. To-date the Company has presented in excess of 16,000 performances, only two of which were permanently cancelled, because of severe weather conditions in Hong Kong.

Direct Operating Expenses
Direct operating expenses consist of salaries and fees, production running costs, advertising, royalties and profit participation, theatre operating costs, cost of sales for merchandise and concession and other related fees.

General and Administrative Expenses
General and administrative expenses consist principally of management salaries and bonuses, occupancy costs and voice and data communication costs.

Year 2000
Certain computer programs and microprocessors utilize two digits rather than four digits to identify the current year. As the century date change occurs, date-sensitive systems may recognize the year 2000 as 1900, or not at all. This inability to recognize or properly treat year 2000 may cause systems to process financial and operational information incorrectly.

The Company has considered the potential impact of Year 2000 problems on its ability to carry out its normal course business operations and process financial information from an internal and external perspective.

Management Discussion and Analysis of Financial Position and Results of Operations (Continued)

Internally, the Company's day to day ability to stage performances would largely be unaffected by any potential Year 2000 computer problems, as relevant systems are not date sensitive in this operational area of the Company's business. Notwithstanding, the Company is a significant user of computer technology for the processing of financial information. The Company's financial computer systems and software, some of which are date sensitive, are not of a high degree of complexity and therefore potential Year 2000 problems are mitigated internally by the Company's ability to upgrade applications and make necessary program changes to its computer technology in advance.

The Company is a significant user of external ticketing agencies through which a large volume of sales transactions are processed and settled by customer credit cards. If unaddressed by external parties, Year 2000 issues could conceivably cause a disruption in the Company's ability to process these electronic sales transactions.

Recognizing the potential concerns of this issue, in 1997 the Company developed a Year 2000 strategy, which includes a corporate wide focus on policies, procedures, methods, correction tools and coordination with ticketing agencies, customers and vendors. In addition, the Company has been informed by its largest ticketing agency that they are Year 2000 compliant.

A review of the Company's current systems indicates that about half are already Year 2000 compliant and fully operational. All of the conversion, testing and implementation activities for the remaining systems are occurring within normal business operations and are expected to be completed by the second quarter of 1999. The costs of such modifications are not anticipated to be significant or have a material adverse effect on the financial condition of the Company.

Management Discussion and Analysis of Financial Position and Results of Operations (Continued)

Results of Operations

The following table presents certain items derived from the Company's Restated Consolidated Statements of Income (Loss) as a percentage of revenue for the years indicated:

Statement of Operations Data:

Years Ended December 31,	**1997**	**1996**
Revenue	100.0%	100.0%
Direct operating expenses	88.8	83.1
Income from equity-accounted investments	(0.1)	(0.4)
General and administrative expenses	4.6	4.0
Interest, bank fees and charges	2.4	1.6
Amortization of preproduction costs	23.2	18.3
Depreciation and amortization	1.2	1.4
Valuation adjustment to preproduction costs	9.3	--
Refinancing and other charges	3.7	--
Loss before income taxes	(33.2%)	(8.0)%
Net loss	(33.5%)	(5.8)%
EBITDA	8.2 %	13.2%

Year ended December 31, 1997 compared to year ended December 31, 1996

Revenue decreased by $16.3 million, or 5.2%, to $299.7 million for fiscal 1997 from $311.0 million for fiscal 1996. The decrease in revenue was principally due to a decrease in production performance revenue in the fourth quarter of 1997. Revenue from sponsorships and theatre naming and exclusivity arrangements decreased to 5.1% of revenue in 1997 from 5.3% in 1996.

Income from sponsorships and theatre naming and exclusivity arrangements reduced the 1997 and 1996 loss before income taxes that would otherwise have been reported by 13.2% and 39.8%, respectively. These activities have higher margins than production performance revenue because there are typically fewer costs associated with the generation of such revenue.

Direct operating expenses increased by $3.2 million, or 1.2%, to $261.6 million in fiscal 1997 from $258.4 million in fiscal 1996. As a percentage of revenue, direct operating expenses increased to

Management Discussion and Analysis of Financial Position and Results of Operations (Continued)

87.3% in 1997 as compared to 83.1% in 1996 due primarily to the decrease in production performance revenue as a significant portion of the costs associated with such revenue are fixed.

General and administrative expenses increased by $1.1 million, or 8.6%, to $13.7 million in fiscal 1997 from $12.6 million in fiscal 1996. The increase in general and administrative expenses was principally due to increased headcount at the Company’s headquarters and satellite offices. As a percentage of revenue, general and administrative expenses increased to 4.6% in 1997 from 4.0% in 1996.

Interest, bank fees and charges increased by $2.3 million, or 44.8%, to $7.3 million in 1997 from $5.0 million in 1996. This increase primarily reflects higher debt servicing costs of the U.S. $125 million 9 3/8% Senior Unsecured Notes which were issued in October 1997, the proceeds of which were used, in part, to redeem the Cdn $72.5 million 8.07% Senior Secured Debentures.

As a result of the foregoing, EBITDA decreased by $21.5 million, or 52.1%, to $19.7 million in fiscal 1997 from $41.2 million in fiscal 1996. As a percentage of revenue, EBITDA decreased to 8.2% in 1997 from 13.2% in 1996.

Amortization of preproduction costs increased by $11.4 million, or 20.2%, to $68.3 million in 1997 from $56.9 million in 1996 due primarily to the Company’s increased touring activity in 1997.

Depreciation and amortization of fixed assets and deferred costs decreased by $0.5 million, or 13.4%, to $3.7 million in 1997 from $4.2 million in 1996 as a result of certain deferred costs being fully amortized in 1996.

Valuation, refinancing and other charges consists of a $27.5 million write-down of preproduction costs and a $10.8 million charge consisting primarily of costs associated with the refinancing of the Company’s debt. The write-down of $27.5 million was made to reduce the overall carrying value of preproduction costs to their estimated net recoverable amount. After giving effect to the preproduction cost adjustments arising from the accounting irregularities, the Company re-evaluated the restated net book value of its preproduction costs and determined that the $27.5 million write-down was still appropriate at December 31, 1997 to reduce the overall carrying value of the preproduction costs to their estimated net recoverable amount. The $10.8 million charge includes the premium paid on the early redemption of the $72.5 million 8.07% Senior Secured Debentures and the remaining unamortized finance fees associated therewith, and the finance fees associated with the sale of certain long-term receivables.

The provision for income taxes reflects only large corporation tax and withholding tax in 1997, as there is not virtual certainty with respect to the utilization of tax losses. The income tax recovery of

$6.9 million for 1996 primarily represents the draw down of the balance of deferred income tax credits.

Liquidity and Capital Resources

The Company's principal source of liquidity is the cash provided from operating activities, which was $29.0 million for fiscal 1997 and $13.9 million for fiscal 1996. Cash used in investing activities totalled $149.1 million for fiscal 1997 and $109.7 million for fiscal 1996. Such substantial investing activities related primarily to the following items (i) capital expenditures of $53.1 million and $23.1 million in 1997 and 1996, respectively, reflecting primarily expenditures incurred in connection with the Company's three theatre development projects (Ford Center for the Performing Arts in New York and Chicago and the Pantages Place Project in Toronto) and the acquisition in 1996 of the Company's head office building, and (ii) preproduction expenditures of $96.5 million and $62.8 million in 1997 and 1996, respectively, reflecting primarily expenditures incurred as a result of the Company's extensive expansion of its touring activities.

The level of preproduction costs depends on the nature of the Company's production activity in a given year and the length of stay of each production at any particular venue. Preproduction expenditures have significantly impacted, and may significantly impact in the future, the cash available for operations until performances for the relevant productions commence at which time revenues are realized. Cash flow may also be influenced by the nature of the Company's schedules for productions, because during the hiatus caused by a production moving from one venue to another, performance revenue for the production is interrupted. In late 1996, the Company undertook an extensive expansion of its North American touring activities. One company of *Show Boat* commenced touring in 1996 and all three companies of *Show Boat* actively toured throughout 1997. *Show Boat* played in 18 different cities in North America in 1997 as compared to five in 1996. Additional preproduction costs were incurred as part of these accelerated touring activities. In conjunction with the shorter runs typical of touring productions, the Company incurs additional preopening advertising and the moving and loading in and out of a production at each new venue. In 1997, the Company completed a second company of *Ragtime*, which opened in Los Angeles in May 1997, and commenced preproduction for its third company of *Ragtime*, which opened in April 1998. As a result of all of the foregoing, the level of preproduction costs for 1997 exceeded that of 1996 by $33.7 million.

At December 31, 1997 the Company had $16.1 million (U.S. $11.3 million) on deposit in an interest-bearing escrow account to be used solely for funding the Company's portion of the construction costs for the theatre development in Chicago which opened in late October 1998. In addition, the Company had a balance remaining in a similar account of $0.4 million (U.S. $0.3 million) with respect to its New York theatre.

Cash provided from financing activities aggregated $128.3 million for fiscal 1997 reflecting primarily

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(i) the issuance of 9 3/8% Senior Unsecured Notes which realized net proceeds to the Company of $173.3 million (U.S. $120.5 million), which were utilized to redeem the Cdn $72.5 million Senior Secured Debentures and to repay outstanding borrowings under the $50 million revolving term credit facility ("Term Credit Facility") (ii) the issuance in Canada of 2,000,000 common shares at $13.75 per share in May 1997 which realized net proceeds to the Company of $26.2 million and (iii) the sale of receivables for $15.9 million. Cash provided from financing activities aggregated $97.6 million for fiscal 1996, the principal activities being as follows. On April 2, 1996 the Company completed a U.S. equity offering raising net proceeds of Cdn. $38.7 million (U.S. $29.5 million) through the issue of 3.75 million common shares at U.S. $8.375 per share. The Company issued U.S. $8.5 million of 10% Subordinated Convertible Debentures in July 1996 and 8.07% Series A Senior Secured Debentures in the principal amount of $72.5 million in December 1996. Cash provided from these financing activities was used by the Company to repay bank facilities, to finance the cost of acquisition of the equity interest in Georgia Strait which the Company did not already own, to repay the notes held by the third party shareholders of Georgia Strait, and to fund the interest-bearing escrow accounts to be used in connection with the Company's theatre development projects in New York and Chicago.

In June 1998, the Company issued, in two separate private placements, a total of 4,476,000 common shares at U.S. $8 per share for aggregate net proceeds to the Company of $47.2 million. These proceeds were used by the Company to repay outstanding borrowings at the time under its Term Credit Facility.

The Company is exposed to foreign currency risk to the extent that its financial results are measured in Canadian dollars and its financial results will be affected by exchange rate fluctuations between the Canadian dollar and the other currencies in which it derives revenue from foreign productions, which are primarily in the United States. This exposure is mitigated by the fact that a significant portion of the operating expenses associated with foreign productions is incurred in the same currencies as the revenue is derived. Furthermore, to date, the exchange rate between Canadian and US dollars, has benefited the Company because it has incurred a substantial portion of its initial preproduction costs in Canadian dollars and thereafter derived revenue in US dollars when such productions are presented outside Canada.

As a consequence of the accounting irregularities discovered in the Company's financial records and the resultant restatement of the Company's consolidated financial statements, the Company is in default of certain covenants under its Term Credit Facility and other debt agreements, including the U.S. $125 million 9 3/8% Senior Unsecured Notes ("Senior Unsecured Notes") which may cause the debt to become immediately due and payable together with accrued interest thereon. The outstanding balance of the Term Credit Facility at November 17, 1998 was $50.7 million.

Management Discussion and Analysis of Financial Position and Results of Operations (Continued)

Since the Company's public announcement of the accounting irregularities on August 10, 1998, numerous class action lawsuits have been filed against the Company and certain current and former officers and directors. These lawsuits assert various claims under U.S. laws. While it is not feasible to predict or determine the final outcome of the lawsuits or any investigations or to estimate the amounts or potential range of loss with respect to these matters, management believes that an adverse outcome with respect to such proceedings could have a material impact on the financial condition, results of operations and cash flows of the Company.

On November 18, 1998, the Company sought protection from its creditors under Chapter 11 of the United States Bankruptcy Code and is proceeding to do so under the Companies' Creditors Arrangement Act in Canada with a view to presenting a plan of arrangement and compromise to the Company's creditors. There can be no assurance regarding the continuation of the Company as a going concern as this is dependent on the ability of the Company to obtain court protection from the Company's creditors, to formulate and implement a plan of arrangement and compromise with the Company's creditors, to operate profitably in the future and to generate adequate cash flow to finance its ongoing operations.

Certain statements in this Management's Discussion and Analysis of Financial Position and Results of Operations are forward looking and thereby involve risks and uncertainties including but not limited to the following: general economic and business conditions; the success of the Company's live entertainment productions; the recoupment of production costs; the ability of the Company to implement its business strategy; the ability of the Company to obtain financing for general corporate purposes; competition; availability of key personnel; and foreign currency exchange rates.